FLOW OF FUNDS

EXHIBIT VV 7

DAVID ROBERT
FINE

JUDICIAL COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE, CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE

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JUDICIAL COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE, CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE ("COMMISSION")

WITNESS STATEMENT OF DR DAVID ROBERT FINE

I, the undersigned,

DR DAVID ROBERT FINE

do hereby say:

1. I am a Senior Partner at McKinsey, currently based in London, United Kingdom.

2. On 11 November 2017, I submitted a statement to Parliament which dealt with, amongst other matters, McKinsey's engagements with Transnet and which traversed the involvement of supplier development partners (otherwise referred to as a supplier development company; the terms being interchangeable). On 15 November 2017, I appeared before Parliament's Public Enterprises Portfolio Committee in which I provided oral testimony in response to questions the Parliamentary Committee Members posed to me regarding my statement, as well as other matters of interest to them.

3. I have had regard to the further topics identified by the Commission, which I propose dealing with in this supplementary statement. This statement is based on my recollection of events and I do not profess to recall each and

every detail. My hope and aim is that I am responsive to the Commission and able to assist in furthering its mission and purpose.

4. This supplementary statement is to be read contiguously with my previous parliamentary statement and oral testimony (collectively my **parliamentary statement**), which is incorporated herein by reference and attached as annexure **DF-1**.

5. The following matters are addressed in this supplementary statement:

Part A	:	Positions, roles and responsibilities in engagements with State Owned Entities (**SOEs**)
Part B	:	Transnet procurement of McKinsey's services
Part C	:	Letsema conflict
Part D	:	McKinsey due diligence
Part E	:	1064 Locomotive Project
Part F	:	Conclusion

6. Before addressing the matters set out in the above table, I wish to provide some introductory remarks concerning McKinsey's relationship with Regiments Capital Proprietary Limited (**Regiments**), other persons of interest to the Commission, and the work performed at Transnet.

7. I am not aware of McKinsey having entered into or engaged in any corrupt relationship or having given or received or attempted to give or receive any bribe, with Regiments or any other entity or person.

8. I have neither met nor had any dealings with Messrs Salim Essa, Kuben

Moodley, Clive Angel, Mark Pamensky, Stanley Shane or Clive Chipkin or any of the Guptas. I was introduced, briefly, to Mr Iqbal Sharma at a function celebrating South Africa's 20th anniversary of its democracy in 2014. To the best of my recollection, I have had no other contact with him.

9. I have no knowledge of any improper dealings between Mr Vikas Sagar and any one or more of Messrs Niven Pillay, Salim Essa or Kuben Moodley. In like fashion, I was unaware of any involvement by either Mr Salim Essa or Mr Kuben Moodley in the affairs of Regiments.

10. I remain steadfast in my belief that the important work that McKinsey performed at Transnet over the years delivered significant value. I am of the view that McKinsey's work was essential in ensuring that Transnet did not breach its debt covenants. This was achieved through the improvements in operating profit and the reduction in capital expenditure. Substantial resources were expended by McKinsey in the rendering of highly specialised consulting services. The fees charged were commensurate with the work undertaken and in line with rates charged by McKinsey globally.

11. Notwithstanding that McKinsey delivered significant value to the SOEs, as a responsible corporate citizen McKinsey has committed to voluntarily repaying the fees it earned on projects with Regiments, as its supplier development partner, at both Transnet and South African Airways.

12. This is reflective of McKinsey's ethos as a global corporate citizen and its commitment to South Africa. This is the approach I took in 2017, as enumerated in my Parliamentary statement, when McKinsey first determined

to repay fees it earned at Eskom. McKinsey's commitment to do so then, and now, is a matter of principle, rather than a legal duty, and what is set out hereunder is to be read against this backdrop.

A. ROLES AND RESPONSIBILITIES

13. I am currently the global leader of McKinsey's Public Sector, Health Systems and Social Sector Practice. Before assuming this position in 2016, I served as leader of McKinsey's Public and Social Sector Practices for the African, Eastern European and Middle Eastern regions. My previous roles at McKinsey are outlined in my parliamentary statement.

14. McKinsey's public sector projects, including as concerns SOEs, engage a multiplicity of Senior Partners, Partners, Associate Partners, Engagement Managers, Associates and Analysts, with skill sets and experience relevant to the project in question. These consultants are drawn from McKinsey's Johannesburg office and globally from the 130 cities and 65 countries from which McKinsey operates and are organised into what is referred to as a "Client Service Team" (**CST**).

15. I was never a member of the McKinsey CST which worked with Eskom as a client. Accordingly, I occupied no position, role or responsibility as concerns Eskom. This supplementary statement is confined to my work at Transnet, to which I turn herein below.

16. During the period 2005 to 2016, there were a multiplicity of McKinsey Partners (13) and Senior Partners (6) that had extensive involvement in the Transnet

CST and which included international partners (4), all of whom brought important expertise to the McKinsey Transnet engagements. The table below lists the senior partners:

2005-2007	2007-2013	2013-2016
Dr Thilo Mannhardt [CST Leader] Mr Norbert Dörr	Dr David Fine [CST Leader] Mr Norbert Dörr Dr Thilo Mannhardt Dr Michael Kloss	Mr Vikas Sagar [CST Leader] Dr David Fine Mr Norbert Dörr

17. The Vulindlela Project was the first major project McKinsey conducted with Transnet, which introduced many McKinsey personnel to the Transnet organisation and its operating divisions. The Vulindlela Project, undertaken by McKinsey during the period 2005 to 2009, was intended to address the historical mismanagement by Transnet of its operating performance. There were many members of the Transnet CST who brought valuable skills to bear. For example, Dr Michael Kloss (now known as Plessman) had deep expertise in rail, having served as a senior member of the Deutsche Bahn CST for many years. Other partners brought expertise in rail and port maintenance and logistics. Mr Vikas Sagar, a McKinsey global partner, had expertise and experience in the marketing and pricing of business products and services and capital optimisation in industrial companies. This was important as Transnet had mispriced its services for years and was unable to cover the basic costs of maintenance and refurbishment of its rolling stock and infrastructure.

18. Letsema Consulting and Advisory Proprietary Limited (**Letsema**), was McKinsey's supplier development partner for this project. Notwithstanding

challenges along the way, this worked well overall and Letsema remained McKinsey's supplier development partner for the project's duration.

19. The project sponsor of McKinsey's work for Vulindlela was Mr Louis van Niekerk, the (then) COO of Transnet. This work was reviewed by a Steering Committee on a bi-weekly basis, which included Ms Maria Ramos (Group CEO), Mr Chris Wells (Group CFO) and the divisional CEOs (including Mr Gama). Ms Moira Moses was the day-to-day Programme Leader for Vulindlela and my daily counterpart. Mr Dörr and I engaged directly with the executive team at Transnet Group and I was the McKinsey representative negotiating the scope and professional fees with Transnet.

20. It was during this time that Mr Dörr and I met:

20.1 Mr Anoj Singh, a Chartered Accountant, who then occupied the position of General Manager Finance (Chief of Staff); and

20.2 Mr Garry Pita, also a Chartered Accountant and the (then) Head of Shared Services,

who both reported to the (then) Group CFO, Mr Chris Wells (until his departure in 2011). In 2011, Mr Singh was elevated to the position of acting CFO and in 2012 to Group CFO, where he remained until he moved to Eskom.

21. Messrs Anoj Singh and Garry Pita were the recipients of CFO and CPO awards. Mr Brian Molefe was a highly regarded National Treasury official and CEO of PIC. All these people were acclaimed as high-performing executives.

22. It was Mr Sagar and Dr Kloss who engaged directly with Transnet Rail's executive on its related projects, in particular Mr Siyabonga Gama who was the (then) CEO of Transnet Freight Rail and with whom they (Sagar and Kloss) forged a close working relationship.

23. As is well known, Mr Gama had been suspended by Transnet during Chris Wells' tenure as acting CEO. Because of my close working relationship with Messrs Maria Ramos, Louis Van Niekerk and Chris Wells (as CEO, COO and Group CFO respectively), I was apparently viewed by Mr Gama as being associated in the process of his suspension (there was however no truth to this suggestion) and for that reason disliked by him. This was communicated to me at the time by Messrs Sagar and Kloss.

24. By 2011, Mr Gama had been reinstated as Transnet's Freight Rail CEO and by that stage Messrs Ramos, Wells and Van Niekerk had all departed.

25. It was at that time that I introduced Mr Sagar to Mr Singh, who then occupied an acting CFO position and was tasked with the implementation of the Market Demand Strategy (MDS) initiative, which I describe more fully below. Mr Sagar quickly established a strong relationship with Mr Singh. Events had coalesced and whereas Mr Dörr and I hitherto had the principal relationship with Transnet's executive team, that position was now occupied by Mr Sagar. From 2011 onwards, Mr Sagar was consequently McKinsey's primary representative negotiating project scope and professional fees with Transnet. As appears more fully below, I was predominantly focused on projects with Transnet Group Capital Integration and Assurance (GCIA) that were unrelated to the rail business.

B. TRANSNET PROCUREMENT OF MCKINSEY'S SERVICES

26. Following the Government's adoption of the 'Developmental State' model in 2009 and under the leadership of the new CEO, Mr Brian Molefe, Transnet embarked on a new strategy, known as the Market Demand Strategy (**MDS**), to stimulate demand by investing in infrastructure projects without confirmed orders from customers. McKinsey did not develop the MDS strategy.

27. An additional issue faced by Transnet at this time was a lack of global funding liquidity, which meant that MDS implementation would be constrained unless Transnet funded the bulk of these investments and delivered on its projects. Transnet's new strategy required detailed projections of freight demand, based on realistic assumptions of global growth and demand.

28. Between 2012 and 2014, the work that Transnet awarded McKinsey pursuant to competitive tenders was focused on reducing, or deferring, non-essential capital expenditure and developing freight volume scenarios to underpin capital plans. The work included the following:

28.1 RFP No GSM/11/12/0400 (Delivering the Market Demand Strategy) and RFB No GSM/12/08/0527 (Results Management Office):

These projects were directed towards aligning Transnet's efforts for achieving their MDS commitments and testing Transnet's volume plans using McKinsey's global proprietary models. Transnet executive members were supported to clarify current performance versus future requirements and to build credible plans that would deliver the required benefits. Thirty group-wide initiatives were identified, with defined outcomes, detailed activities, owners, risks, mitigating actions, and dependencies. McKinsey drafted a "gold standard" for each division in line with the goals of the MDS, being an approach that has worked successfully in other countries. McKinsey also proposed a project management office and drafted an MDS launch and engagement plan. McKinsey recommended the creation of three new structures at Transnet Group level: Group Financial Planning (GFP); Group Capital Integration and Assurance (GCIA); and the Results Management Office (RMO). This work took place over 27 months, with both Letsema (MDS) and Regiments (RMO) as supplier development partners.

28.2 RFP No: GSM/12/05/0447 (1064 Locomotives Business Case):

Transnet decided to procure new locomotives and improve its rail capacity in other ways to meet expected demand. At the time, long-term projections for freight capacity required in South Africa were increasing for several reasons. These included opportunities to export additional coal, manganese, and chrome to Asia; strong growth expected in domestic freight sectors like iron ore, coal, and cement; and the fact that a significant number of containers then transported on South Africa's roads could be transported by rail. Because Transnet's subsequent acquisition of locomotives is of interest to the Commission, the details of McKinsey's work on this topic are described below.

28.3 RFP No: GSM/12/10/0578 (SWAT 1 Capital Standard and Optimisation):

Transnet sought to improve capital project processes and increase its operational performance. The project identified about R45 billion of benefits (capital deferment on Ore Line, Swazi Link, NMPP Phase 2 of R21 billion; reduction of Manganese and Richards Bay projects by R14 billion; portfolio optimisation of R10 billion). These benefits were confirmed by Transnet in a 22 June 2019 meeting to review the historical impact of these projects.

29. The RFPs, to which reference is made in paragraph 28 above and paragraph 33 below, are filed of the Commission's record and, to avoid undue prolixity, are not hereto annexed.

30. During 2014 the economic situation in South Africa deteriorated. Domestic growth stalled and demand and prices for commodities fell significantly as the Chinese economy experienced an unprecedented slow-down in 2015 (China accounted for 45-55% of steel and coal consumption). There were also external factors at play which negatively impacted Transnet's performance, including community unrest in the Phalaborwa channel, flash flooding and a catastrophic failure of the tippler at Majuba. These factors posed significant risks for Transnet's balance-sheet. Risk estimates at the time indicated that Transnet faced a capital funding gap in 2014/2015 in the order of R24 billion. To mitigate this risk, Transnet urgently needed to reduce its non-essential capital project spend and to generate an additional R9.6 billion in cash flow from its existing businesses. Specifically:

30.1 Transnet had consistently under-delivered on its volume plans and thus its operating profit. By way of example, from 2010 to 2013 volumes achieved were on average 12.5% below the 2009-2013 five-year plan.

30.2 Transnet's Cash Interest Cover (**CIC**) ratio (a measure of its ability to fund its debt) was in a critical condition in its loan covenants and needed to remain above a specified ratio (3.0). Due to explicit and implicit government guarantees across all SOEs, breaching the CIC ratio covenant could trigger a default which in turn could have rippled through South Africa's public debt system. Based on Transnet's projected 2013/2014 financials, the published capital plans, and its prior track record of not delivering against volume and profit plans, Transnet estimated that Transnet's CIC ratio covenant would be breached by 2015.

30.3 Transnet was not delivering effectively on its capital projects, with budget over-runs and schedule delays. Specifically – (i) By 2014 the NMPP project had missed its target completion date of June 2010. Project costs had escalated from an original budget of R8 billion to R23.4 billion, with a request for an additional R4 billion to complete the project, bringing the total cost to R27.4 billion; (ii) After McKinsey ceased advising on the 1064 Locomotives project, the procurement budget for the first three years of the seven-year plan escalated by at least R12 billion, increasing the risk to the CIC ratio; (iii) The preferred solution selected for the Durban Container Terminal Expansion

(Durban Dig Out Port (**DDOP**) project) required 10 times more capital (more than R240 billion) than alternative solutions with the same capacity improvement; (iv) Capital investment required for the Manganese expansion communicated in Transnet's corporate plan was R11 billion for the 16 million tonnes per annum solution, which was misaligned with the business case estimating a required investment of R20 billion for this solution to be viable.

30.4 Identified improvement opportunities to mitigate these risks included – (i) R10 billion to 17 billion in potential capex improvements in the coal (R2 to 4 billion), iron ore (R2 to 3 billion), NMPP (R4 billion), and manganese (R2 to 6 billion) businesses; and (ii) R4.8 billion operating profit opportunities by increasing coal and iron ore volumes.

31. In these circumstances, it was a Transnet imperative to rapidly reduce its capital spending budget, whilst improving its operating profit in strategic areas. Against this backdrop and on 9 April 2014, Mr Singh addressed a letter to McKinsey, recording, inter alia, as follows:

> *"As you are aware, Transnet is bound by regulatory policies, procedures and processes in respect of procurement. These processes require amongst others, a request for proposal to be issued for approved transactions, evaluation of the final bid proposals and subject to meeting Transnet's requirements in terms of the full scope of work as set out in the request for proposal, a final Master Service Agreement may be concluded.*
>
> *While our teams expedite the issuing of the request for proposals for the above assignments, due to the urgency of the services required, I kindly request that you mobilise a McKinsey led consortium to have the initial*

discussions with our teams. In the unlikely event that we may not successfully conclude the above-mentioned assignments, Transnet SOC Ltd will reimburse all costs incurred by yourselves."

32. A copy of this letter is attached, marked as annexure **DF-2**.

33. Several projects were thus launched in 2014 and 2015 to address these urgent issues. The projects during this period included the following:

33.1 RFP No: GSM/14/04/1052 (SWAT II):

This project reduced capital spending by R64 billion, including R26 billion in savings in the first three years. The work led to the deferral of the DDOP (over R240 billion in savings). McKinsey provided revenue and demand forecasts, conducted project assessments, identified alternative options and provided the skills for the project in the first six months while Transnet was building its new Group Capital organisation.

33.2 RFP No: GSM/14/04/1039 (Manganese):

Transnet needed to expand capacity for South African Manganese exports. Contracting terms put in place as a result of McKinsey's work led to R400 million in savings when global manganese demand dropped. R34 billion of capital spend was avoided. Over a period of 30 months, McKinsey provided strategy, capital productivity and project execution experts. Over 40 Transnet employees were trained on project delivery methodology.

33.3 RFP No: GSM/14/04/1040 (NMPP):

Transnet needed to contain rising costs and schedule over-runs on their New Multi-Product Pipeline (NMPP). McKinsey implemented lean construction methods and reassessed the business case. This helped contain cost over-runs by R5 billion. Over 18 months, McKinsey provided strategy, capital productivity, project execution, and construction expertise. McKinsey's view diverged with Transnet's NMPP management, who continuously changed priorities, which McKinsey was concerned would have comprised the successful execution of the pipeline. McKinsey withdrew from this project in November 2015.

33.4 RFP No: GSM/14/04/1037 (Coal line):

To enhance operating profit, Transnet set a target of an additional 4 to 9 million tons of export coal. This project exceeded previous coal line records and added R980 million in operating profit to Transnet in 2014/2015. McKinsey developed several software applications to eradicate bottlenecks at the time. McKinsey trained approximately 500 Transnet staff to use these new systems. Over a period of 16 months, McKinsey provided project leadership and strategy and technical expertise (including software creation).

33.5 RFP No: GSM/14/04/1038 (Kumba Iron Ore):

Transnet needed to negotiate a better tariff with its main iron ore customer, Kumba Iron Ore. McKinsey worked to determine the optimal target tariff by analysing Transnet's costs, customer expectations, and market demand. McKinsey found capacity for an extra 3 to 7 million tons of iron ore per annum, which were captured by Transnet.

33.6 RFP No: GSM/14/10/1167 (Gas fuels strategy):

To increase volumes of liquid fuels transported through Transnet's network (pipelines and rail), McKinsey helped Transnet produce a 30-year model of demand and supply of liquid fuels in South Africa (to become part of the overall commodity flows modelling).

33.7 RFP No: GSM/15/03/1255 (GFB):

Regiments was appointed by Transnet as the prime contractor and McKinsey occupied the position of sub-contractor to Regiments. The work found opportunities to increase freight volumes by 22.1 million tons, with 6 million tons achieved in the first financial year. McKinsey stopped work early when it terminated its relationship with Regiments in March 2016. Over a period of 10 months, 302 different McKinsey consultants worked on this project.

34. From the Transnet CST perspective, the aforementioned projects seemed to have been properly weighed and considered. The need and urgency were apparent. Transnet had a track record of underperforming against its plans and the risk of financial under-delivery for Transnet and the country was

substantial. These topics were by their nature complex and required unique expertise. McKinsey had both deep expertise on the rail system and the commodities identified and a track record of impact at Transnet. It is also common for clients to use management consultants with an established track record in helping them resolve complex and pressing issues. Globally, it is not an unusual practice for clients with pressing business imperatives to follow exemption procurement processes.

35. This accords with McKinsey's understanding, in the South African context, of what is contemplated in Regulation 16A6.4 of the Treasury Regulations (for departments, trading entities, constitutional institutions and public entities), issued on March 2005 in terms of the Public Finance Management Act, No. 1 of 1999, and with what was embodied in the Transnet Procurement Procedure Manual. Extracts from Regulation 16A6.4 of the Treasury Regulations and the Transnet Procurement Procedure Manual, are attached hereto as annexes **DF-3** and **DF-4** respectively.

36. All told, over 169 000 manhours of specialist services were rendered by McKinsey consultants in Transnet projects between the period 2012 and 2016.

37. The sponsor of these Transnet projects for the period was Mr Singh (as the Group Chief Financial Officer) and subsequently in 2015, Mr Pita. Regular and systematic reviews were conducted by a wide range of Transnet executives. This included reviews by a weekly Steering Committee made up of finance executives. Additionally, each project typically had an executive sponsor and steering committee. By way of example, the 1064 Locomotive project had a Steering Committee led by Mr Brian Molefe (Group Chief

Executive), together with Messrs Singh, Gama and other executives. In like fashion, Coal Line project was sponsored by Mr Lloyd Tobias.

38. In 2019, McKinsey entered into discussions with Transnet to review its prior work and attempt to resolve any outstanding issues. The review conducted by Transnet demonstrated that value was achieved and objectives met. The review was conducted by Transnet's Group General Counsel, Mr Ndiphiwe Silinga. This is memorialised in correspondence under the hand of Mr Mohammed Mahomedy, Acting Group Chief Executive (GCE) of Transnet, and which is hereto attached marked as annexure **DF-5**.

C. THE LETSEMA CONFLICT

39. During or about July / August 2012, I learnt from the Transnet CST that Letsema was conflicted as part of our 1064 Locomotive consortium. Specifically, Letsema's non-executive chairman and shareholder, Mr Isaac Shongwe, also served as a senior executive of Barloworld, who had recently formed a connection (whether as distributor agent or otherwise I do not know) with an American manufacturer of diesel-electric locomotives, locomotive products and diesel engines for the rail industry (who I later learned to be Electro Motive Diesel (**EMD**). EMD in turn was considering submitting a tender to supply locomotives to Transnet and would be represented by Barloworld in this process. EMD did, in fact, later bid to supply the locomotives (albeit that the bid was ultimately awarded to China South Rail (CSR) and China North Rail (CNR) respectively).

40. As noted in my parliamentary statement and as stated in section A above,

Letsema was initially brought in as McKinsey's supplier development partner in the Vulindlela Project, which endured from 2005 to 2011. On all accounts Letsema has benefitted significantly from its relationship with McKinsey; its revenue had grown to a point that it exceeded the B-BBEE supplier development guidelines and was competing, successfully, with McKinsey in open market bids.

41. My recollection of the conflict of interest was that Letsema was separately working with a locomotive manufacturer at the time that was also a potential bidder on the same project. I had said in my parliamentary statement that Letsema's conflict arose consequent upon its work with General Electric locomotives. I have since been informed that EMD (and not General Electric) was in fact the locomotive provider that gave rise to the conflict.

42. However so the conflict arose was not a McKinsey determination. It was Mr Singh on behalf of Transnet who was the arbiter of whether a conflict arose with its service providers and it was Transnet's decision – not McKinsey's - to remove Letsema from the 1064 Locatives project. In addition, the explanation for the conflict made sense and I had no reason to believe otherwise.

43. As I recall, Letsema did not dispute that a potential conflict existed. Lest it be necessary to say so, Letsema's Mr Derek Thomas confirmed in response to an inquiry from Fundudzi that Letsema "*accepted the bona fides of [Transnet's] Garry Pita's argument at the time even though we respectfully disagreed with his position*".

D. MCKINSEY'S DUE DILIGENCE

(i) Regiments

44. As noted in paragraph 18 above, McKinsey had previously partnered with Letsema as its supplier development partner on the Vulindlela Project from 2005 to 2011, and McKinsey's engagement with Letsema had its genesis with that project. As I stated above in section C, when a conflict emerged with Letsema during the 1064 Locomotives bidding process, it became imperative that McKinsey identify a new supplier development partner in its engagements with SOEs, which forms one of the three Priority Elements of the Broad-Based Black Economic Empowerment (B-BBEE) Scorecard.

45. Regiments was a B-BBEE consultancy and advisory business, who had been suggested by Mr Anoj Singh, the (former) Chief Financial Officer (CFO) of Transnet, as a suitable replacement supplier development partner and in Letsema's stead.

46. This was conveyed to the Transnet CST by Mr Vikas Sagar, who related that Mr Singh lauded Regiments' strong advisory stills and programme management experience. Regiments, according to Singh, was a reliable service provider to Transnet and who had a successful track record. Mr Singh noted with approval the work Regiments had performed for Transnet's Treasury department. Regiments work for Transnet was documented in Regiment's company profile and as appears from annexure **DF-6** hereto attached.

47. By way of background, it was an unusual global practice at that time for McKinsey to partner with a third-party firm for a client engagement. Moreover,

partnering with supplier development partners was a requirement unique to South African SOEs. As a result, McKinsey did not have a formal due diligence process in place to evaluate potential supplier development partners such as Regiments, or for that matter Letsema. Nevertheless, and even though the project was envisaged to be relatively small, McKinsey undertook a limited due diligence investigation regarding Regiments before agreeing to partner with them and undertook the steps described below.

48. Mr Vikas Sagar and others of the Transnet CST (I recall in particular Ms Christina Planert (now Greenidge)), met with Regiments' executives at their Houghton, Johannesburg offices to assess Regiments' suitability as a supplier development partner for the 1064 Locomotive tender, which was then underway. In a report back session to the Transnet CST, they expressed the positive impression that they had formed.

49. For my part, I reviewed documentation provided by Regiments detailing their work for a number of SOEs and Public Sector institutions, including Transnet and which was embodied in its company profile (annexure **DF-6**). I also considered the résumés of the Regiments principals, including impressive professional backgrounds, education, and relevant work history of its three shareholders and leadership team.

50. Mr Litha Nyhonyha, a Chartered Accountant, had been employed at Ernst & Young, had established Thebe Investment Holdings, and was a director serving on prestigious boards, including Kumba Iron Ore Limited and AECI Limited. Mr Niven Pillay had two degrees from Princeton University, with notable investment banking experience. Mr Eric Wood had a Masters' Degree

in Management from the University of the Witwatersrand *cum laude* and had financial modelling and funding experience. I also made enquiries with people in the broader business community whose opinions I valued and from whom I received positive feedback, particularly as concerns Mr Nyhonyha, who was highly regarded.

51. During my desktop due diligence however, I did come upon an article in the Mail & Guardian in which it was suggested that Regiments had profited from a contentious deal with the City of Johannesburg. The issue was raised by members of the CST (exactly by whom I cannot recall) directly with Regiments, who characterised this as a commercial dispute. According to Regiments, they had undertaken the project in question on an "at-risk" basis and the City was contesting the fees it charged on the success it apparently achieved. (During November 2012 there was however a correction and clarification published by the Mail & Guardian which embodied a strong denial by Regiments.)

52. The fact that Regiments was an existing service provider to Transnet's treasury function and was held in high regard by Transnet's Chief Financial Officer, were important considerations for McKinsey. McKinsey was committed to imparting the necessary mentoring, guidance, and transfer of skills to Regiments (as McKinsey had done with Letsema), which were principle governmental objectives when entering supplier development partner relationships.

53. Significantly, Transnet paid Regiments directly and Transnet's Supply Chain organisation was accountable for reviewing whether Regiments supplier

development commitments were met. Regiments accounted to Transnet for its fees and charges in respect of the work it (Regiments) undertook, and Transnet made payment to Regiments directly against its statements of account.

(ii) Warning signs and termination

54. On the 24th of July 2014 an article appeared in the Mail & Guardian in which allegations of impropriety were made against Mr Niven Pillay, a shareholder and director of Regiments and with whom the Transnet CST dealt with on a routine basis in the execution of Transnet projects. A copy of this article is attached as annexure **DF-7**.

55. Naturally, allegations of this nature were concerning and which both Mr Dörr and I escalated to Ms Jean Molino, who was McKinsey's (then) Global General Counsel. Ms Molino addressed a letter to Regiments calling for a response and requiring written assurances that Regiments was in compliance with relevant anti-corruption legislation, including the South African Prevention and Combatting of Corrupt Activities Act, the United States Foreign Corrupt Practices Act, and the United Kingdom Bribery Act. A copy of this letter is attached as annexure **DF-8**.

56. Regiments replied by way of its letter of 28 August 2014, in which it was recorded that:

56.1 the "*allegations in the press are baseless*".

56.2 Regiments had in place policies for "*the promotion of honest and* *ethical behaviour*" and a "*corporate governance framework specifically address[ing] issues such as bribery, corruption, conflict of interest and disclosure of interest*".

56.3 Mr Pillay, who was the only employee affected by the allegations, would "*step down from the Executive Committee of the Consortium*" and that Mr Wood would "*assume the lead role on the part of Regiments*".

57. A copy of this letter is attached as annexure **DF-9**.

58. I conducted further enquires. I personally discussed the issue with senior members of the Gauteng Provincial Government, who could offer no insights. Mr Dörr and I consulted with Transnet's then Chief Financial Officer (Mr Singh) and Chief Procurement Officer (Mr Garry Pita) in a meeting convened with them and in the presence of Mr Sagar. Mr Dörr and I were advised by Mr Singh that Transnet was also seeking confirmation from Regiments of its compliance with relevant anti-corruption legislation.

59. At the time, McKinsey's agreement with Regiments did not permit of a cancellation absent an unremedied breach. The allegations in the article did not, however, amount to a breach of the agreement with McKinsey and the allegations involved one person (Pillay), not the company. Further, McKinsey was midstream in urgent projects with Transnet, with Regiments as its supplier development partner.

60. After weighing these considerations, it was decided that Mr Pillay would step

away from day to day Transnet operations and that Mr Wood would become McKinsey's principal Regiments contact person. Regiments would also need to confirm in writing its compliance with anti-corruption legislation.

61. In the wake of Mr Pillay having exited Transnet projects, the relationship with Regiments and the quality of its work seemed to improve.

62. By late 2015 however, concerns were being voiced by the Transnet CST about Regiments' deteriorating quality of work. Their B-BBEE transformation credentials were also being questioned. Mr Nyhonyha had no role in the Transnet engagements and Mr Pillay, as I indicated, had recused himself from further involvement in the Transnet projects.

63. At this time, I was notified by Mr Vikas Sagar, who was the primary liaison with Regiments, that Regiments had proposed splitting into two: Regiments Capital, with its financial advisory business, and Trillian Management Consulting Proprietary Limited (**Trillian**), that would seek investments in building a pre-eminent black-owned management consultancy.

64. There was discussion within McKinsey, that in light of the problems identified with Regiments, a new supplier development partner be investigated. Amongst others, consideration would be given to Trillian, but subject to the completion of a due diligence. As far as I am aware, McKinsey did no work in any form with Trillian at Transnet.

65. On Friday, the 11th of December 2015, I participated in a scheduled Transnet Steering committee meeting (in the oral portion of my parliamentary testimony,

I had incorrectly surmised that the date was after 12 December). I did not see Mr Mohammed Bobat, who was normally part of the Regiments' leadership team. On inquiring on his absence, I was told that he now served as an advisor to Minister Des van Rooyen, who on 9 December 2016 had been appointed the Minister of Finance.

66. On 23 January 2016 and at a private function in Cape Town, I had occasion to discuss with a senior person in National Treasury, the appointment of Minster van Rooyen and Mr Bobat as his advisor. There were unfavourable press reports at the time concerning the link between Minister Van Rooyen and the Gupta family. I asked plainly if Bobat was connected to the Guptas and received an affirmative answer. This troubled me greatly as Mr Bobat was a key person in Regiments, our supplier development partner.

67. On 2 February 2016 I communicated my apprehensions during a scheduled teleconference with the South Africa Partners of McKinsey. It was determined that a global consulting firm specialising in political, security and integrity risk, be mandated to conduct a detailed forensic review of Regiments and the matter of Trillian's beneficial ownership structure and to examine possible links to the Guptas. This engagement was actioned and a mandate was executed, dated 18 February 2016.

68. On 15 February 2016, my concerns were further heightened after an article was published by a London-based outlet, Africa Confidential, which is attached as annexure **DF-10**. In that publication was the explosive allegation that Mr Bobat was directly linked to the Gupta family.

69. That same day, I and others of the McKinsey South African leadership instructed Mr Sagar, on behalf of McKinsey, to address a letter to Mr Wood seeking clarification concerning Regiments relationship with Mr Bobat and Trillian and with those politically exposed persons referred to in the article. At that time, Mr Wood was in the process of finalising his separation from Messrs Nyhonyha and Pillay and the formation of Trillian. Hence, the primary interface between McKinsey and Regiments remained Mr Sagar and Mr Wood. A copy of this letter is attached as annexure **DF-11**.

70. At a meeting of the Transnet CST on 18 February 2016, concerns about Regiments were pertinently raised and discussed and the decision was taken to terminate our relationship with Regiments.

71. On 22 February 2016 and in a telephone call with Garry Pita (Transnet's then CFO) and Mr Sagar, I conveyed to him (Pita) McKinsey's decision to terminate its relationship with Regiments and that its decision to do so was final. On 23 February 2016, McKinsey transmitted a letter to Transnet indicating that it intended terminating its relationship with Regiments.

72. On 26 February 2016 a response was received from Trillian, per Ms Bianca Goodson as its (then) CEO. In her letter, Goodson insisted that Mr Bobat's employment with Regiments had ceased in December 2015. This was at variance with Bobat's Linked-In profile, where I discovered that he was still listed as a director of Regiments. I attach a copy of Trillian's letter as annexure **DF-12**.

73. On 17 March 2016, Mr Sagar and I attended a meeting with Messrs Nyhonyha

and Pillay to determine the question of a parting of ways, which McKinsey sought to accomplish amicably. An amicable termination was agreed and then memorialised by way of McKinsey's letter to Regiments of 18 March 2016.

74. Copies of the 23 February and 18 March 2016 letters are hereto attached as annexes **DF-13** and **DF-14** respectively.

75. On 18 March 2016, I initiated a comprehensive review of all McKinsey's work at Transnet with Regiments that involved highly reputable external legal advisors, experienced in these matters, which was a process that was later handed over to the Africa Office and McKinsey's Global General Counsel. I was not involved in the oversight of this process, being now a McKinsey legal and compliance matter.

76. On 31 May 2016, McKinsey's representatives (I was joined by Mr Georges Desvaux and Ms Nomfanelo Magwentshu) were present at a meeting with National Treasury (per Director General Fuzile and Chief Procurement Officer Schalk Human) where McKinsey's partnering with Regiments was disclosed, as were the termination of that relationship and McKinsey's decision not to work with Trillian. A copy of the minutes of that meeting is attached as annexure **DF-15**. This meeting was pursuant to a request I made to the Ministry, expressing my concerns arising out of McKinsey's supplier development partner relationship with Regiments, which, as I have said, had by that time been terminated.

(iii) Growing concerns about Trillian's ownership structure

77. On 1 March 2016 and on behalf of McKinsey I, together with Mr Sagar, attended a meeting with Mr Eric Wood (Trillian's progenitor) at Tashas, Melrose Arch. The purpose of the meeting was to understand Trillian's ownership structure. This was an issue because despite innumerable attempts to obtain visibility into the question of the identity of the shareholders and constituent board of directors of Trillian, the only name proffered by Mr Wood was one Max Joosub. It was a requirement of any potential supplier development partner that its ownership was constituted by "Black People" (as defined in the B-BBEE Codes of Good Practice) and was something about which McKinsey required assurance.

78. Mr Wood, for the first time, offered up Advocate Linda Makhatini and Messrs Jimmy Manyi, Marc Chipkin, Clive Angel and Max Joosub as Trillian's prospective body of shareholders and directors. The suggestion of Mr Manyi concerned me in light of the rumours that were circulating in the press at the time, identifying him as a Gupta associate. The others were unknown to me and I was determined to make enquires, including notifying the global risk and strategic consulting firm engaged by McKinsey and as part of their aforementioned investigation.

79. The investigations I undertook during early March 2016 included a CIPC database and social media searches, and from which I learnt the following:

79.1 There was a multitude of companies bearing the Trillian name and where Mr Salim Essa was reflected as a director of one of these entities, as was Mr Wood.

79.2 The Facebook Profile of Mr Salim Essa reflected Mr (Mohamed) Max Joosub as a "Facebook Friend".

79.3 The Linked-In Profile of Mr Max Joosub showed Mr Vikas Sagar as a first degree of separation "Direct Contact".

80. The documents referred to in paragraph 79 above (copies whereof are attached as **DF-16** to **DF-18**) were provided by me to senior people at McKinsey, McKinsey's group legal counsel, as well as its external forensic and legal advisors.

81. On 14 March 2016, and in my capacity as Leader of the Public Sector in the EEMA region, I participated in a McKinsey Global Risk Committee discussion on the proposed supplier development partnership with Trillian and as concerns Eskom projects mooted at that time. Having reviewed the results of the global risk and strategic consulting firm's due diligence report and having considered my recommendation, the Committee determined to terminate discussions with Trillian. This decision was communicated to Trillian (per Mr Wood) by way of a letter from McKinsey dated 15 March 2016. Eskom (per Mr Singh) was similarly notified by way of letter on 30 March 2016. Copies of these letters are hereto attached as annexes **DF-19** and **DF-20** respectively.

82. Throughout, I have enquired of and confirmed with McKinsey's South Africa Managing Partner, Africa Managing Partner, Global Legal Counsel, Chief Risk Officer and the company's external legal counsel, that where their investigations revealed evidence of potential wrongdoing, that this was

reported to the relevant authorities and as required by law.

E. 1064 LOCOMOTIVE PROJECT

83. I covered the 1064 locomotive project extensively in my parliamentary statement. I have accordingly limited this section to cover the points related to Transnet's procurement of McKinsey's services on the 1064 locomotive transaction.

84. I was not a part of the McKinsey team that worked on the 1064 locomotives project, which occurred between 2012 and 2014 and which was led, variously, by Mr Sagar, Mr Dörr, Dr Shrey Viranna, Mr Ashvin Sologar and Ms Planert. My role was limited to senior McKinsey leadership discussions on critical strategic considerations.

85. By way of background and as a brief repeat of some of the points addressed in my parliamentary statement, during May 2012 McKinsey and its consortium partners submitted its proposal in response to RFP GSM/12/05/0447 to provide services to Transnet on its planned locomotives acquisition. The consortium members comprised of McKinsey, Letsema, Nedbank (with Utho), Advanced Railway Technologies (**ART**), and Edward Nathan Sonnenbergs (**ENS**).

86. The tender was awarded to the McKinsey consortium on 30 November 2012. The Letter of Intent indicated that the total value of this tender would be R35.2 million, excluding VAT, and that the project would endure for 9 months, from January 2013 to October 2013.

87. The McKinsey consortium proposal detailed the four primary workstreams and the role each member of the consortium would play:

87.1 McKinsey would be responsible for validating Transnet's business case, projecting the volume of commodities Transnet could transport, validating that the procurement of 1064 locomotives was financially viable (Transnet had projected 1064 locomotives would be required), and conducting scenario planning to inform the contracting phase.

87.2 Letsema would be responsible for programme management, monitoring overall progress against timelines, and ensuring proper governance.

87.3 Nedbank (Utho), ENS, and McKinsey would provide transaction advisory services and procurement execution to minimise financial risk for Transnet and ensure suppliers delivered on their commitments.

87.4 ART and McKinsey would provide technical evaluation and optimisation by assessing the lifecycle costs of suppliers short-listed by Transnet.

88. A copy of the McKinsey Consortium 1064 Locomotive Proposal is hereto attached, marked as annexure **DF-21**. The proposal was accepted by Transnet, who remitted to McKinsey Letters of Intent which are attached as annexure **DF-22**.

89. It was intended that these Letters of Intent be embodied in written agreement, which were negotiated during the course of 2013. McKinsey was represented by its South African Legal Counsel, Mr Benedict Phiri (who was generally responsible for reviewing McKinsey South Africa's contractual arrangements) as well as Mr Ashvin Sologar. By February 2014 however the agreement had not been signed and Ms Planert communicated to me that Transnet required a signed agreement for its compliance purposes. Consequently, and with the approval of Mr Phiri (who signed as witness), I duly signed the agreement on behalf of McKinsey on 21 February 2014 (Mr Singh signing on behalf of Transnet). A copy of the written and signed agreement is hereto attached as annexure **DF-23**.

90. As set out in section C above and once Transnet had identified a conflict of interest relating to Letsema, Regiments was substituted in its stead as the supplier development partner.

91. Further substitutions occurred at the behest of Transnet: it wanted to work with Webber Wentzel rather than ENS, who was substituted out. During May 2013 and after the 1064 business case had been completed, Nedbank indicated that it wished to participate in funding the locomotive transaction and on that basis withdrew from the consortium, given that its mooted funding would represent a conflict of interest. This was embodied in a letter from Transnet dated 22 May 2013 recording, in relevant part, that "*primarily based on Nedbank Capital being appointed as part of the McKinsey led consortium to provide Transnet with advisory services related to the acquisition of 1064 locomotives as well as their interest in providing funding for other related*

services to Transnet for the same transaction". A copy of this letter is attached, as annexure **DF-24**. In light of this, Transnet determined that Regiments, as an extant consortium member, would assume responsibility for the financing workstream.

92. The 1064 Locomotives contract consisted of two phases. McKinsey's involvement principally concerned phase one, which developed an analysis to validate Transnet's hypothesis that a planned acquisition of 1064 locomotives would be financially viable for Transnet. The business case developed by Transnet Freight Rail was also inadequate, having garnered numerous questions from the board and DPE. The focus of the business case involved analysis with respect to the "*clear need to accelerate locomotive deployment to enable delivery against Transnet's Market Demand Strategy (MDS) and achieve South Africa's broader socioeconomic objectives*".

93. After completing the validation of the business case during April 2013, McKinsey expected to transition to supporting phase two, being the procurement and execution phase. This did not occur for the following reasons:

93.1 From May 2013 to January 2014, McKinsey did not work on the assessment of locomotive bidders and was not involved in the project.

93.2 During January 2014, Transnet informed McKinsey that it (Transnet) had concluded the selection of the locomotive bidders and sought to complete the locomotive negotiation and procurement process more rapidly than originally intended and sought McKinsey's support to achieve this goal. To that end, Transnet revised the project's scope of work.

93.3 On 31 January 2014, McKinsey addressed a memorandum to Mr Singh advising that the new scope and timing limited McKinsey's ability to deliver value. The additional cooperation and information McKinsey would require from Transnet to conduct meaningful work in Transnet's new truncated timing schedule was set out and listed. This memorandum is attached, as annexure **DF-25**.

93.4 The requisite information and cooperation from Transnet was not forthcoming and for those and the other reasons expressed in the memorandum, McKinsey took the view that it could not provide sufficient value. On 4 February 2014 McKinsey made the decision to withdraw from the 1064 Locomotives engagement, as appears from the further memorandum attached, as annexure **DF-26**.

94. As at the date of McKinsey's withdrawal from part two of the 1064 project, there remained three principal pieces of work still to be completed, *vis*: (i) procurement - including negotiating with prospective suppliers, requirements, timing and prices; (ii) financial arrangements - structuring, financial strategy and funding options; and (iii) legal - formalising and the preparation of agreements.

95. Consequent upon McKinsey's withdrawal from part two of the 1064 project, it was my understanding that Regiments was not simply going to assume that

portion of work with which McKinsey had been tasked and had withdrawn from, but rather that Transnet had decided as follows – (i) internal Transnet executives, comprising Messrs Singh, Pita and Gama, would themselves lead the procurement work stream (this in light of McKinsey's withdrawal); (ii) Regiments would continue with the financial structuring as envisaged; and (iii) legal would continue to be provided by Webber Wentzel (having replaced ENS in 2012).

96. What is set out aforegoing was embodied in an internal Transnet memorandum dated 14 April 2014 (which was included, inter alia, in the appendices to the Werksmans' report on the 1064 locomotive transaction, dated 7 December 2017), and which is attached as annexure **DF-27**.

97. As concerns 95(ii) above, it was not originally intended that Regiments would provide funding arrangements or facilities as part of its services in part two of the 1064 project. This was earmarked for Nedbank, which was the rationale for it (Nedbank) withdrawing from the consortium when a conflict arose (see paragraph 91).

98. On 16 April 2014, McKinsey wrote a letter memorializing the transfer of its responsibilities under phase two of the contract, which is attached as annexure **DF-28**.

99. In summary:

99.1 McKinsey's participation in the 1064 Locomotives project was limited to a review of the business case and in terms of phase one of the project (in which, as I have said, I was uninvolved).

99.2 McKinsey withdrew from advising Transnet on the procurement of new locomotives on 4 February 2014 and before the 1064 locomotives tender was awarded. Accordingly, McKinsey played no role in those decisions.

99.3 McKinsey did not determine the locomotive prices, select the winning supplier, or work on the transaction advisory service. McKinsey was not involved in the Technical, Financial or B-BBEE assessment of bidders. McKinsey played no role in identifying, scoring, assessing or awarding bidders.

99.4 McKinsey was not paid for any work performed in 2014 with respect to the 1064 locomotive contract, including the limited work done on phase two and before McKinsey withdrew from the project.

100. Based on my own review of the 1064 locomotive business case in 2017, what I can say is that the financial modelling and analysis McKinsey used to generate the R38.6 billion figure included the costs of exchange rate hedging and South African and US inflation (US 2.2% per annum, SA 5.2% per annum), but which excluded borrowing costs. Accordingly, I cannot account for the increase in costs in the 1064 project from R38.6 billion to R54 billion, which happened after McKinsey withdrew from the project.

F. CONCLUSIONS

101. I have and will continue to render my full cooperation with the Commission in

its investigations. Transparency and accountability are central tenants of the McKinsey ethos.

102. In the aftermath, McKinsey recognised vulnerabilities in its then applicable processes and procedures, particularly as concerns public sector and state-owned clients. In my capacity as global leader of McKinsey's Public and Social Sector Practices, I have effected changes in the way McKinsey selects supplier development partners and which includes a vigorous due diligence process that interrogates all aspects of the business of the prospective supplier development partner.

103. McKinsey has committed additional regulatory, compliance and legal resources to ensure that these new processes are implemented. I applaud the Commission's noble objective and one that is fully supported and endorsed by me and McKinsey at large.

David Fine

DR DAVID ROBERT FINE

Johannesburg, South Africa
24 November 2020

DF1

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Portfolio Committee on Public Enterprises
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To: Mr. David Fine
McKinsey and Company

From: Hon L.A Mnganga-Gcabashe, MP
Chairperson: Portfolio Committee on Public Enterprises

Date: 9 November 2017

Subject: Relationship between McKinsey/Regiments Capital and McKinsey Trillian Capital Partners and/or its subsidiaries

---

Dear Mr Fine

1. The above-mentioned matter refers.

2. The Portfolio Committee on Public Enterprises is currently conducting an inquiry into Corporate Governance at Eskom, amongst other State Owned Companies. Please see the attached Terms of Reference for ease of reference.

3. Please be advised that this letter is addressed to you in your capacity as the former Head of the Public Sector Practice at McKinsey and Company, South Africa (McKinsey).

4. The Committee would appreciate a meeting between yourself and Adv. Ntuthuzelo Vanara, the Evidence Leader, to address the following questions:

   4.1 when did you know that there were challenges between the relationship between Regiments and McKinsey and later between Trillian and McKinsey?

   4.2 what the nature of such challenges were?

   4.3 what did you do to have such challenges addressed?

   4.5 what was McKinsey's response to the identified challenges?

4.6 whether McKinsey's actions in response to the identified challenges was adequate?

4.7 whether your removal from the Johannesburg Office of McKinsey was related to the concerns you raised between McKinsey's relationship with both Regiments Capital and Trillian Capital Partners?

5. The Committee understands that you have a scheduled meeting with the Evidence Leader on Friday, 10 November 2017 in Cape Town to discuss the above-mentioned issues.

6. Please be advised that your attorney may accompany you to the said meeting, however you are required to personally respond to the matters raised.

7. We thank you in anticipation of your kind co-operation.

Yours sincerely

Hon L.A Mnganga-Gcabashe, MP
Chairperson: Portfolio Committee on Public Enterprises

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SUMMONS

TO APPEAR BEFORE THE NATIONAL ASSEMBLY,

PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES

In terms of section 56(a) of the Constitution of the Republic of South Africa and read with section 14(2)(b) of the Powers, Privileges and Immunities of Parliament and Provincial Legislatures Act, Act No. 4 of 2004 ("the Act"),

DR DAVID FINE

is hereby summonsed to appear before the Portfolio Committee on Public Enterprises as follows:

Date: 15 November 2017
Time: 9:00 am
Venue: Old Assembly Chamber
Place: Precincts of Parliament, Cape Town.

You are also summonsed is to produce the document titled, **"Procurement of 1064 locomotives for the General Freight Business, 18 April 2013"**, at your appearance before the Committee on **15 November 2017.**

The Portfolio Committee on Public Enterprises is conducting an oversight inquiry into various allegations of governance failures at State Owned Enterprises. The first phase of the oversight inquiry is considering allegations in respect of Eskom.

The Committee will require you to make a submission and answer questions on the relationship between McKinsey and Regiments Capital and the relationship between McKinsey and Trillian Capital Partners and its subsidiaries.

Please be aware that failure to comply with this summons is a criminal offence in terms of section 17 of the Act and is punishable upon conviction by a fine or imprisonment for a period not exceeding 12 months or to both the fine and the imprisonment.

This summons is issued by the Acting Secretary to Parliament on the 14th day of November 2017, on the instruction of **Hon. Ms Lungi Mnganga-Gcabashe, MP**, the Chairperson of the Portfolio Committee on Public Enterprises, acting in accordance with the resolution of the Committee adopted on 14th November 2017 and with the concurrence of the Speaker of the National Assembly, **Hon. Ms Baleka Mbete, MP**.

Ptyawa.

Ms P Tyawa

Acting Secretary to Parliament

November 11, 2017 – Statement of David Robert Fine

STATEMENT OF DAVID ROBERT FINE

Introduction:

My name is David Robert Fine, and I am a Senior Partner at McKinsey & Company ("McKinsey") based in London.

I appreciate the opportunity to appear before you today and answer your questions. These issues are of immense importance to all of us at McKinsey, including in a very real sense the more than 250 people employed in our South Africa office. As a South African who has dedicated a large part of my career to improving the functioning of South African businesses and government so that they work better for all of the people in this country, I have felt deeply the allegations that have been made in recent months involving McKinsey and state-owned entities that I and others at McKinsey have served.

As I will go into in greater detail in a moment, I have worked with Transnet since 2005 and was the Senior Partner responsible for that relationship between 2007 and 2013. It was and is my strong belief that the extensive work McKinsey performed at Transnet over the years delivered great value and made significant contributions to Transnet's operations, and I would be grateful for the opportunity to discuss some of that with you today.

While I have not served Eskom and so am not able to discuss that relationship with the same degree of personal knowledge, I am obviously aware of the allegations made relating to our firm's contracts with Eskom. McKinsey recently released a statement that clarified the nature of our work alongside Trillian and noted, among other things, that our extensive review to date found that McKinsey never made payments directly or indirectly to secure contracts, nor did we aid others in doing so. I have not seen anything that would contradict this.

Before turning to the substance of my remarks, let me say at the outset that I am fully committed to seeing that your inquiry into these matters is thorough and complete and to cooperating fully with you throughout this process. Even as your work and the work of other governmental authorities remains ongoing, McKinsey has made clear that we are currently reviewing our own actions in this matter to ensure that we promptly identify areas in which we should improve our risk policies and practices and will make any necessary improvements without compromise or delay.

Background:

McKinsey & Company is a global management consulting firm committed to helping institutions in the private, public, and social sectors achieve lasting success. McKinsey was founded in Chicago in the 1920s and has grown, almost entirely organically, into a truly global firm. Today, we have over 30,000 employees from 122 countries who speak 136 languages. Despite that scale, we remain a privately-owned partnership, owned and governed by our partners worldwide.

For 90 years, our primary objective has been to serve as our clients' most trusted external advisor. With consultants in over 120 cities in over 60 countries, across industries and functions, we believe that we bring unparalleled expertise to clients anywhere in the world. Our focus is on forming long-lasting relationships of trust with our clients. The vast majority of our work involves repeat business for existing clients.

McKinsey has had a continuous presence in South Africa for more than 21 years. Despite significant local demand, our firm took a principled decision not to work in South Africa prior to 1994 on the belief that any activity that might have aided the Apartheid regime would have been incompatible with our values.

In late 1995, soon after South Africa held its first democratic elections, a group of five consultants established our office in Johannesburg. I first joined McKinsey and that office later that year in September 1995, which made me the very first South African consultant to work for McKinsey in South Africa. After being elected a Partner in 2002 and then Senior Partner in 2008, I was selected to lead the Johannesburg office from 2010 to 2014.

In 2014, I was offered a promotion in the form of an opportunity to lead McKinsey's Public and Social Practice in the CIS, Eastern Europe, Middle East and Africa regions. In 2016, I was further promoted to global leader of McKinsey's Public and Social Sector Practice, my current position, which required relocating from South Africa. In this current position, I advise clients in a range of industries including the public sector, banking, transport and logistics, mining, utilities, and oil and gas.

Today, McKinsey's presence in South Africa has grown so that it employs over 250 people in our South Africa office, more than 60% of whom are black South Africans. We invest heavily in our people and their development. 39 nationalities are represented among our consultants in South Africa. We have delivered over 1,000 projects in South Africa, and a further 1,400 across Africa.

As part of its work in South Africa, McKinsey has a long history of providing pro bono consulting support to organisations and projects that both develop black South African talent and give back to black South Africans. To give some examples of which I am particularly proud:

- In 2012, we established the Social Advancement Foundation (SAF), a non-profit organisation that supports disadvantaged communities by providing consulting services and financial donations in healthcare, education and welfare. McKinsey's Johannesburg office contributes 26% of its annual profits to the SAF.
- The two-year McKinsey Leadership Programme (MLP) was created as an unrivalled springboard to a high-impact career for exceptional black South Africans with strong leadership profiles and distinctive academic and professional experience. Since January 2016, 28 future young black South African leaders were part of the programme. Those who have participated have gone on to establish successful careers in leading South African organisations.
- Additionally, the McKinsey Leadership Academy (MLA) supports and trains previously disadvantaged individuals, many of whom have disabilities. In 2016, 15 learners graduated with a Higher certificate in Business Management (NQF level 5), of which two took up permanent positions within McKinsey.
- McKinsey was awarded the Top Empowered Socio-Economic Development Award in 2015 at the annual Oliver Empowerment Awards. In 2016, we received the Legends of Empowerment and Transformation award.

Having spent nearly 20 years growing this office, I have a tremendous stake in its accomplishments and the team we have built and a great deal of concern for how certain of McKinsey's actions have been portrayed. I hope to spend the balance of my statement giving an overview of some of the work we performed and to give context for the topics that I understand we will be discussing today.

McKinsey's Work for Transnet (2005-2016):

McKinsey began working for Transnet in 2005 and worked continuously for Transnet for four CEOs and over thirty senior executives until 2016. As you know, Transnet is South Africa's state-owned rail and ports company, whose primary shareholder is the Department of Public Enterprises. As stated in public figures, Transnet employs on the order of 60,000 people (as of March 2017), and its activities create or sustain some 200,000 to 300,000 jobs in the wider South African economy, making it one of the most important employers in South Africa. Additionally, the role it plays with respect to rail and port infrastructure makes it a critical actor in the country's overall economy.

All McKinsey projects with Transnet followed a typical governance process which served to ensure accountability of delivery. This included weekly progress reviews with Group Finance executives. In addition, a steering committee for each project was typically set up with relevant line executives. We also supported our clients with documentation to ensure relevant approvals were obtained from relevant board and executive committees e.g., Group capital and investment committee (CAPIC) and Board Acquisition and Disposals Committee (BADC). Finally, we provided documentation when necessary to ensure the relevant approvals were obtained from the Department of Public Enterprises and National Treasury.

2005-2011: Vulindlela Project and Other Smaller Projects

McKinsey's relationship with Transnet began when McKinsey won a tender in 2005 to work on turnaround project known as the "Vulindlela" project. Drawing on McKinsey's considerable rail and port experience, the project focused on ways to reduce Transnet's central costs, increase divisional revenue, and improve operational performance. Through our work on this project – a four-year program that involved nearly 100 South African McKinsey consultants, 94 international consultants and over 140 full-time Transnet employees – we were able to make a significant positive impact on Transnet. As confirmed by Transnet's internal (Ernst & Young), these impacts included:

- Improving Transnet's annual operating profit by R5.6b per annum
- Increasing the availability of locomotives from 83% to 87%
- Increasing the availability of wagons from 85% to 95%
- Improving throughput in Durban harbour by 36%
- Successful partnership with Letsema Consulting as our supplier development partner (more details to follow)

Between 2008 and 2011, McKinsey also began working on a series of smaller projects for Transnet, including: a Ports Regulatory Strategy, an Enterprise Performance Management project, some smaller strategies for the Commercial and Strategy Organisation, and some senior leadership workshops for several operating divisions including Transnet Port Authority and Transnet Freight Rail. But up until 2011, McKinsey did not work on so-called "capital projects" (that is, the purchase, construction, expansion or maintenance of infrastructure or other assets) for Transnet.

2012: McKinsey Support for Transnet's New "Market Demand Strategy"

November 11, 2017 – Statement of David Robert Fine

Beginning in 2012, McKinsey began undertaking new and additional types of projects for Transnet. These projects were intended to address weaknesses of Transnet that were causing reverberations for the broader economy. As you will recall, as of 2011 South Africa's economic growth had remained strong and infrastructure was seen to be essential to continued GDP growth. South Africa, however, had not fully benefitted from the commodity boom due to under-capacity in rail and port infrastructure – essentially Transnet was unable to transport South Africa's commodities to market.

Upon examination, it became clear these challenges had their origins in the fact that the pace, quality and cost effectiveness of Transnet's capital projects had declined. Up until this point, Transnet had developed and invested in capital projects only when customers first confirmed their demand. This led to delays in project delivery as customers generally prefer not to commit up front to financing large infrastructure projects.

Following a change in Government policy towards the objectives of the 'Developmental State'- and under the leadership of the new CEO at the time, Brian Molefe -- Transnet decided to embark on a new strategy (known as the "Market Demand Strategy" or "MDS") to stimulate demand by investing in infrastructure projects without confirmed orders from customers. Such a strategy requires detailed projections of freight demand based on realistic assumptions of global growth and demand.

In 2011-2012, McKinsey helped Transnet launch the Market Demand Strategy. In the years that followed, McKinsey supported Transnet on key pillars of the MDS until March 2016. Among other changes required by the strategy, McKinsey's work included: developing projections for the amount of commodities Transnet might need to transport (based on McKinsey's understanding of the global commodities markets and proprietary models); improving Transnet's capital project expenditure; and increasing Transnet's operational performance. Amongst others, the impact of our work in this period includes saving Transnet of over R100bn in capital expenditure. This was reflected directly in the annual budgets. Additional performance monitoring activities, a new pricing strategy and operational efficiency initiatives all contributed to greater volume and accountability for delivery.

The MDS also required Transnet to procure new locomotives and improve its rail capacity in other ways to meet expected demand. At the time, long-term projections for freight capacity required in South Africa were looking promising for a number of reasons. These included opportunities to export additional coal, manganese and chrome to Asia; strong growth expected in domestic freight sectors like iron ore, coal and cement; and the fact that significant number of containers then transported on South Africa's roads could be transported by rail.

Because I understand that Transnet's acquisition of locomotives in March 2014 ("the 1064 locomotive transaction") is of particular interest to you, I have included a detailed summary of that transaction as an appendix to this statement. A key point to highlight is that McKinsey ceased advising Transnet on locomotives in February 2014 and had no involvement in advising Transnet in relation to the awarding of the tender in March 2014, the selection of the suppliers, or in how the locomotive prices were determined.

Unfortunately, in 2015, several years after the MDS was developed, the economic situation in South Africa and abroad changed. Demand for commodities fell significantly due to unexpected external factors. In particular, the Chinese economy experienced an unprecedented slow-down in 2015, and because China accounts for 45-55% of steel and coal consumption, this slow-down had a substantial effect on global commodity demand, commodity prices, and ultimately on the demand for South Africa mining export that help drive demand for freight capacity. In addition, several external factors negatively impacted Transnet's performance including community unrest in the Phalaborwa channel, flash flooding due to unseasonal rains, and massive failure of the tippler at Majuba.

These changes had major implications for Transnet in that it posed significant balance-sheet risks, required the company to rapidly reduce its capital spending and improve operating profit. This meant that McKinsey's work for Transnet over this latter period focused predominantly on reducing spend on capital projects, improving volume delivery and reducing non essential operating costs. McKinsey's last engagement with Transnet ended on 8 April 2016.

McKinsey's Work with Supplier Development Partners at Transnet

McKinsey's presence in South Africa is based on a commitment to supporting the development of the country and its people, including developing the skills and capabilities of the next generation of leaders. McKinsey & Company South Africa has achieved B-BBEE Level 1 contributor status under the latest Codes of Good Practice and invests 26% of its annual South African profits for the direct benefit of historically disadvantaged South Africans. Before describing our work with development partners at Transnet, it is important to make three framing points at the outset:

- First, on all the projects where we worked with Supplier-Development partners at Transnet, in line with our B-BBEE commitments, we supported the development of these organisations through working on joint or parallel teams, providing on-the-job training, formal training workshops, dedicated coaching and feedback sessions, and having joint leadership structures.

- Second, all of our Supplier-Development partners were paid by Transnet directly and not by McKinsey. This was to ensure that Transnet and not McKinsey benefited from B-BBEE supplier spend. As a prime contractor, McKinsey was expected to review the work completed by our sub-contractors and provide assurance to Transnet that the work had been adequately completed. But the payments went directly to the Supplier-Development partner.

- Third, in addition to typical Supplier Development requirements of B-BBEE, in 2011 Transnet required at least 30% of its spend with consultants to be allocated to South African Black owned companies. This was based on the Department of Public Enterprises directives related to the Preferential Procurement Policy Framework Act (5/2000).

All of the Supplier Development partnerships with which I was involved reflected a genuine commitment and effort by McKinsey to meet and exceed the B-BBEE requirements in South Africa and to do so in the spirit that these requirements were intended – to provide opportunities for historically disadvantaged South Africans to participate meaningfully in the economy. While I appreciate there are current allegations to the contrary (in particular, Bianca Goodson née Smith's testimony before this Committee), those allegations do not accord with what I observed during my more than two decades at McKinsey. In my experience, McKinsey always took our supplier development very seriously and were committed to building local black owned businesses. Bianca Goodson's testimony before this Committee, about McKinsey's approach to supplier development at Eskom, is inconsistent with my views and experiences. I have no personal knowledge of whether the statements made by Ms. Goodson, and attributed to Lorenz Jüngling (a former partner), occurred or not. However, such behaviour would be completely against our values and beliefs about Supplier Development.

McKinsey's Work with Letsema

Supplier development was a key objective for McKinsey from the very beginning of its relationship with Transnet, and a requirement for Transnet's procurement, during the Vulindlela Programme (2005-2008). At that time, McKinsey partnered with a small consulting company called Letsema Consulting. I managed the Letsema Relationship, alongside my Partner, Norbert Doerr.

Over the course of the Vulindlela Programme, McKinsey helped Letsema become a strong and vibrant company that could compete with McKinsey and conduct independent work at Transnet. The process of developing Letsema was not without its challenges (at times, McKinsey consultants needed to be reminded to be patient and in particular consultants from outside South Africa needed to be trained on the importance of supplier development) but, in my view, the challenges we faced in developing Letsema were normal for a Supplier Development partnership, where the aim is to help small, black-owned companies develop skills and capabilities they do not already possess.

McKinsey partnered with Letsema Consulting from 2005 until 2012. By 2012, Letsema's turnover had grown to a point that exceeded B-BBEE supplier development guidelines. In addition, Letsema had grown to a size whereby they were competing with McKinsey for work. While in many respects this was a success story given the goals of supplier development, it did give rise to conflict. In addition, a professional conflict issues arose in 2012 during the contract award to McKinsey (described in the appendix) when Letsema was identified as working with General Electric – a potential bidder for supplying locomotives to Transnet.

McKinsey's Decision to Partner with Regiments

From 2012 to 2016, Regiments Capital Partners ("Regiments") became our Supplier Development Partner at Transnet. It is important to stress that McKinsey did not introduce Regiments to Transnet. Rather, Regiments had been suggested to us by Transnet as a possible B-BBEE partner to consider in late 2012, based on: they were already a registered supplier for Transnet; and the positive regard for its prior work for Transnet's Treasury department (a prior engagement that Regiments highlighted in a company profile in July 2012 – see Annexure A).

In the course of deciding whether to work with Regiments in 2012, McKinsey conducted a basic level of due diligence that included the following:

- I personally reviewed documentation provided by Regiments on their work for a number of SOCs and Public Sector institutions in South Africa, including Transnet (for whom they were already an approved supplier).
- I personally reviewed the resumes of the owners, which I thought were impressive (Litha Nyhonyha was from at Ernst & Young and had established Thebe Investment Holdings, Niven Pillay had two degrees from Princeton, and Eric Wood had a Masters of Management from WITS cum laude).

- I reached out to personal contacts in the business world about Regiments and received positive feedback about both Litha Nyhonyha and Eric Wood. In addition to this feedback, we took into account that Anoj Singh, then Transnet's CFO, had told us that Regiments' work at Transnet's Treasury Department had been well regarded.

Based on an internet search I conducted, I came across an article in which Regiments was discussed as having profited from a contentious deal with the City of Johannesburg. McKinsey raised this issue directly with Regiments, and we were told that Regiments' work had been conducted on an at-risk basis and that the City was contesting their fees.

I was the Senior Partner responsible for the Transnet relationship at the time we engaged Regiments, and I am not aware of any requirement – stated or unstated -- for McKinsey to partner with Regiments in order to work at Transnet.

<u>McKinsey's Work with Regiments</u>

McKinsey first worked with Regiments in January 2013 on a project at Transnet to support the company in implementing the MDS strategy discussed above. Vikas Sagar led the original negotiation with Regiments and continued to be the primary point of contact between Regiments and McKinsey. Over the years of our work with Regiments, we developed a constructive working relationship, partnering on various projects. We often worked in integrated teams and held working sessions to jointly develop the solution for the client.

During this time period (2013 to early 2014) most projects were related to capital optimisation (in other words, helping Transnet ensure effectiveness and cost-effectiveness of its infrastructure spending). As with Letsema, the beginning of the relationship with Regiments was challenging and the McKinsey teams were initially unhappy with Regiment's performance and the day-to-day leadership. But as with Letsema, we took steps to improve our working relationship, including engaging external facilitators to work with the joint leadership teams to resolve our differences.

In my experience, Regiments added value to our engagements including by bringing capabilities in financial modelling and funding analysis, a core competency from their investment banking experience that was critical for a number of initiatives. Regiments also added consultants who performed well, including through their subsidiary Burlington Consultants.

<u>Ongoing Challenges and the End of McKinsey's Relationship with Regiments</u>

In addition to the diligence performed at the outset, McKinsey took steps over the course of the relationship to ensure that its work with Regiments accorded with our policies and standards.

- In July 2014, allegations were published in the Mail & Guardian (http://mg.co.za/article/2014-07-24-the-house-of-graft-and-lies) about alleged improper conduct by Niven Pillay (who had been our main Regiments contact up until that point). In response, McKinsey wrote to Regiments asking for Mr. Pillay to be separated from all projects with McKinsey and for written that Regiments is in compliance with regulations including the South Africa Prevention and Combatting of Corrupt Activities Act, US FCPA, and UK

Bribery Act. McKinsey ultimately decided to continue the relationship only after we received confirmation from Regiments on 28 August 2014 that: (1) "the allegations in the press are baseless," (2) Regiments had policies for "the promotion of honest and ethical behavior" and a "corporate governance framework specifically address[ing] issues such as bribery, corruption, conflict of interest and disclosure of interest"; and (3) Mr. Pillay "step down from the Executive Committee of the Consortium" and Eric Wood would "assume the lead role on the part of Regiments." Moreover, I consulted with the Transnet CFO and CPO and was advised by Anoj Singh that Transnet was also seeking confirmation from Regiments of its compliance with relevant anti-corruption regulations. In the wake of these discussions, Mr. Wood became our principal contact, and the relationship with Regiments and the quality of its work improved for a period of time (Annexure B).

- In the middle of 2015, there was rising concern about the Regiments working arrangements within McKinsey. The quality of Regiments employees being deployed declined, and there was a concern that they could not keep up with commitments. In one case the delivery was so poor that McKinsey needed to staff one of Regiments' projects with McKinsey personnel and claim payment from them. McKinsey Partners serving Transnet raised these issues regularly with Mr. Wood and frustration with their performance built up towards the end of 2015.

- In late 2015, at a meeting of the Transnet Client Service Team, the McKinsey leadership team agreed to look into other partnerships. McKinsey partners had raised additional questions about Regiments, including about: their beneficial ownership, their values, their impact orientation, their B-BBEE transformation credentials, given that their senior consultants and Mr. Wood did not reflect South African demographics. Around the same time, we heard from Mr. Sagar that Regiments had proposed splitting in two: Regiments Capital, with its financial advisory business, and Trillian, that would grow its management consultancy arm. My partners and I saw this as a potential solution to the capability concerns we had raised.

Nevertheless, the concerns only grew. In February 2016, our concerns were heightened after an article was published by London-based outlet Africa Confidential that alleged that Mohammed Bobat (a Regiments Director appointed as an advisor to the Minister of Finance in December 2015) was connected to the Gupta Family. On 15 February, McKinsey sought clarification of Mr Bobat's relationship with Regiments and Trillian and their relationship with politically exposed persons referenced in the article (Annexure E). While McKinsey received a letter from Bianca Goodson née Smith on 26 February (Annexure F) claiming that Mr Bobat had ceased to be employed by Regiments in December 2015, I noted at the time that Mr Bobat's LinkedIn profile described him as a Regiments Director.

On 23 February 2016, Vikas Sagar and I wrote to Transnet (Annexure C) confirming that we would end our relationship with Regiments, for reasons that included: questions about their performance, the rate of their transformation, and recurring issues raised in the media (which they declined to address with us). The letter was also explicit that we would not work with Trillian unless they pass a detailed due diligence. Within days, I initiated a review of our work at Transnet that involved external legal advisors, a process that was later handed over to the Africa Office Leadership and McKinsey's General Counsel. On 17 March 2016, Vikas Sagar and I met with Litha Nyhonyha and Niven Pillay and mutually agree to end our relationship with Regiments. This was confirmed in writing on 18 March 2016.

The above developments reflect that my McKinsey colleagues and I were put in the in position of having to respond in real time to new information that was coming to light about a firm with which we had worked for several years. In assessing the speed of our actions, it is important to separate what is known now from what was known then. In particular, certain claims currently being raised in the media relate to things that I simply had no knowledge of at the time:

- First, I am aware of recent media reports alleging that Regiments paid a portion of its fees received through work with McKinsey to companies including Albatime, Forsure and Fortime (companies the journalists suggest are linked to the Gupta family). At no time, however, was I aware of any such payments.

- Second, I am also aware from media reports that Mr Pillay has said "[Moodley's company] Albatime … took us into a relationship with McKinsey and got paid a commission for that ..." As far as I am aware, this is categorically incorrect. I note that Mr. Moodley himself is quoted in the same article confirming that "I don't know McKinsey, …" (http://amabhungane.co.za/article/2017-10-23-the-mckinsey-dossier-part-5-how-transnet-cash-stuffed-gupta-letterboxes)
- Third, during the preparation of this submission, I have recently been made aware of two 2014 responses to Transnet RFPs for a coal project and to support Transnet's New Multi-Product Pipeline project (NMPP) that include references to Albatime, Homix and Accompany Advisory as companies Regiments intended to sub-contract. It appears these sections of our proposals were copied and pasted from Regiments Capital. I had no knowledge of these documents at the time but can confirm that only Accompany Advisory were involved in any project with which McKinsey was involved.

McKinsey's Due Diligence of Trillian

McKinsey has previously explained in a public statement that although McKinsey worked alongside Trillian for a few months at Eskom, we never had a contract with Trillian. The statement further explained that Trillian failed our due diligence and we terminated discussions with them about a supplier development partnership in March 2016. We now believe that Trillian withheld information from us about its connections to a Gupta family associate.

As noted, I have not served Eskom and so cannot speak from personal knowledge of many of the events relevant to these matters. It should also be noted that at that time, unlike now, State Owned Entities were not considered McKinsey public sector clients and did not fall under Public-Sector Risk policies. Eskom and related projects were not within my formal mandate to review.

In early 2016 I became aware of a substantial working relationship between McKinsey and Trillian. When I enquired about Trillian with external contacts, they raised significant concerns. During a February 2016 Partner meeting, I and other McKinsey partners raised serious concerns about Trillian's B-BBEE status and their ultimate beneficial ownership. Consequently, the South African office initiated a due diligence of Trillian with an external party. I therefore engaged in McKinsey's due diligence process with respect to Trillian given my strong concerns about Trillian.

McKinsey wrote to Trillian several times during February and March 2016, requesting details of Trillian's corporate structure and ultimate beneficial ownership. Trillian failed to provide this information. In addition, Mr. Sagar and I met with Eric Wood on 5 March 2016 to discuss the split of Trillian from Regiments and asked again who the shareholders/ board members of Trillian would be and received concerning answers. On 14 March 2016, I participated in a McKinsey Global Risk Committee discussion on the proposed Supplier-Development partnership with Trillian at Eskom as the Leader of the Public Sector in the EEMA region (the Commonwealth of Independent States (CIS), Eastern Europe, Middle East, Turkey, Pakistan and Africa). The committee reviewed the results of our due diligence process and decided that we should terminate discussions with Trillian. The next day, on 15 March 2016, McKinsey wrote to Mr. Wood informing him of this decision. McKinsey also wrote to Eskom on 30 March 2016 to inform Mr. Singh of this decision (Annexure G).

Lessons learned and personal reflections

These events have led to no shortage of self-reflection from McKinsey as a firm and for me personally. McKinsey holds itself to a higher standard than strict legalities, and as a firm we take great pride in the contributions we have made to the government and people of South Africa. It has been immensely difficult to be associated with companies and people who are now widely believed to be involved in State Capture.

In the interest of being as forthcoming as possible with the Committee, there a few points that I would like to emphasise before closing.

First, while with the benefit of hindsight I certainly wish we would have ended our association with Trillian sooner, I am heartened that our due diligence process prevented what could have been an even more serious matter for the firm. The decision to first consider working with Trillian and our subsequent decision to terminate our relationship with Trillian was the subject of a healthy and sometimes heated debate within our firm, especially in the South African office. Many partners believed very strongly that we should not associate McKinsey with Trillian and that by so doing we would risk bringing McKinsey into disrepute. There were others, however, who believed that the paramount consideration was that we not abandon Eskom, an important South African State-Owned Enterprise, in its hour of need because of suspicions and allegations that were unproven. Additionally, some colleagues were concerned about the size of the contract for McKinsey. There was genuinely felt discomfort and debate. In the end, McKinsey's governance processes took the decision to end our association with Trillian. That is a positive thing, but my view now is that we should have put clearer guidelines in place for the Partners managing the work at Eskom to ensure that we avoided the association risk while deliberations were happening.

Second, while our investigation found no evidence of illegality, McKinsey has previously acknowledged – and I wholeheartedly agree – we should have done some things differently.

In particular, we were not careful enough with whom we associated with. Had we known that Trillian was owned by Mr. Essa (who is widely believed to be a business associate of the Gupta family), which is now publicly reported, we would not have worked with them. It is my view now with the benefit of hindsight that Trillian deliberately withheld information about their ultimate beneficial ownership from McKinsey (Annexure Eric Wood email 14 March 2016). While we terminated the discussions with Trillian, I regret that we did not move even more quickly when media reported potential links between Trillian and the Gupta family in 2016. We should not have worked alongside Trillian, even for a few months, before completing our due diligence and without a contract. While our risk process ultimately worked, we should have completed it sooner.

Among other lessons learned from these events:

1. Some of our processes were inadequate. I and McKinsey's South African office leadership were not aware of the letter sent to Eskom on 9 February 2016. This letter inaccurately characterised our relationship with Trillian and was a mistake. My Partners should not have prepared such a letter authorising, even conditionally, payment for an entity with which we did not have a contract. Eskom has confirmed it did not rely on this letter to make any payment to Trillian.
2. We did not communicate appropriately to Advocate Budlender, a deeply respected advocate in South Africa. However, Advocate Budlender was acting on behalf of Trillian and requested confidential information about McKinsey's clients. This was of great concern internally in McKinsey given our legal agreements with our clients. While we terminated the discussions with Trillian, I regret that we did not proactively investigate in detail in 2016 when media reported potential links between Trillian and the Gupta family.
3. I was not party to negotiations with Eskom on the "at-risk" engagement on the Turnaround programme. It is public knowledge that McKinsey worked on the turnaround programme at its own risk. McKinsey invested substantial resources (at its peak 108 consultants plus an additional 16 specialists/experts and 13 members of the leadership team from around the world) with no guarantee of any payment by Eskom. In recent discussions with Partner colleagues who were involved in the negotiation process, I understand it was never the intention for McKinsey to profit excessively from the eleven months of work at Eskom. However, I wish to make my personal points of view clear:
    a. McKinsey provided value for money for Eskom on the Turnaround Programme. Based on my discussions with my colleagues I understand this was independently verified by Oliver Wyman which is consistent with an McKinsey's review.
    b. However, in my view, we should have capped our fee structure and the total fees in absolute terms. While we do big programmes around the world, in my view, it was unlikely that Eskom had the management capacity and depth to absorb this much change in a sustainable way. These are of course judgements of mine that may differ with my colleagues.
    c. Even though the fees were an agreed percentage of savings and the benefits to Eskom were large, uncapped fees would be perceived negatively. We should have been more sensitive to the country's and Eskom's economic situation.

    McKinsey's Public Sector practice is now reflecting deeply how we structure these engagements in future in terms of contractual terms and conditions.
4. It was Eskom's responsibility to secure National Treasury approval for the Turnaround Programme. It turns out Eskom failed to do this. We should have insisted that Eskom confirm in writing Treasury's approval for the project and we should not have begun the project without that written confirmation.
5. In this specific case, the Turnaround Programme used metrics agreed with Eskom to trigger performance-related payments to McKinsey. I understand these were negotiated at great length between McKinsey and Eskom and the implementation levels used were broadly in line with our standard approach for at-risk projects globally. I also understand that some colleagues

of mine were concerned about whether we would be paid. In hindsight, we are exploring ideas like very rigorous stage-gating for such risk-based arrangements to make sure that the organisation can absorb our work and have comfort that the benefits are sustainable. In the case of Eskom, this would have given the South African public greater comfort that McKinsey had delivered sustainable impact through our work.

6. Recently the Shareholders Council of McKinsey met to review our risk policies related to SOE's. We resolved to subject SOE's to the Public Sector risk process in circumstances where SOE's are subject to public procurement laws. This means that today, Eskom would be subjected to McKinsey Public Sector risk review.

Lastly, I want to highlight one thing we are doing to move forward from these events by clarifying McKinsey's position on repaying the fees earned on the Turnaround Programme. Eskom has said that they acted without the required treasury approval and they contend that the contract was therefore invalid. McKinsey does not want to benefit from an invalid contract.

Therefore, McKinsey's Partners have agreed that the money paid by Eskom to us should be returned to South Africa. We avail ourselves to have any discussions with the appropriate authority, inclusive of Eskom and National Treasury, to find the appropriate mechanism to effect this commitment. I fully support McKinsey's decision to set aside the full amount with the intention to pay all of it back to South Africa.

Closing

Thank you for the work you are doing. I want to reiterate the importance of these matters and the seriousness with which they are being taken by McKinsey. I was born and raised in this country, my family still lives here, and I cannot overstate the significance of the inquiry in which you are engaged to the people of South Africa. Without belaboring the point, we all have a stake in understanding what happened and learning from these experiences. I look forward to answering your questions and hope that I am able to assist you in your inquiry.

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APPENDIX: SUMMARY OF 1064 LOCOMOTIVE TRANSACTION

1. A summary of McKinsey's work on this transaction is intended for clarity.
2. On 15 January 2013, a consortium led by McKinsey won a tender to provide advisory services to Transnet on their planned locomotives acquisition. The RFP was GSM/12/05/0447. The consortium had submitted the tender in May 2012.
3. The Consortium initially consisted of five parties: McKinsey (prime contractor), Letsema Consulting (Supplier Development Partner, with experience at Transnet in Locomotive component procurement), Utho/Nedbank (deal structure and funding), Advanced Railway Technologies (ART provided technical assessment of locomotive fleet and requirements). Transnet asked McKinsey to use Webber Wentzel as legal advisors.
4. The Letter of Intent from Transnet indicated that the total value of this tender would be R35.2 million, excluding VAT.
5. There were four primary workstreams, which were intended to start in March 2013 and conclude in October 2013. The workstreams were:
   1) McKinsey & Company would be responsible for validating the business case, to include projections for the volume of commodities Transnet could transport, validate that the procurement of 1064 locomotives was viable financially (Transnet had projected 1064 would be required), and conduct scenario planning to inform contracting.
   2) Letsema would be responsible for programme Management, to monitor overall progress against timelines and ensure proper governance.
   3) Utho/Nedbank, Webber Wentzel, and McKinsey would provide transaction advisory services and procurement execution, to minimise financial risk for Transnet and ensure suppliers deliver on their commitments.
   4) ART and McKinsey would provide technical evaluation and optimisation by assessing the lifecycle costs of suppliers short-listed by Transnet.
6. However, in 2012, Transnet raised a conflict issue about Letsema, who were serving General Electric Locomotives, Transnet felt this was a conflict of interest. In May 2013, shortly after awarding the tender to the consortium, Nedbank indicated it that it wanted to participate in the financing of the transaction and therefore no longer wanted to participate in the advisory part of the engagement.
7. Transnet suggested that Regiments Capital had the advisory skills of Nedbank, the programme management experience of Letsema (through their relationship with Burlington Consultants), and a strong track record at Transnet, should join the consortium in their place.
8. Mr Sagar raised this suggestion with the Transnet client-service team at McKinsey. After a discussion amongst our partners and some due-diligence (Annexure A), we decided to accept this suggestion as we thought that Regiments would bring the required skills and knew how to work with the Transnet. At no time did I feel compelled to use Regiments Capital
9. The work initially proceeded according to the agreed timelines.

10. From early 2013 to the end of April 2013, McKinsey facilitated the development of the business case, to determine whether the acquisition of 1064 locomotives was financially viable. This was done by analysing commodity trends across the freight system and the corresponding locomotive requirements. The approach optimised delivery flexibility so that supply timing could reflect changes in the volumes of commodities Transnet transported.

11. The recommendations McKinsey made in the business case were explicit and signed off by Transnet's Executive Committee ('Exco') and Board in the first half of 2013, namely:

   a. Without locomotive procurement, the shortfall between locomotive capacity and market demand would rise to almost 112 million tons by 2021/2022, i.e. a 59% shortfall in capacity.

   b. The projections of the likely future volumes of commodities Transnet could transport were the most sensitive variable for the business case. Since the global financial crisis in 2008, McKinsey's standard practice is to advise our clients to ensure their capital investment plans are able to scale back or accelerate to better match volume movements. We included this advice to Transnet on its capital expenditure programme, including the 1064 Locomotive Transaction. Therefore, the procurement process proposed included flexibility in the contracts so that the number of locomotives could be adjusted downwards or upwards if necessary.

   c. Local supplier content was important and possible. Our calculations showed that 50% local supplier content would probably add only 2% to the price and create about R68 billion in economic impact for South Africa.

   d. The likely capital expenditure ('Capex') required for the 1064 locomotives would be R38.6 billion over a 7-year period, including the costs of hedging in the business case on page 38 of Annexure D, and South African and US inflation included in the business case of US 2.2.% per annum, SA 5.2% per annum. Locomotive cost estimates were provided by Transnet freight Rail based on recent locomotive acquisitions combined with expert input from Advanced Railway Technologies. They estimated each diesel locomotive would cost around R25 million and each electric locomotive, around R34 million).

   e. Using likely efficiency improvements and projecting past volume performance at Transnet, we recommended that Transnet might only require the 1064 locomotives beyond the business case timeframe of seven years. This was because Transnet would still require to procure between 60-80 locomotives per annum to maintain its locomotive fleet.

   f. Detailed recommendations on procurement security and governance, given the size of the transaction. This included a secure data room with controlled access

   g. McKinsey did not propose any locomotive costs.

12. After completing the validation of the business case in April 2013, McKinsey tried to start up our team to prepare for the procurement execution phase of the project. However, Transnet did not provide McKinsey with access to Transnet Freight Rail's ('TFR') data, which was essential for McKinsey to support Transnet on this element of the project. Mr Singh committed over the course of the second half of 2013to resolve the matter with TFR CEO Siyabonga Gama, but remained unsuccessful.

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13. Transnet also experienced serious delays in the second half of 2013 in terms of the work it had committed to perform as part of this project and only completed their work by the end of 2013. In particular:
    1) The Transnet RFP for potential locomotive suppliers was delayed
    2) Transnet did not secure the necessary internal approvals within agreed timelines
    3) DPE and National Treasury approvals were not submitted in time
14. McKinsey was not involved in the Technical, Financial or B-BBEE assessment of bidders. McKinsey played no role in identifying, scoring/assessing or awarding bidders.
15. As a result of these delays, and because McKinsey was not given access to essential data, we were unable to progress to the next step of the project – procurement execution.
16. In January 2014, Transnet told us it wanted to complete the locomotive procurement process more rapidly than originally intended so revised the scope of work for the project. McKinsey expressed concern about the revised scope and timing. The delays and proposed shortened procurement timing meant that there were few negotiation levers left, given the time available to Transnet. We therefore felt that our value-add would be very limited.
17. McKinsey took the following actions:
    a. 31 January 2014 - we wrote to Anoj Singh, describing what we would require in order to complete the work in the revised timing. The note set out the specific information and access to key personnel we would require in order to meet the deadlines.
    b. 4 February 2014 - after one week of work, a pattern of delays and lack of response thereto, we wrote to Transnet to withdraw from the project. (Annexure D)
18. On 5 February 2014 it was agreed in a meeting between Mr Singh and Mr Sagar that McKinsey would transfer the remaining contract to Regiments. According to Mr Singh, Regiments was required to provide the financial advice required as per the 'transaction advisory' workstream in order to complete the locomotive procurement.
19. After McKinsey withdrew from the project, I am aware that Transnet signed a three-year locomotive acquisition contracts with four manufacturers, for 1064 locomotives at a total cost of around R54 billion (including contingencies) on 17 March 2014, which compares with the original R38.6 billion. When McKinsey asked Transnet about these changes, Mr. Singh said that Transnet had done new calculations based on funding costs, exchange rates and inflation and had come to the conclusion that it was better to secure the deal they did.
20. McKinsey had no involvement in advising Transnet in relation to the awarding of this tender nor on how the locomotive prices were determined after 4 February 2014
21. McKinsey had no involvement in the currency hedging and interest rate derivatives, which Regiments Capital advised Transnet to purchase and which are discussed in (the OCCRP article of date 03 Nov 2017 – https://www.occrp.org/en/28-ccwatch/cc-watch-indepth/7215-guptas-nedbank-skillfully-extract-money-from-south-african-state-firm)
22. McKinsey & Company was paid R8.4 million (excluding VAT) for its work on the Locomotive Business Case.

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23. I have no knowledge of how the cost of the Locomotives Advisory Contract (RFP GSM/12/05/0447) increased to over R200 million as reported in the media (http://amabhungane.co.za/article/2016-09-16-xhow-to-eat-a-parastatal-like-transnet-chunk-by-r600m-chunk).

24. As mentioned above, projections of the commodity volumes Transnet would transport decreased in 2015. As a result, in 2016, McKinsey supported Transnet for six weeks to identify options for how Transnet might engage with the locomotives manufacturers so that the timing of locomotive deliveries was better aligned with the new projections and financial constraints.

25. McKinsey provided these options to Transnet but were not part of any of the discussions with the OEM's and any subsequent agreements.

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ANNEXURE A: REGIMENTS COMPANY PROFILE 2012
ANNEXURE B: NIVEN PILLAY ALLEGATIONS IN JULY 2014
ANNEXURE C: LETTER TO TRANSNET ON TERMINATION OF RELATIONSHIP WITH REGIMENTS
ANNEXURE D: 1064 LOCOMOTIVES: BUSINESS CASE RECOMMENDATIONS, LETTER OF WITHDRAWAL, RELEVENT PRESS ARTICLES
ANNEXURE E: NOTE TO REGIMENTS RE. AFRICA CONFIDENTIAL PRESS REPORTS
ANNEXURE F: LETTER FROM TRILLIAN CONCERNING INVOLVEMENT OF MOHAMED BOBAT
ANNEXURE G: TERMINATION OF INTERACTIONS BETWEEN TRILLIAN AND MCKINSEY

Oral Transcript

Meeting report

The Chairperson read the oath to Dr David Fine and asked if he wanted to take an oath or an affirmation.

Dr David Fine took the oath.

The Chairperson called on Adv Vanara to lead the discussion. She saw that Members had raised their hands and asked him to wait while Members' matters were attended to.

Dr Z Luyenge (ANC): I apologise for interrupting the process but I want to register concerns about people whose names have been called in this process who have already begun to attack Adv Vanara. I want to make this categorically clear that Adv Vanara is doing this work on our behest. He is here and he is doing what he is doing in the name of Parliament so an attack on him is an attack on Parliament. There is a laid-down process and that process can be produced and given to those people but it is not right and it is unconstitutional and it is demagogical for perceived leaders to attack a process that they know, a process that they were part of constituting. And some of them may not even be aware that letters are already on their way to them so they must be calm in this process. There is a laid down process which is democratic and honest.

Mr P Gordhan (ANC): I want to support Dr Luyenge's comments. I think that we should formally move, and if possible, adopt a motion of confidence in Adv Vanara and the manner in which he has been conducting himself and that is a manner which reflects absolute integrity in the best tradition of a lawyer and you get many types of lawyers these days, but he has proved himself to be an excellent public servant who should, in fact, be emulated by others. That was the first point. The second is that we need to be a little bit more direct. There is a statement by Deputy Minister Martins and I agree with Dr Luyenge that it is a blatant attack on Parliament's work and completely unjustified in the circumstances. Under the Chairpersonship of Ms Rantho, it was very clearly stated that everyone who was implicated in one way or another, or mentioned in one way or another, would have the opportunity to present their case here after which we will present a report to Parliament itself in the National Assembly.

Mr M Gungubele (ANC) Chairperson, under your leadership, we must look at a possibility of a statement for those who are not able to listen to what the Members are saying so they understand our stance because there is an insinuation that some of those who appear aggrieved in public will be called because they complain, otherwise they were not going to appear here. And I think that must be dismissed with the contempt that it deserves. The very, supposedly, senior people who speak in pubic know the terms of reference of the Commission. But when they speak in public, they pretend as if they do not know the terms of reference. I hope the insinuations from the Minister with regard to this being a kangaroo court are false and I think that we need to find out if they are true. Parliament is independent; it is an established institution on its own. There are those who are beginning to teach the public what the powers of this Committee are. We know what the powers of this Committee are. We know what we are capable of doing and what we are supposed to do. People must be clear that we know what we are doing and we are determined to do it and we are here to do it in the interest of our country. There is nothing that is going to make us waver.

Ms N Mazzone (DA): I would like to second the vote of confidence in Adv Vanara proposed by Mr Gordhan. I am very much covered by Mr Gungubele. I was also going to suggest that we put out a statement from this Committee outlining our terms of reference which are very clearly set out in the Constitution and we are simply executing a mandate that the Constitution insists we must adhere to.

Chairperson: I just want to remind Members that in all the statements issued on behalf of this Committee, the first sentence deals, since I joined this Committee some two weeks ago, the statement starts with the assurance that the ordinary members of the public, or in higher offices, in government or Eskom Board members or former Board members, are going to be given the opportunity to come before the inquiry and give their own version of the events. But, over and above that, I have noted the proposals by the Members. We can now resume our interaction. Advocate, you may lead us.

Adv Ntuthuzelo Vanara: I must confess that I am humbled and encouraged by the confidence shown by the Committee in my capabilities. Dr Fine, before I start with you, I just need to indicate to the Committee, this is the only witness for the day, and depending on the time available to interrogate the witness, I'd do anticipate that we should be finished by 13:00.

Witness: David Fine

Adv Vanara: Dr Fine, before you proceed, can you please state your full names?

Witness: My full name is David Robert Fine.

Adv Vanara: Can you share with the Committee your current employment?

Dr Fine: I am currently employed with McKinsey and Company as a senior partner in the London Office.

Adv Vanara: You have made a 17-page statement with annexures, ranging from Annexure A to F (G). Do you confirm that this is your statement and that represents your account of the events as accurately as possible?

Dr Fine: I do.

Adv Vanara: I confirm that with your permission, the statement with its annexures have been shared with Committees members. It is my understanding that the Committee members are in possession of your statement with annexures. Do you have any objection to that?

Dr Fine: I don't.

Adv Vanara: In the interest of time, we are not going to traverse every word in your statement. I do guarantee you that I have read the statement and annexures and I am sure that Members have done the same. Who is McKinsey and Co?

Dr Fine: McKinsey and Co is a global management consultant. It was started 90 years ago in the US, in Chicago. It has offices in over 122 countries and has over 36 000 employees. It is a privately-owned partnership. It is fully owned by the partners worldwide.

Adv Vanara: In South Africa, you would want to share with the Committee pro bono work that McKinsey provides?

Dr Fine: McKinsey has a long history of providing pro bono support in South Africa. We take 26% of our profits per year and invest them directly for black South Africans, historically disadvantaged. We have worked in South Africa with 100 police stations to help them turn around. We are currently working in Knysna with the reconstruction efforts after the fire. We have a long history of investing in the leadership of this country and as part of our commitments to black economic empowerment, we also have a black leadership program, bringing leaders and people across the spectrum to help them to develop into productive leaders in South Africa, and that is a very strong commitment that we have had over time. In addition, people will also know that we have done research on behalf of South Africa and Africa about the potential for South Africa and Africa and communicated that broadly in the world.

Adv Vanara: You had a working relationship with Transnet between the periods 2005 to 2016. Can you take the Committee down memory lane? What was your involvement with Transnet?

Dr Fine: We have served Transnet, almost continually, as an institution since 2005. We have worked for multiple chief executives and multiple executives at Transnet. It began in 2005 on a project called Vulindlela. At the time Vulindlela was focused on Transnet, particularly around operational matters and procurement. That work involved more than 100 consultants continuously. We had the 94 international people come in to help Transnet. We have extensive expertise in railways and ports around the world which we brought to bear. This work, in our view, was audited by internal auditors at Transnet at the time and had significant benefits for Transnet. My understanding is that over R5.6 billion worth of benefits were signed off by the auditors at the time and it also included other non-financial benefits. The improvement of locomotive and wagon availabilities, which was very important, the expansion of the harbour through better operational improvements and an important part of this work, which we did between 2005 and 2011, was developing and working with a small management consultancy called Letsema Consulting, in supply and development obligations to help them grow and develop into a vibrant and successful company.

Adv Vanara: Can you tell the Committee about your support for Transnet's new Market Demand Strategy?

Dr Fine: As the Committee would know, in 2011 Government policy talked about the developmental state and so in 2012 we began working with Transnet in a more substantive way, again on what was, at that time, called the Market Demand Strategy. At the time, as you may recall, South Africa had not benefited from the commodity boom globally and had, in fact, lost market share, particularly in commodities like coal and iron ore. And so, the objective of the Market Demand Strategy, it was owned by Brian Molefe at the time, was to change the philosophy of how Transnet would think of projects. So, in the past Transnet always needed to confirm customer demand and confirmation from customers before it invested in infrastructure, but the Market Demand Strategy was based on the philosophy of actually investing in infrastructure ahead of demand so that infrastructure was not a bottleneck to South Africa's growth. The work we did there was initially, predominantly around the capital project portfolio, helping Transnet to understand all the projects that they were doing then and whether they had real benefits or not. How to think through and sharpen the project portfolio was the first piece. We helped Transnet to avoid or defer projects of about R100 million. Some of those included the Durban dig-out port. People may recall, where we, after having done the analysis, felt that it was not necessary, at that moment in time, to actually proceed with that project and that it could be delayed. The second piece of work that we did was related to the locomotives' extensive business case which was submitted to the Board as in the annexure. The issue of locomotive was important because the number of locomotives was declining because of the age of the fleet at Transnet. The safety record at Transnet meant that locomotives were being written off and it was actually required in terms of the capacity plan to acquire locomotives. What McKinsey did with that was to do a few things. First, it was to understand what the future demand was likely to be in South Africa and abroad. Secondly, to help Transnet to then identify how many locomotives would be required. The third thing we did, which was a policy of McKinsey, and I want to stress that it was a policy of ours, was to make sure that the way in which Transnet would consider the procurement event would be in a flexible way so that if the volumes dropped, they would then not incur all the costs for the locomotives. The fourth thing related to locomotives was putting in place and making sure we had recommendations on governance and security given the size of the transaction. So that was the second piece of work. The third piece of work related to operational improvements.

Adv Vanara: Talk to the Committee around your supplier development partners at Transnet.

Dr Fine: So, I first want to start off by saying that McKinsey is committed to supply and development in South Africa. We are a BBBEE Level 1 contributor. That has not only been based on supply development but it has also been based on the procurement we made based on BBBEE codes. I, personally, was part of the formation as our response as McKinsey and the spirit in which we did this, which was to help and develop South Africans who had been historically disadvantaged, participate meaningfully in the economy. And therefore, I first of all just want to state that the comments that are attributed to Mr Jüngling, which, as I have said in my statement, which Bianca Goodson referred to, are deeply upsetting to me, and are not in line with our values, and are not in line with the spirit in which we have embarked in our supply and development efforts. At Transnet, we started working with Letsema Consulting. As I said before, this was a small consulting firm, and over the course of our work with Transnet, we invested in helping them both with their recruitment, with the development of their consultants, giving them access to our training, on-the-job training, etc. And over time, they actually built a very vibrant and capable consultancy which even competed against McKinsey and, I will say, it did cause some tension at some point in time because they built a very successful firm, which I am proud of, but they also sometimes competed against us and, in fact, won. This wasn't necessarily always an easy journey. It was a challenging journey at times. There were conflicts, there were issues sometimes on the resources that Letsema sometimes put on the project, and sometimes the international consultants from McKinsey didn't understand supply and development and they needed to be reminded of what we were trying to do. And these issues were normal issues and we would sit down with Isaac Shongwe at the time and resolve them. It worked very well. So that concluded our work with Letsema at the end of the project that was called Vulindlela. We did continue to work with Letsema again. In 2012 we were going to partner with them on the locomotive transaction. Unfortunately, we were told by Transnet that there was a conflict of interest because Letsema was serving General Electric who was a potential bidder for locomotives, and while a consortium would be awarded the tender, we were asked to provide an alternative. At that point, we asked Transnet who was an approved supplier on their supply and development base and they gave us the name of Regiments.

We did some due diligence on Regiments, which I shall talk to in a moment, and we included them therefore as part of our consortium on locomotives and subsequently on other projects, but we did work with Letsema thereafter and, in fact, even Regiments, when they did not have the required resources and outsourced some of their work to Letsema. I have attached in the Annexure the document from 2012 which was the document which extensively talks to the qualifications of Regiments at the time. It talks to the individuals. They have extensive experience in the public sector. They had worked at Transnet. The individuals, Litha Nyhonyha, had an impressive resume, Niven Pillay has two degrees from Princeton and Eric Wood has a cum laude degree from Wits. These were impressive resumes. I reached out with my personal contacts to people who actually spoke highly of Litha and Eric Wood's capabilities. And I did a Google search and you can see that we did come up with an issue at the time. It was related to a contract with the City of Johannesburg and the answer that they gave us was that this was work done at risk and the City was contesting their fees which seemed like a reasonable issue at the time and nothing of significance was raised. And then, finally I would say that they brought a very a particular set of capabilities because of their investment banking experience to the projects that we were going to do which required quite sophisticated mathematical and financial modelling. Do you want me to pause or continue?

Adv Vanara: I just want to confirm that the annexure in respect of Regiments, that is the first annexure?

Dr Fine: That is Annexure A, correct.

Adv Vanara: You may proceed.

Dr Fine: The work with Regiments started in early 2013 on a project which we had won related to supporting the MDS strategy to make sure that the various elements of the strategy were being implemented. The project proceeded. I would say that the beginning of the relationship with Regiments was not straightforward. There were concerns from some of our consultants that the quality of people that had been allocated was not necessarily up to scratch. There were concerns from the Regiments' people that we weren't, or our international people were not, treating them properly. We decided to proceed with the relationship and see where it went because this was very similar to the kind of experiences that we had had in building Letsema Consulting. We got an external facilitator to work with us and, thereafter, actually things improved. Most of the projects that we did with them in 2013 and 2014, were capital projects. They were related to taking projects and looking to see if they could be improved in pace and speed and cost or looking at the project portfolio, and the quality of their modelling skills was very, very high and very complementary to McKinsey. They added value to our projects. They brought capabilities that we didn't have in some instances and there were examples where they took on particular pieces of work and delivered them well. For example, in Durban, at the pipeline container terminal, that construction was behind and they took leadership of that project and delivered it well. There were challenges and I just want to talk to those if I could. The first one was a Mail & Guardian article in 2014 which alleged that Mr Pillay had had an improper relationship in a project that was related to Gauteng Health. We, immediately, after we had read the article, wrote to Mr Pillay and to Regiments, requesting that they confirm that they were compliant with the US Foreign Corrupt Practices Act, the UK Foreign Corrupt Practices Act, and the South African laws, which they did. The letter and the responses are in Annexure B. We also asked that Mr Pillay be separated from all work that Regiments did with McKinsey, which they did and it was at that time that Mr Woods became the primary contact between Regiments and McKinsey. Mr Pillay has confirmed this recently in the press that he had been removed from the project with McKinsey.

I think that the second challenge was in the middle of 2015. There were challenges in working with Regiments. We found that the quality of Regiments work had declined and the ability of them to meet commitments declined. It got to the point where McKinsey was having weekly meetings with the Regiments leadership, particularly Eric Wood, to talk about this underperformance. In one case McKinsey had to put resources on the ground in order to deliver what had been committed, and so by the end of 2015, the McKinsey partners on the project met and decided that we would have to look at other partners because we were uncomfortable with the performance of Regiments at that point in time, the end of 2015. Of course, and I want state this, the concerns grew in 2016 when there was a newspaper article, or media article, by Africa Confidential, which alleged that Mr Bobat was somehow connected to the Guptas and that concerned us enormously. We did not give Regiments a second chance and so on 23 February 2016, we wrote to Transnet and that letter is in Annexure C. We wrote to Mr Garry Pita and Mr Siyabonga Gama to say that we were ending our relationship with Regiments. You will see in that letter that we would not consider Trillian as an alternative unless there had been a detailed due diligence of their ownership and, in addition, that we had comfort in terms of the demographics of their leadership. One of the big concerns we had towards the end of the relationship with Regiments was that we felt that we were interacting with a leadership team from Regiments, Eric Wood and others, that was not representative of the demographics of this country and it concerned us that if this was a supply and development partner, it should have that representation.

We wrote to Regiments and we met with Regiments and terminated our relationship with Regiments. I want to draw people's attention on page 9 of the statement to some information that I became aware of as I was conducting the preparation for this Committee, and there are a couple of points that are explicit. Firstly, there have been media reports alleging that Regiments paid a portion of their fees to companies, Albatime, Forsure and Fortime, companies that had alleged links to the Gupta family. At no time was I aware of those payments, firstly, and, in fact, McKinsey had a policy with Transnet that Transnet would pay McKinsey and McKinsey would check that Regiments had done the work but that Transnet would pay Regiments directly. This was explicitly done so that McKinsey did not receive the credit for procurement from black-owned companies. That was for Transnet's benefit. So, if those payments happened, I think the Committee needs to ask Transnet about them.

Secondly, I am aware also of reports that Mr Pillay has said that there was a relationship in some way, that Kuben Moodley's company, Albatime, was in a relationship with McKinsey. First of all, I have no evidence of that and, in fact, there is a press article which I have referenced on page 9 where Mr Moodley said, "I don't know McKinsey," and there were some expletives after that. The third thing that I want to make you aware of, is that, as I was preparing, I looked through the documents going back all the way to 2014 and I found in our responses to Transnet, there were proposals from McKinsey to Transnet and included in the documentation provided by Regiments, were references to Albatime, Homix and another company called A Company Consulting. I am convinced that they were copied and pasted into the supply and development section of Regiments. They had obligations to Transnet. At the time of these submissions, Albatime and Homix were not names that we would have seen as familiar. The third thing was that Regiments had to deliver on their capabilities. How they decided to do it, was their choice. I did also check with colleagues over the past week if we had ever seen or worked with or seen people from Albatime or Homix or A Company, and I confirm that the only people that were on projects with Regiments or McKinsey that we saw were Accompany Advisory, which was a company started by an ex-McKinsey employee that we know well and the work was good work.

Adv Vanara: Just clarity. In the three paragraphs, you speak in your personal capacity. There is reference to "I".

Dr Fine: Correct. This is my testimony. I talk about "we" but it is in my personal capacity based on what I know, what I have been told and the conversations that I have had. This is the testimony before you.

Adv Vanara: And that you are not speaking on behalf of McKinsey, at least in these three areas. Is that correct?

Dr Fine: Yes, that is correct.

Adv Vanara: McKinsey's due diligence on Trillian. Can you take the Committee through that process?

Dr Fine: Yes, and I am going to take a little bit of time because I think that it is probably not entirely clear to everyone how Trillian was formed and its connection to Regiments, and these are obviously based on my understanding of what happened at the time. In late 2015 when we raised our concerns about the partnership with Regiments, Mr Vikas Sagar said that they were splitting. The Regiments partnership was splitting and that the investment banking and property business, as I understood it at the time, was going to stay with Regiments and the consulting business was actually going to come out of Regiments and be formed into a company called Trillian. My understanding at the time from the explanation given by Mr Eric Wood who was going with Trillian, was that the partners were not all convinced that the consulting business was a priority. The Regiments people did not want to invest further in the consultancy business and therefore by taking it out of Regiments and starting a new company, Mr Wood would have access to the investment resources and investors to start a truly large and significant black-owned consulting firm in South Africa. At the time, that did also sound like an attractive proposition because we had worked well up until that point in time and we want to build strong black-owned consultancies in South Africa. We think that is important. And so, we did consider Trillian. I cannot speak on all the events in the press as I was never involved in work at Eskom but I can talk about my interactions with Mr Wood and the time until the end of the potential relationship with Trillian. But I just want to confirm that Trillian was a company being formed, being split up out of Regiments. So, you need to think about this. It was Regiments which included consulting and it was going to be Regiments which did not have consulting and Trillian which took the consulting business of Regiments.

In early 2016, I became aware that there was a substantial working relationship between McKinsey and Trillian and when I enquired about this externally with some of my contacts, "Who was Trillian? What was Trillian? What was going on here?" they raised concerns. You could say, "Why did I have concerns in the first place?" Well, the first question was that we had Eric Wood, a white South African starting a black advisory firm, and the only person that I could see that was part of this consulting firm in its inception, was Mr Wood. It wasn't clear to me who were these other owners. Who were they going to be? Were they going to be reputable people? I think those are normal questions that somebody would have at the time. I enquired externally. I never heard the name, Salim Essa, at the time in any way associated with Trillian or any other of the names that we have heard: Mark Chipkin, Clive Angel, Mark Pamensky and others. I enquired at the time. There was nothing that I saw but others had concerns and I immediately raised concerns within McKinsey, strongly. Other colleagues of mine also did and we then instituted an external due diligence of Trillian which was then fed into a risk review. At that risk review, in which I participated, we terminated the relationship with Trillian.

Perhaps though, if it is useful, I can join the dots, as I have heard before. The first thing that I would say is that I did meet with Mr Wood, twice in March. The first time that I met with Mr Wood, I asked, "Who are these owners? Who are these people?" The answer is: He said, "I'm talking to people, but one of the investors is somebody called Max Yusef." I went onto LinkedIn; I went onto Facebook; I tried to find Max Yusef but I did not find on Google a Max Yusef. I found a Max Yusefs but I did not find anyone that I would associate with a serious (and perhaps, I don't know Max Yusefs, and if I don't I apologise) but a serious investor with a kind of stature that we were imagining was going to build this firm.

The second time I met with Mr Wood, with Mr Sagar, at the Melrose Arch Hotel at Tasha's for breakfast, I said to him again, "Who are these investors?" By then he said, "Well, it's going to be Linda Makatini, it's going to be Jimmy Manyi, it's going to be Max Yusef." He talked about Clive Angel. At that moment, I got concerned as, when I googled them, I found that they are people that we call potentially politically exposed people. The second thing was that it did not give me any comfort that we were going to build a pre-eminent, black-owned consulting firm. I fed that information into the external due diligence process. I also went personally and spent an entire weekend going through the CIPC database for all the Trillian companies. I googled every single director of those Trillian companies. There were multiple of these companies and in one of them, I did find the directorship, S Essa, which I fed into the external due diligence process, which was the basis for my very strong conviction that we could not be associated with Trillian and it was the basis by which we terminated. We terminated our discussions with Trillian.

I also want to say that at no time during this process, and in the conversations, that I had with Mr Vikas Sagar, and there were many, was any connection made between either his relationship with Salim Essa, which we know from the Gupta-leaked email or the potential relationship he may have had, which is suggested by Ms Goodson in her public testimony. That was not disclosed to me and it was not disclosed to McKinsey. It would have been an immediate red flag. I also just want to confirm that the relationship with Trillian, was always subject to a review of this ownership issue, and if you read the letter to Mr Pita and Mr Gama in Annexure C, you will see that we are very explicit that we have not yet got comfort and that we will not work with Trillian, unless the ownership issue is raised.

The last element that I want to draw your attention to is related to the letters that you see in the final Annexure G. In Annexure G, you see that there was another issue that arose with Trillian that gave us grave concern, which is that they were supposedly part of a consortium bidding for the Duvha Boiler and, at the same time, were working alongside us in Eskom, advising Eskom on procurement. We wrote to them twice, expressing our very deepest concern and asking them to respond, and they never did, which was also the basis on which we terminated our potential relationship with Trillian. Those are the facts that I know as David Fine and communicate to the Committee.

Adv Vanara: The last aspect relating to Duvha and the work that you guys were doing with Trillian. Why did you guys find that troubling?

Dr Fine: Well, I was not part of the Eskom situation, but the troubling part was that there was a clear conflict of interest, and an undisclosed conflict of interest between the Hubei consortium, that included Trillian, bidding for the Duvha Boiler while at the same time, they were advising Eskom how to engage with various procurement processes and that, for me, was a clear conflict of interest, and of great concern to many of my colleagues.

Adv Vanara: Why was it so important for your company to do all the due diligence with Regiments and Trillian? Do you do all this due diligence with all companies that you will be associated with, or where there is a potential association?

Dr Fine: In fact, we did one more diligence and then I shall come to your question. When we ended our work with Regiments, we instituted, at our discretion and with caution, a full external review of all our contracts at Transnet and with Regiments to give us comfort that there were no concerns. The question you ask is a very good question. I would say that McKinsey, which would sound surprising to the Committee, has historically not done many partnerships. So, if you went back five years in McKinsey's history, you would find that the number of partnerships we had were very few and most of them were based in South Africa because of the requirement that we had to partner and develop people like Letsema.

Over the last five years, McKinsey's philosophy has changed to we don't have all the skills in house and we have many partnerships all round the world. But what you will see is that the due diligence that we did on Regiments at the time was reading their documents, speaking to a few external contacts and actually doing google searches and getting some comfort. That philosophy has changed within McKinsey and we now have very clear guidelines about how we should deal with those relationships, particularly in the public sector. In this particular case, if you read the testimony, you would say why was due diligence not done upfront.

Why did you not do due diligence before you started to work with these Trillian people? And that is a reasonable question to ask. And the answer to that is two-fold. At the time, state-owned enterprises were not part of our public sector risk policies. That has changed but at the time they were not part of our public sector risk policies and therefore, the relationship began in good faith that these issues would be resolved. At the time that concerns came to light about the potential relationship, it was pure speculation of a potential relationship and it was based on the word "S Essa" in the CIPC database. At the time that we became aware of those concerns, we acted very quickly and very aggressively to do the external due diligence. Was it pre-emptive and should it have happened earlier? "Yes." At this time, in the public sector, we would certainly do a detailed due diligence of any external provider.

Adv Vanara: I want to tap into your skills as business leader. Let me rephrase. Would you agree with me, for the reputation of your company, it is very important to know who you would be associated with?

Dr Fine: I would agree.

Adv Vanara: Amongst the lessons learnt, the Budlender Report is scathing about McKinsey's uncooperative behaviour. What is your view?

Dr Fine: First of all, we have apologised to Adv Budlender about the way in which we engaged with him, and I got the initial call which I passed onto our internal legal team. The investigation that Adv Budlender was doing was on behalf of Trillian. The questions that he had related to information which was confidential between McKinsey and our clients and that I understand caused severe consternation internally about how we should cooperate with an investigation without our clients' consent. Having said that, we should have met with Adv Budlender and we should have had a conversation with him to explain these matters. And I am embarrassed that we did not do that and I have apologised to Adv Budlender for the way in which we worked with him.

Adv Vanara: On the turnaround programme, I see that you have personal points that you want to clarify to the Committee. Can we deal with those?

Dr Fine: Of course. First of all, I want to state that the letter of 9 February that Adv Budlender sent through was not a letter that I was aware of nor my colleagues were aware of, when it was released. The at-risk arrangement, and these are my own personal views, based on what I have seen around the world, and also my personal views of what has been put in the press. I think, first of all, I was not party to negotiation of the at-risk arrangement on the turnaround programme, but in order to prepare myself for this parliamentary inquiry, I did go in and see if McKinsey offered value and based on the information I was given, I felt that value was added on this turnaround programme and that it was audited by Oliver Wyman. However, in my view, we should have had a fee structure that was capped. The total fees in absolute terms are a high number and when I reflect on what's in the media on the capacity of Eskom's management, in terms of the breadth and depth of its management, the idea that Eskom could absorb that much change that quickly is obviously a question for me. The third thing that I would say is that, as a South Africa citizen I ask if those benefits were there, why then has the price of electricity gone up and the liquidity position of Eskom deteriorated? And that is something I reflect on. And that is also a question to Eskom. If all these benefits were delivered, was McKinsey working on the wrong problem? And that is a question that we debated internally. If the issues were liquidity and balance sheet and we were working on operations, were we working on the right issue is a question that I am reflecting on a lot. And as a public sector person, working with my colleagues globally, we are spending quite a lot of time, reflecting on how to think about these arrangements because, the other factor that is not clear to the public, is exactly how were these benefits measured and how do citizens in South Africa have comfort that benefits were derived, and the way the contract is structured is not clear to South Africans. And so, with the benefit of hindsight, of course, we would structure the contract differently with clear gates so that it would give to South African citizens, for a contract of this size, the comfort that the benefits were actually delivered. That the change was actually absorbed and embedded by the organisation would be one of the other reflections that I would have on that large contract. It is a large contract and it would be viewed in McKinsey as a large contract. I do have questions about whether Eskom would have had the capacity to absorb that much change.

Adv Vanara: We know that Eskom paid McKinsey in excess of R1 billion for the turnaround programme. What is McKinsey's position in the light of the recent development, in the light of the issues you raised, in the light of the price of electricity having gone up?

Dr Fine: So, the first thing is that McKinsey does not want any tainted money and McKinsey may be vague but we do not want tainted money. Our understanding is that we went into a relationship with Eskom in good faith. We entered that relationship. They gave us verbal confirmation that they had National Treasury approval. That is in Steering Committee Minutes, which we have in our possession. They did not get that approval. They have obviously written to us to ask for the money back. McKinsey does not want tainted money so if the court decides that the McKinsey contract was valid, and McKinsey is entitled to that payment, McKinsey will still give the money back to South Africa. And it doesn't matter whether or not the contract was valid, we will give that money back to South Africa and not because there is guilt associated with anything that we have done. I am not aware of anything that we should be guilty of. The reason we will give the money back, even if the court rules that the contract was valid, is that it still didn't have National Treasury approval. It still didn't have the requisite approvals in place and therefore we don't feel that we should keep that money.

Adv Vanara: In South Africa, you would know that people are very poor. Waiting for a court ruling to determine whether or not, you should pay back or not, may be too late. What is stopping you now from returning the money to the state's coffers?

Dr Fine: What we want is to avoid paying the money twice. So, at the moment, we have received a letter saying that the contract was invalid and we should pay the money. So, do we pay the money to Eskom, or do we pay the money to the South African citizens? Well, that depends on whether the contract is invalid or valid. And one of the appeals that I have to this Committee is to help McKinsey to resolve this impasse. Because we want to pay the money back, we have reserved the money as McKinsey. It is completely separate and we have accounted for it internally, we have discussed it with the global partners, and the only question is who should receive the money and how that money should be delivered? We would certainly find it extremely useful to have the requisite authorities, including Parliament, help us give the money back to South Africa in a way that is lawful and will benefit those citizens that you talk about.

Adv Vanara: Let's go back to how you ... the transitions between Regiments and Trillian where there was a break up and you went with the consultancy services of Trillian. And I'm asking this question because I'm concerned about Eskom. Did you get any resolution passed by the Boards of the two entities and, indeed, this particular component Regiments had foregone to Trillian, and that you could work with Trillian and get paid the fee? The reason for my question is: How did you make sure that Eskom, later on, does not sit with a bill from Trillian, which it pays. Then later on, Regiments comes and says, "But why did you pay Trillian?"

Dr Fine: We did not get a resolution from the board of Regiments. We understood, or perhaps I understood, in my conversations with Vikas Sagar that the separation of the Trillian business out of Regiments was amicable. We did not do that, and it was an omission.

Adv Vanara: You appear to go into associations with individuals not knowing who they are. But there was this relationship, working relationship of Trillian, McKinsey, and there is a letter from McKinsey to Eskom, saying pay Trillian directly on condition that we confirm value for money. I know that the payments made were not consistent with that letter. The question that I am having is: Why did you proceed against your company's way of doing business, or vetting people that you work with, when you had this relationship?

Dr Fine: Well, there was quite a lot in what you said so, if you don't mind, I am just going to rewind a little bit, so that the statements are explained. I think that the first is that there was no information at the time that conversations were happening with Mr Wood (that I was aware of, or that I believe McKinsey was aware of) and that there was a relationship between Eric Wood and Salim Essa. The experience that we had had working with Eric Wood, was that he was a straight guy that when we gave him feedback, he resolved issues. So, at least the assumption at the time, was that we were dealing with a bone fide person who had access to investment resources that was going to build this large consulting firm. I did not know, at the time, that Vikas Sagar had a relationship with Salim Essa or that Eric Wood was going to be in partnership with Salim Essa and, from what you see in my statement, it is very clear that as soon as I had any intuition that there was an issue, I acted very forcibly and that McKinsey acted forcibly.

Now, the question is, which was your question, why did you enter into this relationship on the basis that you hadn't done any due diligence? I would argue that there had been some diligence as there had been a history with this person, Eric Wood, and it had not been a bad history. At the time, because state-owned entities were not part of the risk processes of the public sector, which we have changed now, they didn't follow the same requirements in vetting Trillian as a supply development partner. The focus of the risk process early on, were the commercial risks of the risk-based contract with Eskom, and not on the partnership risk, which we normally would have picked up through our public sector processes. So, I think that it was one of these policies within McKinsey where this was not subject to the kind of rigour that we would have done in the public sector.

Adv Vanara: I am aware that McKinsey and Co, subsequent to these developments, had instituted an internal investigation. What did that investigation find, and were there any individuals fingered internally for the lapses you alluded to earlier?

Dr Fine: Thank you. I just want to clarify one other point from the previous question, if you wouldn't mind. I just want to clarify our relationship with Trillian, one has to reflect on that. If you look at the letter which is in Annexure C where we write to Garry Pita and Siyabonga Gama and we express our concerns about issues that would need to be resolved in order for us to partner with Trillian. So, there was no doubt, certainly in my mind that Trillian still had to go through that process, and it was very clear because we told Mr Wood they would have to go through that process. So, it was not done... there was no bad faith. I think McKinsey was very clear on that.

Now to your question on the internal investigation, McKinsey has conducted and is continuing to conduct investigations. We conducted the Norton Rose investigation, which is in the public domain. We, and I initiated and then handed to our Africa colleagues and our general counsel, the external review of all our contracts with Transnet with Regiments, to make sure that they were properly procured, that we delivered value, etc. Both those investigations have been led by our general counsel. I understand that they are attorney privilege, client privilege, and I haven't seen those reports. We do have a professional conduct committee within McKinsey which met, which reviewed that information, and which took some decisions, two of which you would be aware of. One was the fact that Mr Vikas Sagar left McKinsey, and the second is that one of our partners was sanctioned. That doesn't mean, by the way, that our investigations have stopped. Of course, we are aware of the concerns that have been raised in the public domain, also by people like Corruption Watch and we have external counsel in the US also reviewing all of the investigations that we have done to make sure that there is no stone left unturned. And, if there is something that needs to be reported, it will be reported to the relevant authorities.

Adv Vanara: I accept that you were not too heavily involved operationally at Eskom. At Transnet, who were the executives that you worked closely with?

Dr Fine: So, the executives at Transnet that I would have worked closely with included Anoj Singh, Garry Pita, Mohamed Mahomedy who at the time was the Head of Group Capital. The four finance people would have been the primary people that I would have interacted with. My colleagues would have interacted with Mr Gama and various executives with Transnet FreightRail and the Port Authority. That would be in the recent time. Of course, historically, I worked extensively with other executives in the previous years when we were doing the project Vulindlela.

Adv Vanara: In Eskom, who were your colleagues who were charged with servicing Eskom?

Dr Fine: There were five colleagues. Mr Vikas Sagar, Dr Alexander Weiss, Mr George Desvaux, Mr Michael Clos, Mr Henri Cavedi.

Adv Vanara: In your interactions with your colleagues at McKinsey, who were they working with at Eskom?

Dr Fine: I know that Dr Weiss and Mr Clos, and a previous colleague, Mr Dawe, have been working with a number of executives. It would have included people in the various capital projects that existed. I don't know the names because I wasn't there; but with all the capital projects, they would have worked with previous leaders of Eskom, including Brian Dames, and others. In the more recent time, my understanding is that they worked with Anoj Singh and I don't know to what extent with Brian Molefe.

Adv Vanara: Who is Vikas Sagar?

Dr Fine: Vikas is an Indian national who came to South Africa first to work with McKinsey in 1997 for two years. He left the firm and came back two years later and has been living in South Africa ever since. At the time that he left McKinsey, he was a senior partner at McKinsey.

Adv Vanara: In all that you have told the Committee of your relationship between McKinsey and Trillian, are there any observations, or things that you know that you did not approve of, that relates to the conduct of Mr Sagar?

Dr Fine: Well, part of the challenge with Mr Sagar is his operating model was to have meetings alone with Anoj Singh and Eric Wood without any McKinsey colleagues present. This was an issue that I raised with him and my other colleague, Dawes, had raised with him. We even had a dinner to discuss this matter and he felt that we were not trusting enough. So, it was very hard for me to know what he was doing in those meetings, and I think that other colleagues of mine had a similar experience because I know that the initial meetings that he had with Mr Molefe at Eskom, were also alone. So, I am not aware of what would have absolutely transpired in that context. I certainly did not know that he had a relationship with, or connection, to Salim Essa. The Gupta-leaks email which relates to 2014 was not known to anyone that I am aware of in McKinsey. The relationship with Salim Essa and the meetings that supposedly happened according to the sworn testimony of Ms Goodson, were never discussed with me, nor were available for anyone to know. And, as you notice in those diary entries in her affidavit, there is nobody else from McKinsey who is present in those meetings, which is consistent with the operating model, so I am not aware of... It is hard for me to answer that there were things that Mr Sagar did while employed with McKinsey that could have been done. It would be pure speculation.

Adv Vanara: You are referring to an email. What was this email? What is its significance?

Dr Fine: The significance of the email is that in August 2014 – it was published in the Gupta Leaks recently – and email was sent by Vikas Sagar from his McKinsey email to his home email and then onto

Mr Essa. It had two McKinsey documents attached, one relating to mining of coal and coal-related matters and the second one related to uranium. I have not seen the documents; I have no idea what the basis of those documents was; I haven't had a conversation with Vikas Sagar for quite some time, and I am not sure that anyone has any understanding as to what the basis of those might be. I have no information as to why he would have sent that email. The reason that it is significant, which is part of your question, is because, by August 2015, Salim Essa was already in the newspaper related to the VR Laser transaction and the locomotive transaction. So, by that time already he was in the newspaper and I would certainly have been concerned if we were working, or had a close relationship, with him at that point in time. So, the significance is that already in 2014, Salim Essa was in the newspaper related to the locomotive transaction and VR Laser. I think it is July 2014 if my recollection is right.

Adv Vanara: Let's move to the 1 064 locomotives. What do you want to tell the Committee about this strategy?

Dr Fine: Well, I just want to make the Committee aware as I have been requested, in the subpoena, to share the 1 064 locomotives business case that McKinsey helped to prepare with Transnet executives for the procurement of locomotives. The recommendation inside that business case was to spend R38.6 billion and not the R54 billion that I have seen in the press. On the basis of that request, I want to take you through, quickly, the process by which the consortium was created, the work that was done, and the specific recommendations we made, which seemed to be different to the recommendations that were followed. I think that the Committee, should, after they have read the document, and have read the submission, then they should have a conversation with Transnet to get clarity.

So, the first thing that I wanted to say is that it started off as a consortium where McKinsey was the prime contractor in the tender that we submitted. It included Letsema Consulting as a supply and development partner but also because they had been involved in various procurement processes at Transnet related to locomotive components, like couplings etc. It included ART and Nedbank because some work was going to be done about how the funding and structuring was going to be done for these locomotive transactions. A company called Advanced Railways Technology (ART), run by David Potter from the UK. He is an ex-British Rail executive. He has worked extensively in the rail industry and had worked in South Africa and we needed someone with the technical expertise to debate with and challenge the relevant managers.

There were four workstreams. The first workstream was the business case, which you see in the attachment in Annexure D. It is an extensive document. It is the culmination of many discussions, a lot of work. It projected the potential scenarios of demand in South Africa. It looked at the locomotives that you would need to move that freight around. It looked at a variety of things. It financially modelled what the implications would be and whether it was actually a good thing to do, what the benefit of efficiencies might be if Transnet implemented efficiencies etc. The second was obviously a very complicated process that would have to be managed and that was the Programme Management which Letsema was supposed to do. Nedbank and WeberWentzel were involved with McKinsey in a workstream called the Transaction Advisory part, which was going to be the final procurement part of the transaction. And, as I said ART and McKinsey were going to make sure that the technical assessment and challenges were in place.

As I said earlier, the first thing that happened was a conflict of interest was raised, and there were a few. The first one was with Letsema working with GE and potentially a bidder, and so we considered working with Regiments. The second thing was that Nedbank, as I understand it, wanted to participate in the fundraising part after the contract was completed and therefore wanted to withdraw from the consortium, and Regiments had all their modelling skills and derivatives experience – which I'll get to in a moment. And so, the consortium changed to be McKinsey with Regiments and ART which was the consortium that actually did the work.

The work proceeded according to the timelines for the business case. It worked very well and the executives were engaged in the case and debated discussions and gave inputs, which were taken into account. There was a proper governance structure in place with a regular steering committee which was chaired by Brian Molefe, if I recall correctly, and also included Siyabonga Gama and Anoj Singh. That led to a business casebeing concluded and submitted to the Board. The document in the annexure is the document as it left McKinsey and our understanding was that it was the document that went to the Transnet Board and was signed off on and went into the subsequent approvals that would have to been sought from the Department of Public Enterprises, amongst others. The timelines thereafter drifted. The internal Transnet timelines drifted so that the work was supposed to be started in early 2013. It was supposed to be concluded by October 2013 when the tender would have been awarded to the successful bidders. The internal processes were delayed. There were delays in getting the relevant Board approvals and technical approvals. There was a process which Transnet had to vet and look at the potential suppliers in terms of their technical competence and their ability to deliver, their BBBEE etc. McKinsey was not part of that and there were other approvals that had to be sourced from the Ministers involved, which I assume would have involved the Department of Public Enterprise and National Treasury, given the size of the transaction.

Given that historically we had had experience where Transnet took time to wrap up and provide the necessary information in time, and given that they wanted to accelerate the procurement to January 2014, we wrote a letter, which isn't attached in our annexure, on 31 January expressing our concerns and we wanted some information otherwise we couldn't do the work. On 4 February 2014, we withdrew from that part of the work as we were not getting the data and we felt that the timeline was too short in order for us to add value and discuss a transaction of this size. It was a very heated discussion in McKinsey but we felt that we should withdraw from that part of the work as there was not sufficient time to apply our minds. The work was handed over to Regiments.

I want to be very explicit about the recommendations that are in that business casewhich seems to be different from what was concluded at the end of the negotiation with the four locomotive suppliers, CSR, CNR, GE and I can't remember the fourth at the moment. The first thing was, when we assessed this, it was absolutely necessary for Transnet to buy locomotives. That was not under debate and when you looked at the age of the locomotives and you projected out to 2022, there was going to be, in our view, a 59% shortfall between the locomotives that were needed and the freight volume. Now you could say that the volumes went down in 2015, etc but there still would have been a substantial shortfall of locomotives, and we confirmed that.

The second thing is we were very explicit that the most sensitive variable in the volume, so in terms of our standard McKinsey practice, as I have said before, our advice was contracting with the supplier had to include flexibility so if the volumes dropped, or if the volumes went up, the arrangement with the suppliers could be adjusted. We were very explicit about that. The third thing was that we looked at the supplier and local content part, and we said, for an increase of 2%, you could do 50% of the work in South Africa and there would be a substantial benefit of about R68 billion to the economy. Whether that is high or low, we could argue, but the fact is that it would be beneficial. In our view, this transaction should cost R38.6 billion, including inflation of 2.2% in the US, 5% in South Africa and it also included the Rand-Dollar adjustments that you see in Annexure D, page 38, and that would be over a seven-year timeframe.

It was over a seven-year timeframe and the transaction was concluded at R54 billion over a three-year timeframe. So, different timeframe, different amount; it was not in line with our recommendations and I think that the Committee should understand those details. Now that you have the details and the documents, you can compare those details against some of the judgements that people made.

We also looked at efficiency and said that you may not need 1 064 locomotives. Or, what we state in my submission, keep the 1 064 locomotives but our estimation in that seven-year timeframe is, you might need only 784 locomotives if you implemented efficiency improvements and other things that are in the business case. Having said that, we also projected forward that Transnet would need between 60 and 80 locomotives per year and on the basis of that, they should still continue with the transaction but have the flexibility on when they actually got to the 1 064. Lastly, we gave very detailed recommendations on the security and governance issues for it to happen and that it was not subject to any issues.

When we heard about the R54 billion price change, we did ask questions as to why the number and timeframe was different and the answer we got back from Mr Singh and Mr Pita, I think it was Mr Pita, at the time, was that they had a different view on the inflation and on the hedging and on the contractual terms and therefore they negotiated a different arrangement. McKinsey was paid R8.4 million, excluding VAT. There is an article by amaBhungane called "How to eat a parastatal chunk by chunk". The project ballooned from R34 billion to R54 billion and I can't explain how that happened. We handed over the work on 4 February 2014 and we don't know how these allegations in the media happened or not. Lastly, it is about something we saw in the press. The OCCRP (Organized Crime and Corruption Reporting Project) article was published on 3 November and is referenced in point 21 on page 15 of my submission, that talks about the complicated investment bank swops and derivatives that were related to inflation on this locomotive transaction. I don't understand them but there is some press speculation as to whether or not, and how those derivative contracts were structured and what's embedded in them. The Committee should explore those and see if they have comfort on what was done.

Adv Vanara: As a parting shot, you worked with Regiments very closely. What was their business model in your understanding? How do they go about doing the work?

Dr Fine: How do they go about doing the work? Regiments? Well, it is hard for me to speculate about how they do their work. I can say that they were a supply and development partner of McKinsey. They did credible, real, hard work over the time that they worked with us. This was not what I would call a sham. This was not just, "We give you the 30% and you walk away." This was hard work with people on the ground. They worked with McKinsey. Of course, they had the benefit of McKinsey brand, expertise and capabilities to draw on. They were comfortable to talk about that. I am told that when Mohamed Bobat left Regiments and went to National Treasury, he talked extensively about the work with McKinsey at Transnet, I am told. I also understand that because they have these other parts to their business, a property portfolio, they have investment banking skills and understand how to do the currency swops. Am I answering your question? I assume that is how one would have to think about it.

Adv Vanara: No further questions

Questions from the Committee

Dr Luyenge: Thank you for your input to the Portfolio Committee on a number of aspects taking place in the SoEs and the information that is in the public domain is that there is deliberate looting by the SoEs of the country. So, these SoEs are actually the sources of such. In what you have presented to use, what would be your say around that?

Dr Fine: Are we going to go one-by-one, or do you want ... OK. One by one. I think that that would be speculation. I think that the quality of journalism that we have seen in the last couple of years, particularly from the likes of amaBhungane and Daily Maverick, has been excellent. It has been detailed. I think that it lays out quite clearly a hypothesis, a possibility and there are three parts to this, and this is in the media so, this is what the media said, I think this is what the Committee needs to get comfort on, that first of all, there is a governance structure that may or may not have been compromised and that includes from the Boards all the way down into the various executives; that there are in some cases, companies that get set up with very complicated structures that look legitimate but behind are moving money, legitimate money out into other locations. They partner then with a legitimate company that has a brand, a strong brand, and they do potentially real work but the benefits of that work then move outwards. And on top of that, as I mentioned in my submission, the recent article on 3 November in the OCCRP around derivatives and Treasury-related matters. These are all in the press. I think the model has been laid out in the press and I would encourage the Committee to probe those four areas and confirm whether or not that hypothetical model is the model or not.

Dr Luyenge: The ballooning of figures from R38.6 billion to R54 billion, and another one from R36 billion to R200 billion, how then do you present a case where such is happening? You as a representative of McKinsey, as a company with all the expertise, how do you view that in the operation of an SoE, whose responsibility (and in your belief, there is a common view between you two) to the developmental state of South Africa, will be best achieved through that?

Dr Fine: I can't answer the question of how the R38.6 billion goes to R54 billion or how R35 billion goes to R200 billion. I can say that I am surprised and concerned about that because the basis of the locomotive business case was thorough and conservative. It looked at a number of factors in great detail. I stand by that work as good work that McKinsey did on the business case. How it goes from R38.6 billion to R54 billion, and instead of over seven years, over three years, is exactly the question that I think needs to be asked. When we asked the question, we were told by management, first of all, it was a confidential process because these procurement things are, but that's fine, so I haven't seen all the details, but we were told that based on a set of considerations, they got a different outcome. When I read the press articles, it does make me ask questions, but these are the questions best put to Transnet.

Dr Luyenge: The role of Transnet working with McKinsey and Letsema, would you think that you did achieve your goal as McKinsey in how financial management and decision-making was taking place? There is a Moodley that you spoke about. Do you remember the name of Moodley's company or the first name of the Moodley because I believe this is a Sammy? Were you ever invited to the Gupta wedding, which I believe, if the emails are anything to go by? Did you receive an invitation? Did you attend? If you did not, what was the reason? Do you smell any rat behind all these as they relate to the Gupta family? What actually made you suspicious? And do you believe the decision by McKinsey to pay back the money is justified? And let me advise and appreciate that view that you want to pay back, that it must not, and I will lobby this Committee, that it must not be paid to consultancies. These consulting companies have done damage, and damaging the whole name of consulting work, which is an expertise that is highly needed. Now, in the rural areas, in my place there as a rural boy from Gxididi, you know that people are hungry there and that single billion, if this Committee says take that billion to Gxididi so that it can benefit the poorest of the poor, what would you say?

Dr Fine: OK. There were quite a few questions so I'll go one by one. I am very proud of the work done by McKinsey at Transnet. I am very proud of the fact that we took a small consultancy firm, Letsema, and invested in them. We gave them resources, we gave them training, we gave them access to resumes of people that perhaps did not fit with McKinsey's profile that they should consider. We had... I personally engaged many times in robust discussions with the leadership there and at the end it was a high performing, substantially larger firm and it could compete with McKinsey. Was it painful when it competed with McKinsey? Yes, it was painful, but, for me, that was the test of supply development. It passed the test of supply development and I am proud of it, personally.

Kuben Moodley is the Moodley that I am referring to and Albatime is the company as I understand it in the press. By the way, I just want to say that that is based on my recollection, so if it is incorrect, you must just tell me.

I was invited to the Gupta wedding. I was invited to the Gupta wedding, as I understand it, but this is pure speculation, because I led the South African office at the time. I received a big box. It was a big thing with lots of jars inside but I did not go to the wedding. I do not know the Guptas and I have never met them. I did not go to the wedding.

Smelling a rat, and what makes you so suspicious? What made me so suspicious? McKinsey is a firm, in my view, and I don't want this to come across as glib or trite, McKinsey is a firm that doesn't make decisions based only on commercial decisions. I have been involved in situations where McKinsey has walked away from contracts, substantial contracts because they were not aligned with our values. The fact that we would be associated in any way whatsoever, with what was being reported in the press at the time, that the Guptas were benefitting from contracts. This is what was reported in the press, that in some way they had undue influence as reported in the press. That they had a relationship with Salim Essa was reported in the press. The fact that McKinsey would be within a mile of anything that could affect our reputation which had been hard earned in South Africa and I have been responsible for building the company in South Africa, and it has been hard earned, and that is why I get emotional about these things, very emotional. That is the basis by which got anxious and the basis by which I got emotional, and the basis on which I went into my super investigation mode.

Why pay back the money? We are not paying back the money because we think that we have done anything wrong. I just want to be quite explicit. We went into a relationship with Eskom in good faith. They said that they had the requisite approvals, all those sorts of things. We invested in good faith, upfront. At one point in time, as I say in the document, we had 108 consultants on the ground and another group of people which took it up to almost 138 people, before we even had a contract in place. So, you can therefore say, "Did you know that you were going to get a contract?" and I can tell you that in McKinsey there was concern that we would not. So, we went in with good faith and they told us that they had the National Treasury approvals for the risk arrangement. The fact that they didn't is why we don't want the money. Now to the question of how to apply the money, I think that that is where we as McKinsey need help and this is where I appeal to Parliament: i) To get resolution with Eskom and we can also try and trigger that to resolve whether or not the money has to go back to Eskom because the contract was invalid. As I state now, I think that the contract is valid because we did real work and something was done. But we will give back the money. Now the question is how Parliament can help us resolve that impasse and find a productive way to deploy that money. If, and the requisite authorities say give the money to your constituency, if that is the decision of Parliament, then that is the decision that we will abide by.

Dr Luyenge: I am running out of my time. The Market Demand Strategy at Transnet and during the era of Mr Brian Molefe. How long was the duration of the contract that McKinsey had, and within that period, what would you say in pursuance of his duties, Mr Molefe, as a CEO, at the time – how did he manage the processes? Do you believe that he is Mr Fix-it because on his arrival at Transnet, there was commendable improvement and the Market Demand strategy was actually one of the methods that was used and also, on his arrival, there was some improvement? Was it real or was it a fake?

Dr Fine: I met Brian Molefe very few times. Once we were sitting on a joint panel in Tokyo. We were at one social event where I said, "Hello," but I didn't get involved with Brian and watch him in executive meetings. I do understand that he was an active participant in the Locomotive Steering Committee and colleagues who were thee told me that he took those discussions very seriously and pushed the relevant executives hard to get to the business case that you see in the document. But I certainly think if I look at the work that we were doing with Transnet, they were highly committed managers at Transnet where real impact happened and that this is an organisation that has done good work. If I take, for example, the coal line, the coal line improved its throughput by almost 1.5 million tons a week, which is about R8 billion to Transnet's bottom line when I was there. I have talked about the capitalisation to optimise the portfolio where the executive team did make decisions to either remove projects, or defer projects. And those were not easy decisions. If you take the Durban Dig-out decision – that was not an easy decision to take, and political debate to have, but they were prepared to take that decision to defer that project for a period of time because there were other operational improvements that would happen. So, if you said to me, did I feel that the organisation had clear numbers, had a management system in place that they were managing themselves to those numbers, that they took these performance objectives seriously, and tried to deliver on them, I think that the answer is, yes.

Ms N Mazzone (DA): Chair, South Africa operates under the Prevention and Combating of Corrupt Activities Act and it is an Act specifically in place so that South African money is kept safe and that illicit transactions don't happen. To our witness, Mr Fine, I find it disturbing that you yourself find that the money that you have is tainted and that McKinsey would pay the money back, regardless of what a court finds, because you don't want any association with anything tainted. Would you, as McKinsey, be laying charges against anyone according to the Prevention and Combating of Corrupt Activities Act?

Dr Fine: I want to be clear on what I mean by tainted. This is money that South Africa is uncomfortable with because we received the money, whether we did the right work or not, without National Treasury approval. I am not aware that this money was, in any way, involved in corruption, that any payments were made to get this work or do this work in any way whatsoever. I have a high bar for what I mean is tainted. However, in answer to your second question, those investigations are ongoing. I have not heard anything at this point in time that would make me concerned or that I have been made aware of an illegality that has to be reported. But I have, before coming to this Committee, written to my colleagues, I have written to my legal counsel and I spoke to them again yesterday and I said that I was going into this Committee and I want to have comfort that if anything comes out of these investigations, that we will report them to the relevant authorities and they have given me the assurance that they would do that. There is nothing at this moment that would give me a concern that that won't happen.

Ms Mazzone: In the Geoff Budlender Report, now colloquially known as the Budlender Report, I am sure that you will agree that his finding against McKinsey is damning and he classifies many of the deals as scams, which you yourself have spoken against. Then there was a leaked document from an ex-employee, someone who was suspended by McKinsey, in which they noted McKinsey's risk of being criticised for exorbitant fees and that McKinsey's mistake was short-lived, and less blatant, but wrong nevertheless because nine months' work resulted in $73 million and there was an anticipated $370 million income over a period of four years. Now, here's where my problems come in. Eskom accounted, and accounts for at least, half of McKinsey's income in South Africa, your South African revenue. Now McKinsey instructed Eskom to pay Gupta-linked companies described by McKinsey as sub-contractors for work never performed. But I find it almost disingenuous that you say that you had no idea that Salim Essa was involved, and that when you were dealing with Clive (Eric) Wood that you did not know that he had involvements in all of these companies because you yourself have told us that you googled, and that you google quite frequently. Now I just happened to google Clive, sorry Eric, Wood and the first things that came up are his associations with Homix, which is a letterbox company which could possibly have laundered millions of Rand for companies doing business with Gupta companies, so I find it strange that a company the size and importance of McKinsey would not have done this kind of due diligence immediately. While I accept the fact that you say when it came to your attention, you started this investigation, but surely your colleagues should have done this before there was a leaked letter which is now known as the Sagar leaked letter. I find it a very difficult pill to swallow that this kind of due diligence isn't done as I say. Salim Essa has a 60% stake in Trillian. It is not a small stake. It is a huge stake. And I find it hard to understand that a department of McKinsey would not have seen this and how the London office is now stepping in and doing the investigation. In the Gupta Leaks, there is documentation that as far back as 2015, in fact, some of the documentation suggests as far back as 2013, your South African offices wrote to your America offices and said that there were problems here. What is your take on that?

Dr Fine: There is quite a lot of ground to cover so I'll start with the question of Budlender and I have not seen a scam or a sham. I can tell you that in the supply and development relationships that I have been involved in and worked on, those have been serious efforts. There were serious projects done with serious work. The fact that we actually wrote to Regiments with our concerns about Niven Pillay at the time, the fact that there were external attempts to come and help fix up our relationship, the fact that we had regular meetings with them to manage their people, is not a sham. A sham is where you say to people, "Take your 30% and go but don't bother me and don't make any effort." McKinsey made an effort. I made an effort, my colleagues made an effort in these relationships. They were not a sham. I am also aware of the statement of Mr Jüngling, and I referred to it, that talks about Trillian, saying "Take your 30% and go." I don't know if he made that statement or not. All I can tell you is that is not a statement that is coherent with McKinsey's values. It is an unacceptable statement. It is a statement that made South Africans angry, and you can hear by the pace of my tone, that it makes me really, really angry, and I think if I was sitting with Mr Jüngling today, and if he was still in McKinsey, we would be having a very difficult discussion. So, there is absolutely no doubt in my mind that it was not a sham, this was not a scam and that his comments were completely out of any realm in what McKinsey would do, and that I have confidence in.

On the letter that instructed. That is being reviewed by McKinsey Legal, it is being reviewed by Eskom's legal. That letter did not instruct. That letter said, "Subject to certain things that you confirm yourself, Eskom, you should consider payment." We did not know about that letter until Adv Budlender's review. That the letter was not disclosed. And just to explain to you the level of disclosure that I would have expected. I sat in a meeting at National Treasury on 31 May where McKinsey, myself, Head of the Africa Office, and one other colleague went to talk to National Treasury about our history with Regiments and why we terminated this. We went and had that meeting. Mr Sagar went to that meeting. Even in that process that letter was not disclosed and I can't explain to you why someone would not have disclosed it. Even at that point in time, there was no information that Regiments was in any way linked, in my mind, to Salim Essa.

If you googled Eric Wood today, you may find that. If you had googled Eric Wood in late 2015, you would not have found that. I can tell you that I personally dug into this thing with a very, very sharp shovel. And I'll give you an example, because if you look at Ms Goodson's testimony and her affidavit, in the tender is a corporate structure and in that corporate structure is the Yusef Family Trust 60%. So, the only question I have is that if Salim Essa is 60% and the Yusef Family Trust 60% - well, you can't have 120% shareholding so the one must be equal to the other, but at no time when I was in discussions was it clear that the Yusef Family Trust or Salim Essa was linked to this entity, from my own personal perspective, and I promise you I applied my mind very, very hard to this matter.

This is not a London-based initiative. I was requested to come and testify as I used to lead the public sector in South Africa and that was the basis. The Africa Office was very involved in looking into these matters, as are others. Of course, McKinsey is taking this very, very seriously. Of course, a number of people are spending a great deal of time looking at this and making sure that we are 100% clear on the facts, and being transparent, and I hope that the submission that I made today is detailed, thorough and gives you comfort that we are not trying to hide something here, and I am not trying to hide something.

On exorbitant fees, a few things, everyone talks about nine months. I am not saying that helps, but for the record, it was not nine months, but 11 months. I just want record that. And, by the way, I made an error earlier on, Mr Arwedi was not involved in Eskom. I apologise for that. That was my recollection.

But on exorbitant fees issue, I said that, in retrospect... So, first of all, I did not know about the size of that number. The number is large. I am not going to deny that it is large. What worries me more in retrospect, and I look at the performance of Eskom, firstly, were we working on the right issues? Was Eskom using us in the right way and on the right topics because liquidity is compromised and the numbers have gone up? Number 2, I think that resources on the ground, I don't think that Eskom could absorb that amount of change. I am not going to sit here and defend that number. I think that number is large. It was a number that if it had come into the public domain was concerning. I think, and this is the last thing, that if we had much stronger governance in place to give the South African citizens comfort, that the way we could been paid, could have been directly linked to value for money, delivered initiatives in the bottom line and that we would have governed that process in a different way in retrospect.

Ms Mazzone: I am pushed for time as we only have a limited time in which we can ask you questions. In March 2016, Salim Essa was the majority shareholder of Trillian. What concerns me, is that only after the Sagar letter was leaked in July 2016, did an investigation start. That is four months after. Is there an explanation for the four months delay before the investigation started because employees who have now been suspended are leaking documents to the media, especially in Europe, saying that they were specifically suspended because they have now come out openly and said that they had alerted that there had been Gupta-linked ties and it took a four-month period for the investigation to start?

Dr Fine: First of all, I have heard about the allegations that that information had been leaked by a colleague and I can't answer that question. I certainly can say the following: that over the course of 2016, I did raise concerns as the situation was unfolding in South Africa, as the press articles came to light, as the Thuli Madonsela Report was released about our association, not only with Trillian, but with some of the people that were named in that Report. I know, and I have evidence, that my colleagues did write, did engage and did apparently have discussions about this last year. I can't explain why the pace of that investigation was so slow. I have said in my submission that we should have started the investigation much earlier. I certainly wish we had because we would have been able to answer Budlender's requests or statements in a few days instead of a few months. I don't think that there was any mal-intent but I think that in McKinsey, it is a partnership, and we have robust and difficult debates that go back and forth and are messy before they get resolved.

Ms Mazzone: Brian Molefe and Anoj Singh were at Transnet together and then they left together and went to Eskom together. McKinsey had done work with Transnet and Molefe; McKinsey then does work with Brian Molefe and Anoj Singh at Eskom. Do you see a pattern that I am seeing?

Dr Fine: I don't see the pattern that you are seeing because McKinsey had been working at Transnet from 2005 until today, and we have before been working at Eskom from 2005 until today. We worked before Molefe arrived at Eskom. We worked with multiple executives on multiple topics. We worked at Transnet with multiple executives on multiple topics. The fact that Brian moved across there – I don't think there is a pattern. Certainly, Vikas Sagar had a close working relationship with Anoj Singh at Transnet and a close working relationship with Anoj Singh at Eskom and that is all I can say. It is not like there is a pattern. It is not like McKinsey moved around with Anoj Singh and Brian Molefe because as I said before that, we didn't work with Brian Molefe.

I want to talk a little about Anoj for a second because I can tell you that I met Anoj at Vulindlela. He worked for a very, very capable CFO, Chris Wells, some of the Committee Members here may have met him. He was hired as a competent guy from a competent and well-regarded auditing firm. I think it was either Deloitte or KPMG. He never struck me when I worked with him, when he worked with Chris Wells, he never struck me as a person who had any nefarious or concerning objectives to me, at the time. How that may have evolved and what perspective you get, that is up to you. But there was no pattern between McKinsey and Anoj Singh and Brian Molefe.

Ms Mazzone: My last question. I want to say that I find it deeply disturbing, deeply disturbing, and I am on record as saying it, that you were invited to the Gupta wedding. Now while I understand that Sun City is a big place and accommodates a lot of people, I wasn't invited to the Gupta wedding. Plenty of people here were not invited to the Gupta wedding. Why were you invited to the Gupta wedding?

Dr Fine: I have no idea why I was invited to the Gupta wedding and I want to state categorically that I have never met the Guptas. I've never met Salim Essa; I've never met Clive Angel, Mark Pamensky or any of these people, Moodley, etc and the people referred to in the press. I have no idea why I was invited and the only rationale, and it is the reason that I could imagine, and that was because, at the time, I led the McKinsey practice in South Africa. I have no idea why I received the invite and I did not go to the wedding. That is the truth and there is nothing else I can say. I have no idea why I was invited to the Gupta wedding, but if you apply that approach to the entire spreadsheet, which I have seen, which is an extensive spreadsheet, there were lots of people who were invited to the Gupta wedding. I have no idea why I was invited to the wedding.

Mr E Marais (DA): I have only two short questions, Mr Fine. For the record purposes, I would like you to state the amount that you categorically stated previously that McKinsey is willing to pay back if needed. For the record, what is the amount that we are talking about in this whole conversation, either to Eskom, although I would prefer it must go back to the Treasury? What is the amount that we are talking about here?

Dr Fine: The amount we are talking about is the R1 billion that McKinsey was paid by Eskom, for as I understand it, the MSA contract. The amount is R1 billion.

Mr Marais: I just want to have it on record. That is why I am asking you. The second question that I want to ask you: Now, currently, do you have any outstanding business with one, Transnet or two, Eskom. And what is it for?

Dr Fine: My understanding is that the last project we did for Transnet was in April 2016. I cannot answer the question on Eskom. I don't think we're doing any work. In fact, I know that we are not doing any work at Eskom because McKinsey has taken a decision in principle not to work with Eskom for a period of time until we have comfort that the governance processes are in place that allow us to do that, if I recall correctly, but this is coming from the deep recesses of my brain.

Chairperson: Thank you for saving time, Mr Marais.

Mr P Gordhan (ANC): Thank you, Dr Fine, for your testimony and your frankness. Tell us a little more about Mr Sagar. Why did Sagar leave McKinsey? If everything that had been done, and McKinsey had done, was honourable, so to speak, why did he leave?

Dr Fine: We have a professional conduct committee that does a review, so I don't know what goes into that review and on what basis decisions are made. I do think that the material issue with Mr Sagar is that he did not disclose any connection or relationship with Mr Essa, going back to 2014. It is unclear, to me, and he denied to me, and he denied to others, that he had a relationship with Salim Essa. But I was not part of that professional conduct review. I understand that they looked at all the testimony that had been provided as part of our legal review; they looked at all the letters and emails; they interviewed all the members of both the McKinsey Transnet leadership team and the McKinsey Eskom leadership team. On the basis of that and other considerations they took the decision.

Mr Gordhan: Let me link that to my second question. Firms like McKinsey, KPMG, some legal firms more recently in other matters that are relevant as well, tend to, and these are international firms, treat the South African situation scantily and poorly. Secondly, they duck behind legalese and obfuscation. Thirdly, they show no leadership at all in terms of telling us who is behind a statement which says 'we are very sorry' - but there is no face behind that. They tend to hide themselves. Is this because they are particularly shy, or particularly arrogant, South Africa being a small contributor to the international revenue that they might well be gathering. And it is an observation that a number of people are making about the way in which these big firms behave. Even the McKinsey statement, at the outset, did not have any leadership figure who was mentioned, to say that, "I take responsibility,"

Dr Fine: There were a lot of statements and I was wondering what the question was, and maybe if you could just clarify that.

Mr Gordhan: Why is there this tendency for your international senior people not being prepared to come to the country, be seen as the face of the company, and face the South African public and tell us what is truthful and what is not, what they are apologising for, and what they stand for?

Dr Fine: Firstly, I hope that you are getting some confidence from the fact that I am standing in front of the South African public.

Mr Gordhan interjected: But you are a South African.

Dr Fine: I will also say there have been many of my international colleagues who have been spending an enormous amount of time in South Africa and were taking the matter very seriously. I'll come to answer your question.

Mr Gordhan interjected: That is in the best tradition that we used to have in the underground in South Africa.

Dr Fine: I think that this is not a situation that McKinsey is used to and deals with frequently. This is, obviously, also part of a political debate, or a political narrative, which is not that the firm is not comfortable to do. We are not a firm that is in the press, and we are not a firm that is comfortable in the press. And I think part of the situation that you are having, is inexperience in a situation like this. It is a very difficult situation. I can tell you internally the extent of the discussion and the debate is very deep, very wide. We had our senior partner meeting a few weeks ago. This was a topic of open discussion and it was not hidden behind an obfuscated wall. It was a very open discussion with deep reflection happening by McKinsey. We do not see South Africa as irrelevant or small or any of those things. We see South Africa as important and important to the firm. We've had a commitment to Africa and a commitment to South Africa. We committed globally our personal reputation as McKinsey that Africa is a place we are actually excited about.

Mr Gordhan: I understand all that.

Dr Fine: And so, South Africa is a key, the anchor point of that. But I don't want to undermine, South Africa is not irrelevant, it is highly relevant and important. I don't think that we had all the facts at hand, and I think we should have. It comes back to the question earlier: why didn't you investigate this in more detail earlier, and I think that is a valid question, and as a consequence, we were caught up in a situation where we were trying to gather information and be transparent at the same time to the South African public without the right information, and, as a conservative firm, that does not want to make statements that are incorrect. I think that is the experience that you would have received. I will also say, though, that we get mixed together with other companies, McKinsey, KPMG and all. We have never worked with a Gupta company, we have never served a Gupta company. The closest connection here is Trillian that may have a connection, that may have an ownership, that we did not know at the time because we did not have disclosed information. I am not saying, therefore, that I am proud, I am not saying, therefore, that I am comfortable, I am not saying that we should be as an institution. What I am saying is we were not involved in auditing weddings and moving money and all these kind of things, but we are associated with this and it is terribly embarrassing.

Mr Gordhan: Sorry, because of shortage of time, if you don't mind I am going to interrupt you. The third is related to what you have just said. You very cautiously say "may be" but if you sit back and now have the opportunity to connect the dots, it is fascinating, is it not, that the names, Wood, Bobat, Essa, Gupta etc., arise in this context so there is no doubt Trillian, the 60% ownership by Mr Essa, his role in the Gupta empire and schemes and the idea that we are, in fact, subject to state capture in South Africa. But yet you are very cautious about how you approach this.

Dr Fine: I am cautious because there is what I know, fact-based, and what I see and read. What I see and read sounds plausible. I am not trying to be cute or obfuscate. It is true that Wood and Essa and Gupta come up in multiple places, and you see that in the newspaper and you see that in Transnet, Eskom and other entities. There was nothing that I have read that made me say that it did not sound right, but is purely based on the reading and investigation that we have done. I really can't... If you said to me that is the work of the Committee important to get to the bottom of this, to confirm the various component, and if the testimony of David Fine is part of that, giving you information that adds extra dots so that the dots get closer and you can draw the lines, and that is good, then I say fine, that is good, but that is what I am hoping the Committee is going to do.

Mr Gordhan: Well, you are the consultant. We'll come back to that.

Chairperson: I can see that Members are rushing. You will observe that I have given the first two speakers beyond 10 minutes to 13 something, and Mr Marais has saved me some, thank you for that. It is because there is an indication that we can continue as long as we report to the House that we are continuing. We have been given the green light, so Members I will allow you, unless you are having other commitments. Shall we proceed? Whoever has a commitment can just sneak out and come back when it is possible. You can proceed, Mr Gordhan.

Mr Gordhan: In the documentation, Mr Bobat's name appears, as you correctly point out, in the Regiments context and then as a so-called advisor to Mr van Rooyen. What else do you know about Mr Bobat that might be relevant to our inquiry?

Dr Fine: Mohamed Bobat worked with Regiments at Transnet. He was one of the leaders who was on the project we were on. He was a capable person who worked hard. The feedback that I had from other colleagues was that he was a serious person who had deep expertise. He was also ex-Investec, as I understand it, as was Mr Wood ex-Investec, and I assumed that that was how he ended up at Regiments. What I found curious was, and I remember the day very well. We used to have a regular Friday meeting with all the group executives at Transnet to review the work that we were doing, which Mohamed Bobat used to attend on behalf of Regiments, with Eric Wood, as I would and other colleagues of mine from McKinsey, including Mr Sagar and others. It was always a robust discussion to see if there had been progress. I remember arriving at one of these and saying, "Where is Mohamed Bobat?" and Eric Wood said that he was Mr van Rooyen's advisor. This must have been, I guess, after 12 December 2015. It was in that sort of timeframe.

Mr Gordhan: 9th December.

Dr Fine: 9 December. Apologies. And it must have been the last meeting we had and I remember saying, "Wow! That really strange." I didn't, therefore, make any connect to the Guptas at that moment in time. A couple of weeks earlier, I was at a 40th party with an ex-colleague of mine from a company who had been working with Regiments – they were subcontracted to Regiments. I said to him, "Is Regiments okay?" Have you noticed anything that I should be worried about, or concerned about?" So, I did not make the connection between Mr Bobat and that move and the Guptas until January 2016. You may say, "You are a very naïve guy, David Fine," and I will take that as criticism, but at that moment in time, I did not know and as soon as, let me call it, the January timeframe arrived and the questions arose about Mr Bobat and Mr van Rooyen and then the Africa Confidential piece, then I got very concerned.

I don't know much about his history but he was a hardworking guy at the time, and it wasn't obvious to me that he was the networked guy in the network system.

Mr Gordhan: Transnet is a multi-billion entity, as is Eskom, and yet they spend, it would appear, billions of Rand on consultants on what are elementary issues: how do you improve the efficiency of the locomotives; how do you increase their availability. I am sure that you agree that those are bread and butter issues for someone who knows how these sorts of entities work. How does one explain to the South African public that billions of Rand were spent on consultants whereas these are basic operational issues that competent people in the entities should be able to do themselves?

Dr Fine: I can't speak for all consultants. I can speak for McKinsey. As McKinsey, the work that we did was on projects that were difficult, challenging, and I am comfortable where we had impact. If I use your example on availability and reliability, that sounds like a simple thing, but you have to think about it in the context of the system and railway systems are extremely complicated. They are networked systems. There are inter-relationships that happen between when a train arrives and when it leaves; when a customer has a product, and the product isn't ready and what that does to the overall schedule; if a locomotive breaks down, what are the implications; rail maintenance is done, so that it is done with the right quality, and at the right speed; and how that locomotive is re-commissioned, whether those checks are done and how it is linked up to the various pieces in a distributed system, where you have a system where lots of people...

Mr Gorhan: That is your business and you should know your business.

Dr Fine: I'm just saying that it is not a trivial problem and I can tell you that you may not have comfort but we work with railways around the world, and they come to us for advice, high performing rail companies that do know their work and do great work and they use our analytical expertise, our problem-solving capabilities to make their systems even better. And I have absolute comfort in that. Are there consultants that some state-owned enterprises may use which may not provide the benefits? I am sure. Do I feel like I have been working on projects, where we have not had benefits? Can I explain those? I can.

Mr Gordhan: Last point. I refer to the point that my colleagues made about the so-called inflation of numbers – R38 billion to R54 billion as you pointed out. I think you mentioned that Mr Pita said that they were linked to a) a different set of indicators and b) a different calculation, if you like, of those indicators. Just tell us a little bit more about the rationale, please, and whether they sound credible, since you had worked on the original numbers.

Dr Fine: Let me start with explaining the complexity. With a project of this size, there are obviously a number of parameters. The first one is the price that you agree with the provider and the local content and where different components will be manufactured and how they will be assembled and all those pieces. I think that is relatively straight forward. The second piece we have, and which we have seen in South Africa with a volatile Rand, and where 50% of the components are being sourced internationally and so depend on currency movements, and also on inflation, and those currencies might also include Chinese, because they had in their portfolio Chinese locomotives. Managing those risks and accounting for those is the work of investment banks, and how they hedge those risks is work that investment banks like Regiments would do and I assume that that is the work that they did. My understanding, at least, is that there were a number of these derivatives that were used. There were interest rate derivatives, there were currency derivatives and then you have to raise the funds for these and the cost of funds depends on what you can get in the market. The explanation that was given to us (because it had to be confidential, and to Transnet's credit, they ran a very confidential process) was because of all these effects, the currency, the inflation costs, blah, blah, blah and how those were structured that the costs ballooned. That is the explanation given when we asked, "How is it possible?" And these are the questions that I think Parliament needs to put to Transnet and understand in detail because what you will see in that annexure is the detail. The detail is all there. What were the expectations on currency, what were the expectations on inflation, were they reasonable, were they not? And so, you should be able to get a very detailed explanation from Transnet, comparing on one side of the page, what was in the business case, and what was on the other side of the page, what were their assumptions that led to a different number.

Mr Gordhan: One point. So, you actually got paid, whatever your fee was, to make amongst other things, this calculation, taking exactly the same indicators into account and offering the same professionalism that an investment bank might have used. You said there were four work streams. So, when we do get Transnet, if we do, you will have to stand on the other side and argue why your calculation was right at the time and Transnet's wasn't.

Dr Fine: So, what we did not have in the calculation, is the exact hedging cost, which, if you look in the annexure, the hedging costs were not included in the R38.6 billion but on page 38 of the business case, we give you what assumptions we used for the Rand-Dollar costs over time. So, while we didn't factor in the cost of hedging, we certainly reflected a decline in the Rand-Dollar, which was factored into the business case.

Mr Gordhan: At the most, what would those hedging costs involve? R1 billion or R50 billion? R1 billion or R16 billion?

Dr Fine: I could not give you a competent answer. My suggestion to the Committee is to get advice from people who are competent on these matters to come and sit and do that comparison and allow the Committee to ask the necessary questions. That would be my advice to the Committee.

Mr T Rawula (EFF) I hope, Chair, with all due respect to Mr David Fine, we are not going to find ourselves in the situation where we are being patronised in anyway. I see that in your statement on page 10 and 11, you indicate a number of regrets and given the fact that you are a global company, I think some of the regrets are petty, for the lack of a better word. For example, you say that you regret that you partnered with Trillian. You regret that you had not insisted that Eskom receive Treasury approval. You also say that you regret having associated with a company that was led by Essa, given his Gupta links. You make quite a number of regrets, which, I think as a reputable global company, could have been arrested in your vetting process of whomever you engage with. That brings me to the point where you can take us through the vetting process with any company that you engage with, because in my view, if you have a comprehensive vetting process, on the basis of the credibility of the company that you are working with, and also the credibility of its own directors, because part of the evidence that the Committee has received, is that Trillian did not have the necessary capacity. In fact, in terms of personnel provision, it had only two employees, which was the CEO and the COO. I want to check with you, given the regrets that you have, what was your own vetting process to determine whether you could do the work with Trillian, given the regrets that you have.

Dr Fine: I want to start, I am not trying to patronise anyone. I came here alone. I don't have a bench of lawyers. I'm not here with thousands of McKinsey people. I am here alone to stand before this Committee. So, this is not an exercise in patronising anyone. This is something I truly believe in. In answer to your question, first of all, I did ask my colleagues, in preparation for this. I watched the testimony and Ms Goodson said that there were two employees. The two employees were working on setting up the company. They didn't do any work. So, I said, "How is it possible, therefore, that any work was being done?" The answer that I was given was that there were obviously all these Regiments people that were moving out of Regiments and moving into Trillian. In addition, there was lots of email traffic with lots of email names. I have ascertained, for myself, that there were at least 38 email addresses that had the word "Trillian" in them, so they were doing work, I understand, and I have checked and investigated that part of those were from Cutting Edge, which we know in retrospect, is a Gupta company, and the other one was eGateway, but those were not known to my colleagues at the time because they had a Trillian email address and were part of the people doing real work. So, I hear you and I had the same question, and I am telling you factually on the basis of Goodson's testimony and my own questions, what I can answer.

On the vetting process, McKinsey has a very strong vetting process, and the process was applied to Trillian, albeit too late. The vetting process that we followed in March using external providers, and these were not just some general external providers, this was an external due diligence. I fed the information, that I gave the Committee earlier, about my investigations and the information from the database that Salim Essa was potentially a shareholder, into the process. I said to the Committee earlier that when I was with Eric Wood and he gave me the names of Makatini, Jimmy Manyi and Clive Angel and Max Yusef, I fed that information into the external due diligence. They gave us a report and we terminated the discussions with Trillian. I also want to be very clear, if you read the letter in the annexure to Garry Pita and Siyabonga Gama in February 23, 2016, it is very clear the concerns and the expectations that we have from Trillian in terms of 1) their beneficial ownership that they had not provided, and 2) the fact that we still didn't have comfort that we would be working with a black-owned, black-managed, and black management team with this company. We did not misrepresent ourselves to Trillian in that way, whatsoever.

Mr Rawula: OK. Now moving forward, when the news broke out about McKinsey and Trillian milking out Eskom, both McKinsey and Trillian were quiet. None of you came out into the public and engaged in any investigation into those allegations until the media, together with the Public Protector, began to make a noise about the relationship of McKinsey with Eskom and Trillian. So now, because the news is already out, you are willing to pay back the excessive payment of R1 billion. But how are we supposed to trust McKinsey if that is a genuine gesture because we don't know, other than what was exposed by the media because R1 billion is what has been exposed to have been the excessive payment. However, we don't know, before that, how much money was received. Can you confirm, besides the R1 billion, how much excessive money has been paid to McKinsey? The R1 billion is what was exposed. It is what is in the public now. Hence, you will be able to pay back. You want to help, so tell us, besides the R1 billion, how much excessive money has been paid to McKinsey?

Dr Fine: I want to reiterate what I said earlier, which was that McKinsey should have done its investigation earlier. There were concerns raised as the media came up with issues. It was not only with Adv Budlender. It is one of the reflections that I have in my notes that I am quite explicit on. We should have acted and investigated more quickly. I can only apologise for that because if we had done that, the answer to the South African public on the day that the Budlender Report was released, would have been clear and concise and I don't think I would be sitting here today with you.

Having said that, I want to explain the payment again. First of all, I am not aware of any excessive other payments. I want to be clear though. I am not saying, though, that the R1 billion was excessive payment. I am not saying that it wasn't a large number, and it may not have been the right project to have been done, but it was not the wrong number. In preparation for this Committee, I sat with my colleagues and they gave me comfort that there was value delivered for the money. Having said that, the reason we want to give the money back, is not because we are guilty, but we want to give back the money because Eskom gave us the assurance that National Treasury had approved the contract. Eskom has that in its minutes. It is minuted that they said to McKinsey that they had approval from National Treasury. They did not. They lied. The fact that they did not have approval from National Treasury is the basis by which we will give the money back to South Africa; not because we have done anything illegal in our view or, let me rephrase that: I am not aware that we have done anything illegal. We will give the money back because we do not want money that in any way is tainted. And tainted means, including did not get the requisite approvals from the right people.

Mr Rawula: McKinsey was expected to build capacity to Trillian and that would have been through what was called a master service agreement, which would have included Trillian, Letsema, and the objective of it was supposed to be one of those leading black economic empowerment programmes, and as a result of that Trillian would employ a CEO which was a competent black lady to fit the profile of black economic empowerment, but the lady has led evidence here that 1) she was never involved in any of the negotiation processes. She further confirmed that there was never a master service agreement that was signed. But she had managed to secure the work from McKinsey. Now my question is: there is no agreement and this supposed to be an initiative of black economic empowerment but the agreement is not signed, yet the work is given. Why did the matter not raise alarms with you if there is no agreement, yet you still give the work? And also, the CEO of the company is supposed to fit the profile of black economic empowerment as per the primary objective to build capacity, but also to ensure that you advance the transformation agenda but McKinsey continued to work, despite those gaps. Can you talk to that. How did they secure the work when there were blurring lines in terms of the primary agenda of the agreement?

McKinsey: Chair, as I put in my submission that because I was not involved with Eskom, I never had business meetings with anyone involved in Eskom or this contract, it is very difficult for me to answer that question. But, let me start off by saying that my understanding, at least by the end of 2015, that the objective of Trillian was to create a serious and significant black-owned management consulting firm in South Africa, that Eric would get access to resources to invest, purchase and get other consulting firms, which I think personally, would be a terrific answer and a terrific thing in South Africa. The reason, that, as I explained earlier, I started to raise concerns about Trillian, was because, before the Essa thing came up, it was the ownership issue because it was unclear to me, how Eric Wood, himself, without credible and serious black industrialist people, was going to build the firm. I wanted to know the names. What were the names of these black people that he was going to build this firm with? Who were they? Where were they? How was this all going to work? I was not involved in the negotiation, and I can't answer that question.

I understand from McKinsey that we do have a signed contract or an MSA. We did not have a relationship with Trillian. We never consummated that relationship with Trillian. There may have been dating but there was no marriage. The fact that Eskom has paid Trillian, is a question that you need to put to Eskom. Eskom has sat here in Parliament and said that they were a supply and development partner of McKinsey, they were not. They said that they have not paid Trillian, they have. I can't answer the question for you. And, by the way, McKinsey's modus operandi with Letsema and with Regiments, was always that the client should pay the supply and development partner directly, and not through McKinsey, otherwise McKinsey would unduly benefit from the BEE credits, and we did not want that, we wanted that for the clients' benefit. So, how Trillian got paid, what they got paid, for what reason, under what contract structure, you need to ask Eskom.

Mr Rawula: That is exactly what I was going to follow up on and I am glad that you have answered that because, indeed, almost R600 million was paid by Eskom to Trillian, despite the fact that there was no contract. The contract was between Eskom and McKinsey. Now, would you agree with me that money was stolen from Eskom by Trillian because if Trillian did not have a contract with Eskom, but Eskom had a contract with yourselves, and under the guise of that contract, Trillian managed to get about R600 million. Would you then agree with me, as a principal of McKinsey, that Trillian has stolen money from Eskom of that magnitude which is almost R600 million?

Dr Fine: I would agree that Trillian and Eskom should be sitting in this chair and answering that question. That is all I can say as I do not know how much work they had done. And I am not trying to avoid it. I think that that question is for those people.

Mr Rawula: My second last question. As I indicated your responsibility was to build capacity to Trillian. Now I have indicated that there were only these two employees and the witness indicated that all her efforts to make advances to McKinsey were ignored. She tried as a CEO that had just joined the company, Trillian, which was supposed to be capacitated by McKinsey, so all the initiatives that she made to ensure that McKinsey was able to relate with Trillian and expose the plans of McKinsey to build that capacity, they were shot down. Now that did not raise alarms with you guys as McKinsey. Now, would you agree with me, that it means that Trillian used a black lady as window dressing in terms of the transformation agenda of South Africa and therefore flouted the legal framework that South Africa has set up to advance its own transformation agenda through a medium called black economic empowerment. And in that process, they have done it under the guise that they are working with you.

Dr Fine: As I said earlier, I have participated in the development of black supply development partners and I am proud of some of those efforts. I am very proud of the work that I did with Letsema and I am proud of the work that we did with, and the investment we made in, some of Regiments' people. I have read Ms Goodson's testimony on the interactions that she had with McKinsey, which were deeply concerning to me, in the Budlender Report and which I say in my document are not reflective of our values at all. At all. I want to be very clear. These are not our values. We are a Level One compliant company. McKinsey did not do it by window dressing. We did it by real initiatives within our supply chain, with real initiatives with our people, with real initiatives in South Africa, with real supply development. McKinsey did not do this with window dressing. McKinsey took it seriously, and I was part of saying: "We are doing this because this matters to South Africa, this is important to South Africa to transform the economy." So, I want to start with that statement. The fact that one of my colleagues, I have only read of one, Mr Jüngling, the way that he behaved with her does not represent the values of McKinsey and that spirit. Whether Trillian was window dressing, whether they felt that they were dealing with a capable person, that is unclear to me. I can just tell you that, as a firm, McKinsey takes this very seriously. We would not be Level One in South Africa if we were just window dressing. We do not do window dressing. I am deeply embarrassed by the statement of the witness on Mr Jüngling. She stated it on the record, and she might not be correct, I am deeply embarrassed by it.

Mr Rawula: You have denied that you met with the Guptas but we have it on good record that your partners have met with Guptas. You yourself have said in your statement that on hindsight, you would have terminated the relationship if you had known about their relationship with the Guptas. But you were invited to the Gupta's wedding and you say that you declined but the same person who declined says to the same Committee that you accepted a gift from the Guptas, which was a big box that was a gift. Why did you accept the gift and why would the Guptas have the audacity to invite you if you had never met them? I assume that they don't know you, there is nothing that links you, but they send you an invite. Why were you invited? And why did they give you the gift, and why did you accept the gift?

Dr Fine: First of all, it was not a gift, it was the actual invitation which came in a box. Inside were some bottles with some dried fruit inside. This is not what I would call a gift. This was the invitation – it came in a box. So, you could say why did I accept the invitation because the invitation arrived? I did not accept the invitation because I declined to go to the wedding. Why would they have the audacity to invite me? I don't know. I have been to many Indians weddings around the world. They tend to be very large affairs with thousands of people invited. Some people are close relatives, some are just people who are known in the community. I want to state categorically: I do not know the Guptas. I don't know why they invited me. I didn't accept a gift from the Guptas. I received an invitation to the wedding. Should I have sent the invitation back? I don't know. It was an invitation I declined. I don't see that as abnormal behaviour. There is no connection that I am aware of, between myself and the Guptas. If people have other information, let them come forward. I stated that categorically to the press but no one has provided me with any information. I am absolutely comfortable with my statement on this: that I do not know the Guptas, I have no idea why I was invited to the wedding and I declined to go. So that is all I can say.

Mr S Swart (ACDP): Thank you for coming, Dr Fine, thank you for not bringing a bank of lawyers. Obviously, you can understand our discomfort with McKinsey, particularly when one looks at the Budlender Report and one looks at other issues. One of the points that you made was that why McKinsey did not respond to Budlender was that it was information about clients, and you used the plural, but I've looked at the questions and most of it related to Trillian itself. If you could explain to me, because you have got Budlender representing Trillian, and asking you about Trillian, why would there have not been a better cooperation? Yes, you have indicated now that you should have cooperated, but looking at that stage, there was a lot, in hindsight is better, clearly there was a lot of information, and keeping it away from a Trillian investigator?

Dr Fine: The letter that you are referring to, was a letter from McKinsey to Eskom. So, it is not correct to say that this was only between, let me call it, Trillian. I am not going to defend McKinsey because we should have met with Budlender and had a conversation and it would have been a reasonable conversation and he is a highly respected advocate who has the highest ethics in this country and we should have just had a meeting and resolved this. I think that one of the other factors that probably came into this discussion, but I wasn't part of them, at least, by the time the Budlender matter was happening, there was a lot of information that had been put into the public domain by Regiments and Trillian, as part of some court case that they had and was being litigated, or at least there was certainly a lot of press around this, so I am not sure what the considerations were but Mr Budlender is a well-regarded man and we should have met with him and had a reasonable conversation with a highly regarded man. That is all I can say.

Mr Swart: I appreciate that. But that is now with hindsight. But that was now, 29 June this year, with all the information. There was a very clear lack of cooperation, and you have apologised and said there could have been better cooperation and I accept that. However, if you also look at the response of Ms Goodson, and you have reported that Mr Lorenz Jüngling's comments about the 30% were unacceptable and against all your values. She says in paragraph 106, in response to Mr Jüngling's comment. "It doesn't really matter as long as you get your percentage," that it was in response to her complaint that McKinsey was not engaging with Trillian in the supply and development programme, with the result that Trillian was not receiving the exposure and experience that it required. She reported that a general theme from the McKinsey leadership down was that Trillian was simply a necessary, but an unwanted, piece of baggage in the contract. That is scathing. That is not just by the way. There are two aspects. Firstly, it was very clear that Trillian was a part of the contract and the deal. Not legally, but it was part of the package. Secondly, of course, it was basically, "Get your 30% and we'll be happy." To me, it is not only Mr Jüngling that was involved. You obviously were not involved. You said that, but there seems to be leadership as well at McKinsey that had that view. Are you able to comment on that?

Dr Fine: I'm not but there are two additional pieces of information that I have read, and I can't remember if it was in the press or part of her affidavit. So, one was that Trillian and Ms Goodson participated in steering committee meetings at the client, that there were extensive discussions and she would have participated in them. Secondly, after those comments were made that she raised her concerns, adjustments were made. I can't explain. What I would say, and I can't speak because I was not an observer there but there also inconsistencies in some of her testimony, and I am not saying, therefore that her testimony is not correct, but if you look at the letter which is in the annexure here, Annexure F, where we wrote and asked Eric Wood about Mohamed Bobat and his connection to the Africa Confidential article and there is a letter in Appendix F from Ms Goodson which says that there is no connection between Trillian and Bobat at all whatsoever. Yet at the same time, there is additional information that says that Ms Goodson was meeting with Mr Bobat, and Oliver Wyman with Mr van Rooyen. So, I hear you and I am not trying to defend and I am definitely not trying to undermine her testimony, which I think she stated on the record and I have to take it at face value but, at least in my sense, there is more in that than just a simple statement.

Mr Swart: I appreciate that and part of this process is to engage with all evidence that we have received and test that. It doesn't mean that we accept everything that is said here and that is why those people who have been implicated will be given the opportunity to come and contest what has already been put before us. So, there is no problem with that, and that is helpful. Ms Mothepu, CEO of Trillian Financial Advisory, in her affidavit speaks about the R600 million that was paid to Trillian by Eskom and she is willing to assist Eskom to recover the fees that it paid to Trillian. Now we are very grateful for the fact that McKinsey has offered to pay that R1 billion, and we hope Eskom and ourselves are able to assist National Treasury to finalise that without the use of any more consultants and further fees. That is a massive concession and it's not made with any acknowledgement of wrong doing. I appreciate that. However, you have the issue of the payment to Trillian where, and it is nothing to do with you, but it just indicates the relationship of McKinsey, Trillian and Eskom where she says of the payments made to Trillian: "I am of the view that these payments were made in contravention of the PFMA and the

Companies Act," Now that's criminal action, plus civil action "and are therefore unlawful. I do not think that the fees that Eskom paid Trillian were reasonable to the value created as the work performed could have been performed by the Internal Treasury Division of Eskom." Now I appreciate that Regiments could have done a lot of work but we see that a lot of the work done by Trillian was either done by Regiments or was not done at all, or could have been done by Eskom. Are you able to comment on that at all?

Dr Fine: I am not able to comment on that because I don't know what work they were doing. Suffice to say from McKinsey's perspective, I was on the phone with our global counsel last night and said, "I'm coming into this meeting, I want to have comfort that we will continue our investigation and if we uncover issues, that we will file the relevant submissions to the authorities in this regard." I also tried to find out from colleagues if there was value in the work that McKinsey did, and one always has to be careful because I can always throw out numbers and everyone will say those are big and maybe it was a tenth or whatever, but I got comfort after those discussions that there were benefits that could be measured that would at least explain the fee. I'm not comfortable that Eskom could make the change but I have comfort from what my colleagues have shown me, and it was audited by Oliver Wyman. Whether or not, Trillian's R600 million was reviewed for what benefit, I can't answer that question, unfortunately.

Mr Swart: I want to just ask you about a point in your statement, where you talk about the R1 billion fee and you indicate there that you didn't think that Eskom had the management capacity for the 11-month work. Please check on that page because I don't want to misunderstand you. In other words, 100-odd consultants were doing work, plus work that would go forward if Eskom management implemented that. And is that what you say under c) "Even though the fees were an agreed percentage of saving, the benefits to Eskom were large." Are those the benefits in the long-term? Or are you saying that the fee of R1 billion for only 11 months' work, or was it benefit to Eskom as well? I am misunderstanding you slightly there, because to me, it's a very exorbitant fee and that's why you said, "We should have capped the fees structure". So, I am not so sure that there was value, although an external auditor, Wyman, says it was. But you are saying here, in hindsight, that you should have capped the fee. The benefit going forward, is that captured in that R1 billion or not?

Dr Fine: Well, let me give one example of some of the information that was given to me. The fact that we worked on generation facilities and improved availability meant that R8.4 billion worth of diesel costs which we were burning in 2015, if everyone remembers 2015, were reverted. Now if you ask if I can stand behind it because I have seen it and done the calculations, I haven't. Half of that or quarter of that, it doesn't matter, if you compare that to the fee. I can stand here and say that that was benefit and that was one example, and there were others. And I don't want to go through that because I don't have comfort at this moment in time. One of the challenges that McKinsey was going through was that because, of the significant resources on the ground, and you can say that was your own choice McKinsey, the way in which we came into the commercial negotiation, was from a very conservative perspective, meaning that we wanted to make sure that we got paid because we had already invested in substantial resources on the ground. The consequence is that the way in which those benefits are measured, as compared to how I would like to see them measured, it is harder to explain to the South African public that one-to-one relationship. So, I would have had, and that is one of my reflections, a much more detailed gate process, where we would have been paid on the flow, from idea to proven, to plan, to income statement. And that was not in place at the time.

Mr Swart: I'd like, in my remaining time, a quick comment on the locomotive action and where you were involved in the process as McKinsey with Transnet, up to a certain point, the calculation was R25 million for a diesel locomotive and R34 million for an electric locomotive. And then you got to that figure of R38.6 billion over a seven year period, and now it is R54 billion over a three year period at the 17 March 2014. We have almost a R15 billion difference from what was quoted there. You spoke about hedging and how there could have been a bit of a difference there, you spoke to Mr Gordhan about that. But when you engaged with Mr Anoj Singh who said that Eskom had done funding costs and, looking at exchange rates, had come to the conclusion that it was better to secure the deal that they did. We also know, from the OUTA documents, that Tequesta entered the Chinese deal for the fifth and suddenly the locomotive is R50 million per locomotive, of which R10 million ... We also see a contract. Have you had sight of this document from amaBhungane and OUTA, the contract with the locomotives, Tequesta and China South Rail? Have you had sight of that and does that explain at least a R5.3 billion increase in the contract fee that you initially thought was viable and that was for 300-odd locomotives.

Dr Fine: I have read those articles, and I had not seen those numbers before I read the articles and that could explain the difference. I think that that is exactly what the Committee needs to do, is to take those facts and you need to understand. I can tell you how locomotive costs were determined and that is in the business case. 1. It was based on the price that Transnet had paid for a locomotive in the 18 months prior to when we were doing the project. So, it wasn't just a number. It was based on actual procurement that had been done. It was adjusted for what inflation would be and we also had David Potter's expertise. The question you need to ask Transnet is how do you get from 25 and 34 to 50 and how does this data change. I think they need to come and explain to you the differences.

Mr Swart: We will and that will be the second part of this inquiry but what is astounding to me is this contract, and of course those implicated can come and explain the contract, but it basically sets out a clause that allows for that R5.6 billion for the pure introduction of the parties of Transnet and South China Rail by Tequesta, which is Salim Essa's company. And it says on this contract: "It is noted and agreed between the parties that the services are provided as a pre-contract service and will conclude on the signing of the contract." That clause is worth R5.4 billion. No services thereafter. Introduce two parties and get R5.4 billion. And I can promise you that that is something we will be engaging when we look at the Transnet issue.

Chairperson: I want to make sure that Members do have all the annexures. You talked about Annexure F. Is that about termination of interactions between Trillian and McKinsey when you were responding to Mr Swart?

Dr Fine: I am referring to the letter in Annexure F: Letter from Trillian concerning involvement of Mohamed Bobat. It's addressed to Vikas Sagar and signed by Bianca Smith.

Mr R Tseli (ANC): From my side, I have a few issues that I want you to clarify. I want to ask about the locomotive contract that my colleagues spoke about earlier, the tender that you won with five other partners. The testimony says all these parties had specific functions to perform with the tender and in the process. Nedbank no longer wanted to participate in the finance transactions and therefore no longer wanted to participate in the advisory part of the process. Ultimately that happens. Could it happen that a company had been awarded a tender, certain functions are now shifted along the way when it was already certain what each of the parties would be doing? From what you were, Nedbank shifting the responsibility.

I want to go back to the turnaround program. I understand you are saying that Eskom now says, because there was no National Treasury approval, you are supposed to pay the money back. Is there a dispute about that money because of the lack of Treasury approval?

There is a letter at the end written on 30 March 2016 that you wrote to Group CFO of Eskom, where you were indicating certain criteria that had to be met and you were not going to work with Trillian until certain criteria had been met – shareholding of holding company, beneficiary shares, ultimate beneficiary shares, related parties and a whole lot of other things and you ultimately pull out of Trillian in terms of partnership. Did you get any response from Eskom on this particular letter?

Dr Fine: If I don't address them correctly, please let me know. The tender that we won, we started with, if I recall McKinsey, Nedbank, Letsema and Automotive Rail Transport. There were four parties. A conflict of interest was identified to us by the client with Letsema and General Electric and they said we needed to consider an alternative supplier. We said that we needed to have an approved supplier and they suggested Regiments. You can see in my document that we did due diligence and they accepted Regiments as a replacement for Letsema. Nedbank came to McKinsey and said that they would like to change their participation. That was Nedbank's decision because Nedbank wanted to participate in the downstream funding and they would be conflicted. We engaged with Transnet and it was accepted that Regiments could do the work of Nedbank. In addition, Transnet asked us to use WeberWentzel as legal advisors because they needed legal input on this contract. They had as I recall run a separate tender. We were very happy to use them as they are a widely known, well recognised law firm and there would be legal technicalities involved in this process. And so, on the basis of that, the final consortium was McKinsey, Regiments, WeberWentzel and ART. That was the consortium on the locomotive business case.

The turnaround strategy, is there a dispute? Well, I think there is a dispute because McKinsey entered into contract with Eskom and it has it in the minutes that they had National Treasury approval but we now know that they did not get National Treasury approval. But, at the time we did not know and we continued the work. We got payment for the work. The work was reviewed by Oliver Wyman and that was the basis for payment. More recently, Eskom has written to McKinsey and said that because they did not get Treasury approval, the contract is invalid and therefore McKinsey has to pay back the money. There is a dispute. So, if you ask me what is a dispute, I'm not a lawyer. We need to get resolution on this quickly because we want to give the money back and we are going to need the right authorities to sit down with McKinsey and Eskom and National Treasury and relevant parties and that is my appeal to Parliament, to sit down and say, "Does the money go there or does it go somewhere else, and if it goes somewhere else, what do we believe as South Africa is the best allocation of those funds? Is it going to the fiscus? Is it back to a project?" That is the debate that we need guidance on.

On the letter of 30 March at the end of the annexure, what was the response from Eskom? I am not aware of the response from Eskom. I don't know. I know absolutely that I was involved in a McKinsey risk meeting on 23 March where we absolutely decided definitively that we would not work with Trillian. At the end, I said, "Therefore we are not proceeding?" and the answer was that we were not proceeding.

Mr Tseli: Just for the record, so, you speak with authority on behalf of McKinsey about this repayment of the money?

Dr Fine: Yes. I speak on behalf of McKinsey on the commitment because I debated that before I came and, in the public statement it sounds like, well, we're not going to keep the money. That is not the spirit in how it was made. I have the absolute commitment of McKinsey and Company partners, globally, to pay the money back to South Africa.

The Chairperson: You requested to say something, Dr Fine?

Dr Fine: I just want to say a few things in a closing statement. I joined McKinsey in 1995. I was a South African. I stood against apartheid and I did not do as much as many of you did but I stood against apartheid and I stood for a democratic South Africa, a non-racial, non-sexist South Africa that would benefit all people. I joined McKinsey because I was really inspired by the capabilities that we could bring to this country and I was also proud at the time that McKinsey did not enter South Africa until after we had had a free democratic election. I was very proud to join McKinsey and I have been proud to be part of building McKinsey in South Africa and we have done some things that I am really excited about and I have talked about a few but Iscor Iron and Steel was an amazing story. I was proud to be part of that, helping companies like SAB Miller expand globally, and how they have shown the world, and the publications describing Africa as an investment destination, showing the world our 2015 Report, showing what is possible in South Africa and having confidence in South Africa. And helping with the turnaround, which I have talked about.

But I want to reiterate a few points. For the record, we were not required or forced to work with Regiments. We did a thorough due diligence process with Trillian with external people. I was part of the investigation. You heard my testimony about how passionate I was to get to the bottom of it and to terminate this relationship because there were concerns. We found the concerns and we terminated the relationship. This was not a sham with Regiments. It was difficult, we applied ourselves, we had arguments, we did work. I was part of that. I have no doubt that that was not a sham. Regiments only got one bite of the apple. There was the Niven Pillay matter in the press. The second time, Bobat was in the press, we terminated this.

I was not involved in any bribery or corruption. I have not seen this. I have not personally seen this. I do not know the Guptas. I do not know the Gupta family. I don't know Salim Essa. I don't know Kuben Moodley. I don't know Mark Pamensky. I don't know Stanley Shane, Mark Chipkin or Clive Angel or any of the people named in the press reports. And I can't answer your questions on them or what they are stated in the press as doing. That is for you. As soon as I had a speculative smell that Essa was involved with Trillian, we terminated. I personally think that I acted with great strength and fortitude. I took great risk internally myself to raise these concerns and McKinsey listened and we acted. Mr Vikas Sagar did not disclose the information about Salim Essa, he did not disclose the relationship with Salim Essa as a result, it took too long for McKinsey to act.

The last few months had been difficult and I have felt ashamed to be associated, and for my firm to be associated, with state capture and I have seen the anger and disappointment in people's eyes, I have seen the anger and disappointment in my clients' eyes. I have experienced rejection from people that I really love and trust, and that has been hard. And I have seen the fear in the eyes of our young consultants. 80% are black, historically disadvantaged South Africans. They are amazing people and want to do amazing things for South Africa and for the world.

I hope that you feel that I have been transparent, that my submission is detailed. I have answered all your questions, which I have tried to do to the best of my ability. The firm that I work for is a force for good in the world. I have seen this firm say no to big contracts because they are the right decisions to be made, and I have seen them make those decisions. But it is also a firm that makes mistakes, and in this case, we made mistakes. For the sake of the young South Africans, if you want to punish people, punish people like myself, punish leaders like myself, but do not punish young South Africans who are so talented and can bring amazing skills to this country and make it a better place.

Lastly, I just want to say again, please accept that we will pay the money back to South Africa. We do not want any tainted money, even if the court finds the contract with Eskom was valid, we will pay back the money. And we really need your help as a Committee to find a mechanism to resolve this issue and to pay the money back to South Africa. And thank you very much for your time.

The Chairperson: Adv Vanara, do you want to say something?

Adv Vanara: No, thank you.

The Chairperson: Thank you, Mr Fine, for coming to the inquiry and having an interaction with the Committee. Your contribution had assisted us to understand what was happening.

November 11, 2017 – Statement of David Robert Fine

ANNEXURE A: REGIMENTS COMPANY PROFILE 2012

COMPANY PROFILE

REGIMENTS CAPITAL

REGIMENTS CAPITAL™

July 2012

CONTENTS

1 About Regiments Capital

Regiments Capital is an integrated investment banking and advisory firm focused on providing services to all sectors of government (national, provincial and municipal), state-owned enterprises and corporates. Regiments Capital consists of four core businesses:

- Financial Advisory
- Capital Markets
- Real Estate
- Proprietary Investments

As a leading financial advisor to public and private businesses across South Africa, Regiments Capital draws on the exceptional financial market skills of its members to provide unrivalled and unique solutions to its clients.

Since its inception in 2004, Regiments Capital's Financial Advisory business has successfully delivered on wide ranging mandates to a number of clients, including ACSA, City of Johannesburg, City of Tshwane, Transnet, SAA, City of Ekurhuleni and DBSA, amongst others. Projects typically include treasury restructuring, large scale capital raising, structured solutions for debt and/or equity, risk management solutions, etc.

The Group's Capital Markets business manages funds on behalf of its valued clients (such as the management of the sinking fund on behalf of the City of Johannesburg) and our Real Estate business generates significant returns through large property development opportunities. The most notable of these developments, the Kgoro Sandton Gateway (a large mixed-use development on the platform above the Gautrain station in Sandton), is currently in progress.

In addition to the Financial Advisory, Fund Management and Real Estate businesses, Regiments Capital's Proprietary Investments unit led a broad-based BEE consortium in the acquisition of 12.2% of Capitec Bank Holdings Limited. We previously held a stake in Nedbank through the Eyethu Corporate Scheme and have recently structured an investment into MTN through the MTN Zakhlele BEE scheme. Regiments Capital has also made a number of strategic investments in the private sector.

Regiments Capital's team comprises of leading corporate finance and economic professionals with extensive experience in transaction advisory, financial product engineering, financial modeling, large scale capital raising, fund management, structuring and property development.

The various business areas of Regiments Capital will be discussed briefly in the following sections.

1.1 Advisory

Since its inception in 2004, Regiments Capital's Financial Advisory business has successfully delivered on wide ranging mandates to a number of clients, including ACSA, Transnet, SAA, City of Johannesburg, City of Tshwane, City of Ekurhuleni, DBSA, amongst others. Projects typically include treasury restructuring, large scale capital raising, structured solutions for debt and/or equity, risk management solutions, etc.

Our financial advisory services cover the following areas:

- **Capital Markets Advisory:** Regiments Capital possesses a breadth and depth of expertise with respect to the debt capital markets encompassing debt raising, structuring, arranging, broking, trading, and investment. Regiments Capital has focused its debt origination services primarily on the public sector. Some of our accomplishments in capital market advisory includes the following:
  - Regiments Capital has successfully raised R1.5 billion in the form of short term funding and R1 billion in the form of long term funding for the City of Johannesburg;
  - Regiments Capital has played an important role in the development and upgrading of airport facilities by raising commercial funding of R1.75 billion and R4.2 billion DFI funding for the Airport Company of South Africa;
  - Regiments Capital has concluded (together with JPMorgan Chase and Calyon Bank Limited) a R5 billion Euro bond issue for Eskom Holdings Limited. This issue was 5 times oversubscribed.
  - Advising Sovereign Foods on a R700 million capital raising programme.
- **Treasury and risk management solutions:** Our clients also benefit from the specialized financial risk management solutions we provide and an in-depth knowledge of treasury functions we command. Regiments Capital designs and implements strategies for clients' treasury divisions to help them address the challenges of a rapidly transforming environment. Our close relationship with leading local and international financial institutions help clients to effectively underwrite the mix of products and provide world-class execution capabilities. The corporate solutions we provide include financial risk management consulting, cash and asset liability management. Some of the treasury and financial risk management projects we have completed thus far include:
  - Regiments Capital analysed and optimized the financial risk management framework and structured the treasury functions for Transnet;
  - Regiments Capital established a financial risk management framework and assisted in the establishment of the treasury functions for Airport Company of South Africa; and
  - Regiments Capital has successfully reviewed the treasury functions of the City of Tshwane and provided recommendations.

- **Structured financial solutions:** The Regiments Capital team's extensive experience in financial markets trading and structuring not only ensures that clients receive the very best advice and structuring services to enhance existing business operations, but also lays the path for future growth with the more efficient use of capital and access to advanced funding mechanisms. These structuring capabilities provide Regiments Capital an opportunity to leverage its capabilities to offer unique debt- and equity related products. Some of the structured solutions we provided to our clients include:
    - Optimization of the balance sheet of the City of Johannesburg;
    - Structured property solution for Ekurhuleni Metropolitan Municipality; and
    - Interest rate hedge strategy for ACSA totalling in excess of R6 billion.

- **Financial, Econometric and Escalation modelling:** As part of our commitment to provide the best and one-stop solutions to our esteemed clients, Regiments Capital's Economic Research Unit caters for the need of our external clients and internal clients including Regiments' Securities, Advisory, Investments and Fund Management businesses. The stock broking, private equity, advisory, securities, investments and fund management businesses benefit immensely from the research outputs of the Economic Research Unit. By maintaining econometric and quantitative approaches to its solutions, it sufficiently combines qualitative and quantitative techniques and produce deliverables that are as scientific as possible. Drawing on the skills of top class econometricians and a consortium of data providers and academics, Regiments Capital integrates a range of intricate modeling methods to present results and help clients forecast most likely outcomes and conduct policy simulations where required. Some of our major products include socioeconomic impact studies on policy interventions of the national, provincial and local governments.
  Along the various macro- and micro-econometric modeling, we also have a qualified and experienced team to conduct robust financial and cost escalation modeling for our clients. The cost escalation models we built at Regiments Capital integrate clients' financial models with specific econometric based cost driver models.

- **Strategy Advisory:** Regiments capital, through its subsidiary 'Burlington Consultants', has been able to assist clients with developing business plans and feasibility studies for market entries and new technology. Burlington is a leading provider of strategy development services in South Africa. Burlington is the market leader in areas of commercial due diligence and investment support, and is one of the few local players that can offer top tier strategy consulting services. Our approach is highly analytical to give fact-based solutions (Burlington sweats the detail).

Burlington has worked on over 150 engagements with more than 60 organisations ranging from major listed corporates to mid-sized private companies, private equity and institutional investors, and government and civic organisations.

Since its inception in Johannesburg, Burlington's unique offering has been well received by a broad spectrum of clients, resulting in sustained growth of our local team. The following factors have been critical to our success:

- A single-minded focus on delivering exceptional results for our clients
- An outstanding track record of past projects and client relationships
- The delivery of an international-standard, top-tier consulting product at rates that take into consideration the realities of local economics
- Local ownership and management who have an intimate understanding of the African business environment
- Senior staff with considerable local and international management consulting experience combined with non-consulting, real-world exposure to a range of industries
- An exceptional team of consultants nurtured through a structured development program
- AAA rated Black Economic Empowerment credentials

Burlington offers a full range of management consultancy and advisory services including strategy formulation, operational improvement and organisational development, aimed at assisting our clients in achieving full potential in their businesses.

In addition, our transaction services support investors assessing opportunities through commercial due diligence and assist vendors or entrepreneurs seeking funding by developing investment memoranda and business plans.

1.2 FUND MANAGEMENT

Our fund management mainly provides innovative asset management solutions using a liability-plus approach. This is basically a risk management advisory service targeted at annuity funds.

The principal features of our asset management solutions include the following:

- Closely tracking our clients liabilities,
- Liabilities plus approach,
- Sophisticated infrastructure to support liability analysis and the impact of investment decisions,
- Dynamically manage the assets to match the liability, and
- Strong oversight and risk management.

Regiments Capital uses a dynamic asset-liability management approach in managing annuity based funds. Asset-liability management is the practice of managing risks arising from the mismatch between assets and liabilities. The dynamism introduced to our approach is due to the active management of assets that would respond to the possible changes in underlying liabilities.

Some of the areas where the Liability Plus approach has been successfully used include:

- Debt Redemption: Assist clients in managing and repaying large debt commitments on time.
- Rehabilitation Fund: Ensuring timely provision for the financial redemption of rehabilitation liabilities through identifying, managing and hedging the financial drivers impacting on the underlying liability.
- Post-Retirement Medical Liability: Post-retirement health benefits that are paid out after retirement. These unfunded medical liabilities are generally driven by medical inflation which has historically been significantly higher than general inflation.
- Retirement Annuity/ Pension Fund: Savings plan for retirement that is put in place to allow individuals to enjoy the same life style during their retirement as they do during their working life.

Regiments Capital has earned a reputation for designing and managing a successful debt redemption fund that has proven to outperform the benchmark over the years. Currently, Regiments Capital manages a debt redemption fund for the City of Johannesburg. The fund's outstanding performance over the years can be seen from the following figure.

1.3 Stock Broking (Fixed Income and Money Market)

In 2005, Regiments Capital acquired a 51% controlling interest in FFO Securities, a JSE registered stock- broking firm specializing in fixed income and money market transactions. In 2008, Regiments acquired the balance of equity in the firm, making it a 100% owned subsidiary, and proceeded to re-name the company "Regiments Securities". The company was recently ranked third by volume of fixed income transactions traded.

1.4 Real Estate

Our Real Estate business generates significant returns through large property development opportunities. The most notable of these developments are Kgoro Sandton Gateway – a large mixed-use development on the platform above the Gautrain station in Sandton, and Ferguson Office Development in Illovo.

Developing and managing property funds also falls under the purview of Regiments Real Estate. It currently manages the Gauteng Fund, COJ Fund, and Housing Fund.

1.5 PORTFOLIO AND STRATEGIC INVESTMENTS: OWN BALANCE SHEET INVESTMENTS

In addition to the Financial Advisory, Fund Management and Real Estate businesses, Regiments Capital's Proprietary Investments unit led a broad-based BEE consortium in the acquisition of 12.2% of Capitec Bank Holdings Limited. We previously held a stake in Nedbank through the Eyethu Corporate Scheme and have recently structured an investment into MTN through the MTN Zakhele BEE scheme. Regiments Capital has also made a number of other strategic investments in the private sector.

2 Our Credentials

Regiments Capital operates primarily in the public sector space and caters for the complex needs of local, regional and provincial governments, state owned enterprises, corporations, institutions and entities responsible for infrastructure development.

2.1 Funding Plan Preparation and Fund Raising Credentials

City of Johannesburg – Development of Funding Strategy for CoJ's R11bn Medium Term Budget (2009 to Present)

In 2009, Regiments Capital was appointed as funding facilitator for the development of a funding strategy for CoJ's R11 billion medium term budget.

Following approval of the funding strategy, Regiments Capital was appointed to assist the CoJ in implementing the recommendations of the funding plan. Over R2.3 billion of short and long-term debt was raised for their capital expenditure programme.

City of Tshwane – Long term sustainability financial plan
July 2009

In 2009 COT appointed Regiments Capital to assess COT's cash flow and liquidity, analyze revenue sources, identify critical success factors for COT and develop solutions to optimize COT's balance sheet. Regiments capital raised 700 million for COT.

Eskom – Capital raising and issuance of a 500 million Euro bond
(October 2005 – February 2006)

In October 2005, Eskom appointed Regiments Capital as joint lead managers together with Calyon and J.P. Morgan for the capital raising and issuance of a 500 million Euro bond.

Airports Company South Africa – Capital Raising Program (2006-2007)

In 2006, Regiments Capital was appointed by Airports Company South Africa (ACSA) as advisors in their capital restructuring program. A review on SAA's 5 year R21 billion capex and opex programs was then carried out. Appropriate financially modelled balance sheet trigger and target ratio's based on comparative airport analysis were developed together with a 5 year funding plan including spread of financial instruments.

Regiments designed, ran and managed of RFP processes for appointment of a ratings adviser and debt lead managers for SAA and assisted with the registration of R12 billion Domestic Medium Term Note (DMTN) borrowing program (including obtaining shareholder (NDOT) and National Treasury approvals); advised on the setup of a bond redemption fund; and successfully managed the inaugural ACSA R2 billion 12 year bond issues in March 2007.

ACSA – Re-appointment of Regiments Capital in March 2008

Review and update ACSA's Capital Expenditure Programme; requiring the preparation of an optimal funding plan through the modelling of all expected cash flows. Our mandate included assisting in the structure, pricing, placement and redemption planning of debt raised in fulfilment of ACSA's capital expenditure plan. We then reviewed ACSA's current financial risk management framework and executed the funding plan.

Our advisory services made recommendations for ACSA's revised financial risk management framework and placed key human resources at ACSA for the establishment of an optimal treasury, financial risk management and cash management solution. Regiments Capital then updated and reviewed ACSA's 5 year R22 billion funding plan and advised on the issuance of two of its bonds (AIR02 and AIRL01) collectively valued at R1.151 Billion.

Regiments assisted ACSA on the drafting, adjudication and appointment of ACSA's panel of advisors on the DMTN. In order to assist ACSA with the achievement of the proposed funding plan, Regiments Capital negotiated R9bn worth of committed general banking facilities with various local financial institutions having conducted a hybrid feasibility study; originating, structuring and advising on the pricing and quantum for a R1.75bn commercial banking term loan as well as R5bn term loan from various Development Finance Institutions including ECA Funding.

Sovereign Foods – Analysis of the CAPEX plan and development of the funding plan (February 2008 – April 2008)

In February 2008, Sovereign Foods appointed Regiments Capital to perform an analysis of the CAPEX plan and develop a funding plan. Sovereign Foods then engaged Regiments Capital to become the capital raising agent pursuant of the funding plan.

2.2 Treasury Review and Risk Management Credentials

Treasury review, analysis of asset portfolio, and balance sheet restructuring (September 2006 – February 2007)

a world class African city

Regiments Capital performed a treasury review in 2007 involving reviewing the CoJ treasury policies, procedures and processes in line with the MFMA and National Treasury regulations.

Regiments Capital analyzed the asset portfolio for the CoJ and realized R650m from financial asset sales (Note: These financial assets were previously underperforming).

Interest rate risk management: Facilitator of the execution of interest rate swap

a world class African city

Regiments Capital was appointed to assist the CoJ to execute interest rate swap transaction in March this year.

The CoJ had a long term loan of R 1 billion that carried a flexible interest rate linked to 3-month JIBAR. The swap allowed the CoJ to fix the interest rate instead of paying a variable rate that they used to pay in the past.

Liquidity management: Bond redemption fund (Department of Treasury)

a world class African city

Regiments Capital designed a unique asset management solution to provide efficient redemption of all listed debt of CoJ in compliance with the terms of the MFMA. Management of a R5.7 billion (CoJ01, CoJ02, CoJ03, CoJ04, CoJ05 and new retail bond) sinking fund on behalf of CoJ, in line with the unique asset management solution. Regiments reports on the fund's performance on a quarterly basis to the CoJ senior treasury management team and semi-annually to the Asset and Liability Committee (ALCO).

Funding Facilitator (June 2009): Financial risk management

a world class African city

In 2009, Regiments Capital was appointed as funding facilitator in order to identify, measure, manage and report on financial risks within the approved cash management framework. Regiments Capital's key objective was to ensure that the cash resources of the City were utilised optimally and assist in the adequate planning of funding or investment decisions.

City of Tshwane – Treasury review (July 2009)

CITY OF TSHWANE

In 2009, the COT appointed Regiments Capital to assist COT treasury in reviewing and advising on a treasury model for the treasury. The COT treasury is primarily a group risk management and execution service provider, which in the course of its duties services a number of divisions of COT. Regiments Capital is currently making recommendations based on the review. Key risks are being identified, quantified and action plans recommended.

Denel: Identify, assess and measure exposure to foreign exchange risk

DENEL

Denel appointed Regiments Capital to indentify, assess and measure the company's exposure to foreign exchange risk since a substantial portion of Denel's costs are incurred in Euro or US dollars. A financial analysis of Denel's capital structure was performed together with a Rand/Euro market evaluation. Regiments developed a comprehensive strategy to protect Denel against foreign exchange risk advising on the percentage of exposure to hedge, what instruments to use and how often the strategy needed to be measured and reported.

Financial risk management framework and treasury policy and strategy

TRANSNET

Regiments Capital was mandated by the largest state owned enterprise ("SOE") in South Africa to develop a financial risk management framework ("FRMF") that enabled the group to successfully embark on a significant corporate restructuring exercise. The Regiments Capital approach, unlike those of other advisory firms, was a solution driven approach and custom designed to meet the critical needs of the client.

The SOE therefore played an integral role in developing the design of the solution and, most importantly, Regiments Capital made available its diverse exposure to various first world treasury systems for the benefit of the SOE.

The mandate also entailed designing a template for the restructuring of the SOE's entire group treasury division to a world-class treasury in order to tackle the challenges of a rapidly transforming environment. Regiments Capital was actively involved in the implementation of the solution.

Development of an Enterprise Risk Management Framework (ERMF)
(July 2005 – January 2006)

SOUTH AFRICAN AIRWAYS

Regiments Capital was mandated by SAA to develop an enterprise wide risk management framework ("ERMF") which mirrored the FRMF to ensure optimal decision making processes across the organisation. The scope of the project ensured that the ERMF process was aligned with the FRMF and the overall strategic objectives as defined in the overall restructuring program of the group.

SASRIA – Development of a business plan for their expansion into Africa (February 2010 – May 2010)

In February 2010, Sasria appointed Regiments Capital to develop a business plan for their intended expansion of their operations into Africa. It involved market and risk analysis, financial modelling and other aspects of a business plan for each country Sasria intended entering. Regiments also assisted with the submission of the business plan to National Treasury for approval according to section 54 (2) of the PFMA.

2.3 MODELING AND OTHER CREDENTIALS

Nedbank - Assisted with the development of an econometric credit risk index model (September 2008 – December 2008)

Nedbank appointed Regiments Capital to assist with the development of an econometric credit risk model. The scope of the work consisted of:

- Single Factor Analysis,
- Multi-Factor Analysis,
- Default prediction,
- Development of the portfolio indices,
- Development of the master index,
- A Nedbank-specific forecast of asset-class and aggregated default rates,
- Regression analysis related to the various portfolios, and
- Back testing of the estimated variables.

Development Bank of South Africa (DBSA) – Performed an independent valuation of the assets, used as collateral against its credit exposures (March 2009 – August 2009)

Regiments Capital was appointed by DBSA to perform an independent valuation of all the collateral held by the bank. The scope of the work included:

- Providing an updated, complete and accurate collateral register of all the collateral currently held by DBSA. The register included collaterals from both performing and non-performing loans.
- Establishing a robust and logical approach to value the collateral
- Valuing the assets held as collateral.

Development Bank of Africa – Assisted with the implementation of a Project Finance Risk Rating Tool (October 2008 – February 2009)

Regiments Capital assisted the Development Bank of South Africa ("DBSA") with the implementation of a Project Finance Risk Rating Tool.

The objective of the planned project was to build a rating model for the project finance portfolios, using a cash flow projection and simulation approach while:

- Prioritizing simplicity and flexibility over complexity and avoiding a 'black box' approach
- Tailoring the model to particularities of South African project finance deals (and more generally deals within the SADC region), including special attention to the multinational nature of transactions, and country-related risks including government support and legal systems
- Including standardized cash flow projection models to enhance consistency of credit analysis
- Enabling sensitivity and scenario analysis
- Offering the capability to link into monitoring/early warning processes, in particular the ability to re-rate projects already existing in DBSA's portfolio.

United Bank of Africa (UBA) – Implementation of a Top-Down Pillar II Capital Impact Assessment with Respect to Basel II Regulatory Capital (August 2008 – January 2009)

Regiments Capital assisted the United Bank of Africa Plc ("UBA") with the implementation of a top-down Pillar II capital impact assessment with respect to Basel II regulatory capital.

UBA which is the largest financial services institution in West Africa with a balance sheet size in excess of one trillion Naira and more than six million customer accounts engaged Regiments to assist with meeting both its regulatory and internal risk capital demands.

3 Staff Resume

3.1 Regiments Capital

3.1.1 Executive Directors

Name	Litha Nyhonyha
Current position	Executive Chairman
Years of experience	20 years
Home office	Johannesburg
Qualifications	• BCom – University of Cape Town • Qualified CA(SA)
Professional associations	• Member of South African Institute of Chartered Accountants (SAICA)
Language skills	English, Xhosa
Country experience	South Africa
Employment history	• **Regiments Capital** (2004 – current). Together with his existing partners, Litha started Regiments Capital. Litha is also a director of Worldwide, South African Express Airways (a wholly owned subsidiary of Transnet) and chairman of Plessey. He is the immediate past chairman of the University Council of the new North West University formed after the merger of the former Potchefstroom University and the former University of North West. Regiments Capital is the parent company of Regiments Fund Managers which runs the CoJ Debt Redemption (Sinking) Fund. • **Worldwide African Investments (2001 – 2004).** Litha joined Worldwide African Investments to restructure the group and develop its financial services strategy. This lead to Worldwide focusing its financial interests on NBC Holdings, an actuarial consulting and fund administration business. In 2002 Litha was seconded by Worldwide to NBC to stabilise the business and return it to profitability. He successfully established the business but due to disagreement on strategy with the Executive Chairman decided to exit NBC at the same time the majority shareholder, Worldwide was exiting. • **SA Express Airways (1994 – 2005).** Litha was the Founder-Director of SA Express Airways and was also the Chairperson of the Audit Committee. He has served on the SA Express Board for over 10 years. • **Thebe Investment holdings (1992 – 2001).** In 1992 he established Thebe Investment Holdings, the first significant BEE investment holding company in South Africa, with Mr Vusi Khanyile. At Thebe, Litha was responsible for all acquisitions and growing NAV from R100 000 to over R500 million in a few

	years. • **Ernst and Young** (1989 – 1992). After completing his articles in 1989 he completed his articles of clerkship in Ernest and Young. After serving as senior audit manager, Litha moved to the corporate finance department of Ernst & Young until his departure in 1992.
Experience	• Financial Services Strategy Development • Acquisitions and NAV growth • Senior Audit Manager • Corporate Finance

Name	Eric Wood
Current position	Executive Director
Years of experience	25 years
Home office	Johannesburg
Qualifications	• Masters of Management (ENT and NVC), *Cum Laude* (Wits) • Completed Accounting Articles
Language skills	English, Afrikaans, Spanish
Country experience	South Africa, Poland, Czech Republic, Hungary
Employment history	• After completing his accounting articles in 1985, Eric joined the stock broking firm of **Frankel Kruger Vinderine** as a trainee bond dealer. There he established a bond option operation that grew to become the largest bond option broking business (by volume) in the SA market. • In 1988 **Investec Bank** approached Eric in order to set up a Fixed Income trading business. This business developed into the largest market maker of bond options and exotic fixed-Income derivatives in SA. Under Eric's guidance the business was expanded into Equity derivatives trading, Fixed Income and Equity structuring and Gold and Kruger-rand trading. Eric was subsequently approached in order to expand Investec's interest rate desk into trading Caps, Floors and Swaptions in RSA and Eastern Europe. Eric was appointed to the Investec Group Strategy and Policy committee in 1994. He was instrumental in the appointment of Investec as official Market Makers for South African Government Debt and served as chairman of the Primary Dealers Association in 1999 and 2000. In addition, Eric was appointed to bond exchange EXCO in 1999 and 2000. • In January 2002 Eric left Investec Bank in order to pursue new business opportunities. He subsequently set up the infrastructure for a Hedge Fund

	business for **Credit Commerciae (Pty) Ltd** and proceeded to attract capital for the first of their hedge funds. He was involved in the trading and operating of this fund form 2002 to 2004. • In 2004, Eric left Credit Commerciae to jointly found **Regiments Capital.**
Experience	• Statutory Audit and Advisory • Financial Risk Management and Governance • Foreign and Local Debt Origination • Regulatory Compliance • PFMA and MFMA

Name	Niven Pillay
Current position	Director
Years of experience	23 years
Home office	Johannesburg
Qualifications	• BSc (Electrical Engineering/Computer Science). Princeton University. • Bachelor of Public and International Affairs - Princeton University
Language skills	English
Country experience	South Africa
Employment history	• Niven started his career as a management consultant with **Andersen Consulting.** • In 1992, Niven joined **Standard Merchant Bank to** start up the Interest Rate Derivatives business. By 1994, Standard Merchant Bank enjoyed 70% market share in this business. In late 1994, Niven was appointed Director with responsibility for Derivatives. • In June 1995, Niven left SCMB to spend a 4-month stint with **Investec** with responsibility for cross-market structuring. • His next job was with **ABN Amro** where he spent 1 year establishing the trading operation in Johannesburg before being transferred to London to start up the Emerging Markets Derivatives business. • After 3 months, he joined **UBS** in London as Executive Director: Emerging Markets Derivatives. • He started at **Wipcapital** in December 1999 as Executive Director and Head of the Structured Markets Division until he left to join Regiments Capital in 2004. • Niven is currently in the process of setting up **Regiments Capital's** ALCO Risk Management Advisory (primarily to insurers and pension funds) and Fixed

		Income Fund Management business. • Niven is also the preceding Chairman of **Johannesburg City Power.** • Niven is the executive director in charge of the CoJ Debt Redemption (sinking) Fund since inception in 2006.
	Experience	• Consulting • Financial Modelling :It Systems, Interest Rate Derivatives & Cross Market Structuring • Trading • Risk Management Advisory • Debt Redemption (sinking) Fund Specialist.

3.1.2 Regiments Fund Managers: Key Personnel

Name	Paul Bate
Current position	Investment Strategist
Years of experience	31 years
Home office	Johannesburg
Qualifications	• C.A.I.B (1975) • Diploma in Financial Management (Damelin Management School 1983) • Managerial Finance, Advanced Management Finance, Tax and Management Planning (Wits Business School 1983 – 1985) • Advanced Financial and Banking Management-Wharton Business School, Philadelphia (USA 1985) • Banking and Managerial Finance-Insead International Business School Fontainebleau (France 1989) • Asset and Liability Management – Sungard Financial Systems, Boston (USA 1993)
Language skills	English
Country experience	South Africa, Zimbabwe
Employment history	• **Regiments Capital Pty Ltd (2010 – present).** Senior Fixed Income/Money Market Trader and Fund Manager. Paul has been the Senior Trader on the CoJ Debt Redemption (sinking) Fund since joining Regiments. • **ALM (Asset and Liability Management) consultancy (2003 – 2009).** Commenced offering ALM workshops to banks on the African Continent and conducted in excess of 65 workshops in 14 countries outside of South Africa, including workshops for the International Finance Corporation of the World Bank. In addition workshops were conducted for banks/institutions in South Africa including ABSA, Nedbank, KPMG and Mercantile Bank. Established a relationship with Nedbank to conduct workshops and install ALM risk models in their Africa operations. Risk models were also installed into 5 other banks on the continent, including Bank Windhoek in Namibia. • **African Merchant Bank Ltd (1997 – 2002).** Approached to head up the Money Market Desk at AMB. His responsibilities as Head of Money Markets and Funding included balance sheet management, group funding, liquidity management, statutory requirements, money market trading, Head of Alco Committee, corporate lending and relationships as well as being a member of the Risk Committee. In January of 1999 Paul was seconded to African Bank (a subsidiary of AMB) in charge of the Treasury Division. His duties included risk management, treasury policies and procedures and Alco development. In 2002 Paul was appointed as Treasurer at AMB. Built an ALM risk model which was approved for

	use by Deloitte and Touche and the Reserve Bank. • **Msele Corporate and Merchant Bank Ltd (1995 – 1997).** A start up wholesale treasury operation that culminated in the formation of FBC and thereafter the merged entity with Fidelity Bank Limited. Paul departed before the FBC/Fidelity merger to join African Merchant Bank Ltd. • **Standard Merchant Bank Ltd (1981 - 1995).** Upon relocating to South Africa, Paul joined Standard Merchant Bank as a Manager in the Banking Division responsible for corporate clients. In 1983 he was tasked to establish the Domestic Treasury Trading Desk running 2 corporate asset books. These books grew from start-up of R100m to R3bn at the end of 1995 with a client base in excess of 400. Between 1986 and 1988 his role broadened to asset liability management, product pricing, bank funding and money market trading. In 1990 he was appointed as the Assistant General Manager in the Treasury Division responsible for the running, structure and control of SMB's balance sheet. Following the merger of SMB and the corporate division of SBSA, Paul was appointed as the Director of Funding and Corporate. His portfolio including the funding of the entire Standard Bank Group with an asset base of R65bn. • **Barclays Bank International Ltd (1965 – 1981).** Paul began his career at Barclays Bank Zimbabwe in October of 1965. Following numerous promotions throughout his career at Barclays, Paul departed as an Assistant Branch Manager responsible for 65 Employees. Paul and his family immigrated to South Africa in 1981.
Experience	• Asset Liability Specialist and ALM Training Expert • Fixed Income and Money Market Trading • Risk Management • Debt Redemption (sinking) Fund Trading Specialist.

Name	Sybil Kekana
Current position	Senior Investment Analyst
Years of experience	13 years
Home office	Johannesburg
Qualifications	• Bachelor of Commerce Honours (Finance) Pretoria University • Diploma in Investment Management (Johannesburg University) • Bridging Certificate Theory of Accounting (Johannesburg University)
Professional association	• Member of the Association of Corporate Treasurers of Southern Africa
Language skills	English, North Sotho

Country experience	South Africa
Employment history	Sybil Kekana started her career at **Standard Bank of Southern Africa** in 1991 as a graduate trainee. She spent two years at the bank before moving to **Rennies Travel** as a Foreign exchange consultant in charge of dealing in foreign exchange sales to leisure and corporate clients. In 1993, Sybil was promoted and moved to the internal audit department of Rennies Travel. She worked as an internal auditor in charge of branch audits. In 1996 she moved to **Price Waterhouse Coppers (PwC)**. She worked with PwC from 1996-2000 as an internal auditor, responsible for manufacturing and public sector audits. Amongst the others her major clients included Medscheme, Land Bank, Hudaco, Department of Housing and Transnet. She gained valuable experience in various systems and processes, legislation compliance and GAAP in practice during her years with PwC. Sybil was in charge of overseeing these audits from inception to audit report stage. Sybil's diligence, attention to detail and meticulous approach to audit assignment contributed to her success in this field. She joined **Standard Corporate and Investment Bank** in 2000 working as a senior manager on the Interest Rate Derivatives Sales and Structuring division where she was responsible for structuring interest rate solutions for a portfolio of clients. Her main job functions included providing pricing on interest rate products such as swaps, options and cross currency interest rate swaps to corporates and parastatal clients. The 5 years spent at Standard Bank was instrumental in shaping her career in the financial market. Apart from executing deals with clients Sybil was instrumental in developing training manuals for graduate trainees at the bank. As part of her development on interest rate sales and structuring she conducted educational seminars involving mechanics of financial markets to corporate and parastatal clients. Sybil joined the **South Africa Post Office** in 2006 as a Treasury Dealer in charge of managing Post Office's R4 billion investment portfolio. She reported to the Post Office Group monthly Asset and Liability Committee on the performance of the portfolio. Sybil project managed the implementation of a treasury management system for the Post Office Group. She is also member of the working committee responsible for Postbank corporatisation scheme. She is an ex-officio member of the Postbank Committee.
Experience	• Interest rate derivatives sales and structuring • Funds management • Internal Audit • Managing of sinking fund sales and distribution.

Name	Andrew Daniel Lanyi
Current position	Portfolio Manager

Years of experience	10 years
Home office	Johannesburg
Qualifications	MSCi Physics, Cambridge University (2002)
Language skills	English
Country experience	South Africa, New York, United Kingdom
Employment history	• **Regiments Capital** (Mar 2012 - Present). Daniel is currently a portfolio manager at Regiments Fund Managers. • **Rand Merchant Bank** (Jun 2010- Oct 2011). Daniel was an Interest Rates and Derivatives Trader • **Royal Bank of Canada** (2008-2009). Daniel was an Interest Rates Trader, specifically trading EMEA Interest Rates (European, Middle East and Africa) Interest Rates. • **HSBC** (2007-2008). Daniel was an Interest Rates Trader, specifically trading Rand/Poland EMEA Interest Rates (European, Middle East and Africa) interest Rates. • **Goldman Sachs** (2002-2006). Daniel was a GT10 EFEX forwards trader, specifically trading the Emerging Markets EFEX spot and forwards, Options (all categories) and EMEA Interest Rates (European, Middle East and Africa).
Experience	• Interest Rates Trading EFEX spot and forwards • Emerging markets EFEX Trading • Options Trading • EMEA(European, Middle East and Africa) Interest Rate Trading

Name	Shaun Dunstan
Current position	Portfolio Manager
Years of experience	10 years
Home office	Johannesburg
Qualifications	• BCom (Finance), University of the Witwatersrand,2001 • SACI Certificate, 2002 • RPE Certificate, 2003
Language skills	English
Country experience	South Africa, New York, United Kingdom

Employment history	• **Regiments Fund Managers** (Mar 2012 - Present). Shaun is currently a portfolio manager at Regiments Fund Managers. • **Standard Bank SA** (Jul 2011 - Feb 2012). Shaun was a head of Bond trading at Standard Bank, managing bond trading book and driving Standard Bank brand awareness locally and offshore. • **Nedbank Capital** (Jun 2009 - Jun 2010). Shaun was a member of Interest Rates Sales and structuring for the asset managers. • **Deutsche Bank** (May 2006 - Jun 2009). Shaun was the Bond Market Maker and Trader, specifically to generate Income and stimulate business development and growth for foreign bond trading between South Africa and United Kingdom market. • **Rand Merchant Bank** (Mar 2003 - May 2006). Shaun started as a trainee and moved across all desks (Money Market, FRA SWAPS FX Commodities and Bond Desk). He was then promoted to the Interest Rate desk in charge of the interest rates desk and the Bond Book primarily to facilitate trades for client services.
Experience	• Fixed Income trading • FX Trading

Name	Brett Mahon
Current position	Fund Manager / Quantitative Analyst
Years of experience	9 years
Nationality	South African
Home office	Johannesburg
Qualifications	• BSc. Engineering (Electrical), University of the Witwatersrand, 2002 • FSB Registered Persons Exam, RE5, 2010
Language skills	English
Country experience	South Africa, Ireland
Employment history	• **Regiments Fund Managers** (Mar 2011-Current). *Hedge Fund Manager and Quantitative Analyst*. Brett manages the Duality Systems Primary Fund. The fund is a market-neutral quant equity fund. Brett also assists is general system design, research and modelling for the Regiments Group. • **Duality Systems** (Nov 2008-Mar 2011). *Director*. As a director of the business Brett oversaw all aspects of the business and specialised in system design,

	trading strategy design and risk management. Brett also co-authored the systems used throughout the business. These systems managed all aspects of the fund from live trading, risk analytics and back-office profit and loss management • **Coronation Capital** (Oct 2005-July 2008). *Risk Manager.* Major responsibilities involved monitoring and managing group-wide market and credit risk, including risk reporting for the executive board. Reporting and analysis was required for both for the local and offshore (UK and Ireland) branches of the group. This reporting included Value at Risk, volatility / underlying risk matrices and total market and credit exposure. Brett developed a system running in C#, R (mathematics package), VBA and SQL to achieve these ends. In addition to this, the company ran the *SunGard Front Arena* front-to-back office system. Maintenance and upgrading this system from a functional point of view was his responsibility. • **Comair Limited** (June 2005-October 2005). *Application Development Contractor.* Work included analysis and development of software for the airline. The project included both windows forms applications and web applications. This ran on top of a web service layer along with web components. These components formed the basis of the www.kulula.com website. • **MyBeat Interactive** (Jan 2004 – June 2005). *Senior Software Developer.* Brett performed full life-cycle development of various products and services offered by the company. He was involved in the architecture/design phase through development, testing and software maintenance. He was also responsible for the database design aspects and performance tuning of the live systems
Experience	• Quantitative Analysis – Statistical Modelling, Monte-Carlo analysis, Time-series analysis. • Software Architecture and Development • Algorithm Design • Project Management, Business Development • Equity analysis and trading • Risk Management – Market and credit risk management across asset classes • ALM Risk Management of sinking funds.

Name	Michael Barber
Current position	Fund Manager / Quantitative Analyst
Years of experience	9 years

Nationality	South African
Home office	Johannesburg
Qualifications	BSc Engineering (Electrical), Wits 2002, *Cum Laude*
Language skills	English
Country experience	South Africa, United Kingdom
Employment history	• **Regiments Fund Managers** (Mar 2011 onwards). Michael is currently a hedge fund manager and quantitative analyst at Regiments Fund Managers. He has also worked on exotic derivatives pricing, and software systems design and optimisation for the Regiments group. • **Duality Systems** (Oct 2009 to Mar 2011). Michael was a director and quantitative analyst at the market-neutral equities fund, focusing on trading system development and analysis. His analytical work included the design of the statistical modelling framework used in the business, development of advanced statistical models, cointegration modelling, and other statistical arbitrage work. On the systems side, he handled the design and construction a high-frequency algorithmic trading solution, as well as the analytics infrastructure used for all the live market instrumentation for real-time trading decisions. • **Deutsche Bank, South Africa** (Jul 2007 to Oct 2009). Michael was a quantitative developer responsible for the design and implementation of high frequency statistical arbitrage trading systems in several emerging markets, including South Africa, Brazil and Turkey. Related work included the design and testing of related systems, including low-latency market data feeds, tick data archival and analysis, and statistical analysis. He was also responsible for the deployment and integration of an online pre-trade risk-analytics solution. • **RiskWorX**, including **Rand Merchant Bank** and **Standard Bank** (Sep 2006 to Jul 2007). Michael was employed as a risk analyst and integration engineer. As a risk analyst, he was responsible for developing pricing algorithms for various vanilla and exotic instruments traded by Standard Bank, as well as assisting with the value-at-risk calculations and reporting. As an integration engineer, he was responsible for integration of front-office and risk systems, diagnosis of errors, resilience planning, and system performance optimisation. • **Mintek** (Feb 2003 to Sep 2006). Michael was a senior engineer at Mintek, responsible for designing and building advanced, high-performance online process control systems for the minerals processing industry. His main focus was on AC arc furnace control systems, statistical process control, and several components of system integration and user interfaces.
Experience	• Statistical modelling • Optimisation and machine learning

	• Advanced software design, development, and integration • Derivatives pricing and modelling • Trading strategy development and back-testing • Statistical arbitrage and high frequency trading • Risk analytics • Sinking fund analysis

Name	Thabo Letlaka
Current position	Fixed Income Trader
Years of experience	4 years
Home office	Johannesburg
Qualifications	• Post Graduate Diploma in Management (Actuarial Science Conversion) (University of Cape Town (UCT), 2007) • Bachelor of Science (Mathematics and Statistics) (Rhodes University, 2004)
Professional associations	• Actuarial Society of South Africa Student
Language skills	English, Xhosa
Country experience	South Africa
Employment history	• **Regiments Capital Pty (Ltd)** (August 2008 - Current). Thabo joined Regiments Fund Managers as a Risk Associate in the Trading team. He is also working with Health Monitor Company (a company in the Regiments Capital group) working in the HIV/AIDS team modelling the cost impact of HIV/AIDS on entities • **RisCura Solutions Pty (Ltd)** Started in February 2008 and left later that year. Thabo's responsibilities lay in the unitisation team. He did reporting and analysis on the performance of the Funds and also handled other queries that the Fund's trustees required. The second set of responsibilities he had, were with the quantitative (quant) research team, where he handled quant queries. • **Momentum Collective Benefits.** 4 Months of Vacation Work as a UCT student. As a university student Thabo Letlaka worked for Momentum Collective Benefits as Risk Analyst in the (Premiums) Quotes division, where he analysed the premiums groups of lives for various Sums Assured. This was on an initial and re-broke basis.
Experience	• Economic Modelling • VBA Development

	• Sinking Fund Performance Analysis • Healthcare Actuarial Modelling • Fixed Income and Derivative Trading

Name	Louis Schutte
Current position	Risk Analyst
Years of experience	5 years
Home office	Johannesburg
Qualifications	• MSc. Quantitative Risk Management – North West University (2005) • BSc. Honours Quantitative Risk Management – North West University (2004) • BSc. Business Mathematics and Informatics – Potchefstroom University (Cum Laude) (2003) • N4, N5, N6 Mechanical Engineering – Potchefstroom Technical College (1999)
Language skills	English, Afrikaans
Country experience	South Africa
Employment history	• **Regiments Capital (August 2008 – current).** Louis joined Regiments Capital as a Risk Analyst in the Financial Risk Advisory unit in August 2008. Louis Managers the Risk process of the CoJ Debt Redemption (sinking) Fund. Since joining Regiments he has been working on a collateral valuation project for a development bank. He also worked on a Basel II project for a Nigerian bank in which Regiments was asked to calculate the overall regulatory capital as per the Basel II accord for the entire banking group. Other projects that he worked on include writing of a business plan for a SOE and loan analysis for the two major municipalities in Gauteng. • **Standard Bank (2007 – 2008).** Louis was part of a project team that conducted a proof of concept project to implement an Integrated Financial and Management Accounting solution for Standard Bank Off-shore Group on three of their products. The solution was part of SAP Bank Analyser. Tasks performed include documentation, customising and testing. He was also assisting in the customising of the SAP Balance Analyser which is part of the SAP Bank Analyser by doing customising, testing and writing of documentation. The system was being implemented for one retail product as the analytical finance solution in a proof of concept project. • **ABSA (2006 – 2007).** Louis undertook creating SAS data sets in preparation for stress testing models to be built, assisting with maintaining and updating the QRM system for market and credit risk and with the population of the Bank Act

	returns 200 series from SAP BW as required by the SARB. He also assisted in implementing the Basel II solution in QRM by making sure that the regulatory capital was being calculated correctly. He performed all the functions relating to the Calculation Process technical setup and configuration based on the Basel II approaches selected by ABSA for Retail and Wholesale lines of business on the SAP Credit Risk Analyser which is part of the SAP Bank Analyser. Louis also assisted in sorting out data issues relating to the Calculation Process of the regulatory capital requirement of ABSA bank for Retail and Wholesale, ran the Calculation Process in the SAP Credit Risk Analyser, analysed the errors and results and reported back to managers on a monthly basis. He re-configured the Credit Risk Analyser in release 5 of SAP and assisted with the population of the Bank Act returns 200 series from SAP BW as required by the SARB. • **ABSA Insurance (2005 – 2005).** Louis managed a small research project as part of M Sc. studies on the insurance cycle, the factors that impact it and how it could potentially be forecasted.
Experience	• Process Consultant • Quantitative Risk Management • SAP – Bank Analyser: Including configuration of the Credit Risk Analyser • SDL (FDB) • AFI • BW Business Explorer • Risk and Data Analysis Skills using SAS • Risk Dimensions • Enterprise Miner (Data Mining) • S+, R and Matlab programming language • Sinking Fund Risk Specialist

Name	Tiro Mokoka
Current position	Business Development Associate
Years of experience	5 years
Home office	Johannesburg
Qualifications	BCom – Business Management (UNISA)
Language skills	English, Tswana
Country experience	South Africa, United Kingdom

Employment history	• **Regiments Capital** (2012-Present). Business Development Associate. Tiro is involved in growing the business. This includes meeting with clients, determining their requirements and communicating these to Regiments in order to build custom solutions. • **Keliana Management** (2008-2008). Marketing and Events Manager. Tiro planned, managed and controlled the marketing campaign for Emoyeni Conference Centre. It was his mandate to manage CRM with clients, and expand the client base. All events at the centre were planned, and executed by him. • **South African Breweries** (2007-2008). Events Co-ordinator. Tiro's duties involved planning, managing and controlling all beer selling opportunities such as beer fests, concerts, fashion shows, golf days and sports days to name a few. He also managed all staff, promotional activities, catering and security for the events. Tiro planned the annual/quarterly/monthly budgets for the events department, and implemented the events strategy for SAB Isando. • **Verpakt services** (2006-2007). Risk and fraud contact agent • **First National Bank** (2005-2005) .Financial sales consultant
Experience	• Business strategy consultancy • Marketing • Events management • Marketing

Name	Brian Gritzman
Current position	Risk Administrator
Years of experience	4 years
Home office	Johannesburg
Qualifications	• BSc(Mathematics and Mathematical Statistics), Wits, 2009
Language skills	English
Country experience	South Africa
Employment history	• **Regiments Capital** (2009 – present). Brian joined the Regiments Fund Managers division as a Risk Analyst. Brian forms part of a team that is responsible for the management of the debt redemption fund. His main responsibilities amongst the others include, overseeing the fund's risk and investment management processes and modelling and developing structured products. He is also part of a team augmenting the current risk system on the existing platform to a new platform developing the functionality on the new risk system. Brian was appointed to

		oversee and manage the migration of COJ's debt redemption fund from the Dibanisa back office to Maitland. • **Regiments Capital** (2008 – 2009). Brian joined Regiments Capital as a Risk Analyst assigned to the Development Bank of South Africa (DBSA) Project undertaken for the Workout and Recovery Unit. In addition, Brian formed part of the Nedbank Credit Risk Index (CRI) Project Team designed to provide the client with a relative risk measure for providing credit to a portfolio exposure.
	Experience	• Risk analysis • Back office administration • Risk administration

3.1.3 Regiments Advisory: Key Personnel

Name	Andile Nyhonyha
Current position	Head of Advisory
Years of experience	16 years
Home office	Johannesburg
Professional qualifications	Bjuris, LLB
Country experience	South Africa
Employment history	Andile started his career in 1994 at Standard Merchant Bank (Treasury Division) in the back office, providing support for the dealing room and compliance with the SARB exchange control regulations. In 1995 at the time when SCMB was merging with some divisions of Standard Bank to form Standard Corporate and Merchant Bank, Andile joined the Corporate Finance department where he was responsible for identifying merger and acquisition opportunities and advising and funding Black Economic Empowerment opportunities. He left SCMB in 1999 and joined Legae Securities as the Executive Director responsible for Corporate Finance. When Legae Securities was sold to Wipcapital in 2000, he founded Wip Treasury Solutions, which he ran as the Chief Executive Officer. In November 2001 Andile was appointed Head of Corporate Finance at Wipcapital. Andile left Wipcapital at the beginning of 2003 to establish Regiments Holdings and Regiments Capital. . Andile left Regiments in 2007 to establish Mfanta Investment Holdings. In November 2010 he rejoined Regiments as Head of Advisory.

Name	Tewodros Gebreselasie
Current position	Senior Economic Advisor / Senior Econometrician
Years of experience	14 years
Nationality	Eritrean
Home office	Johannesburg
Qualifications	• MCOM in Economics (Specialization in Trade & Investment) – University of Pretoria (Jan 2005 - Sep 2006) – Cum Laude • MPhil in International Business Management – University of Pretoria (Jan 2002 - Dec 2003) – Cum Laude • BCom (Honours) in Economics – University of Pretoria (Jan 2004 - Dec 2004) • BCom (Honours) in Business Management – University of Pretoria (Feb 2001 -

	Dec 2001) • B.A. in Business Management – Addis Ababa University (Sep 1989 - Jul 1992)
Professional associations	• Economic Society of South Africa (ESSA)
Language skills	English
Country experience	South Africa, Eritrea, Ethiopia
Employment history	• **Employment, Growth and Development Initiative, Human Sciences Research Council of South Africa, Pretoria** (Sep 2006 – May 2008). Tewodros conducted rigorous studies on growth, poverty reduction, and unemployment in South Africa. The studies mainly focused at evidence based scenarios for halving unemployment and poverty as part of South Africa's growth path. He also published peer-reviewed academic journal articles and participated in local and international workshops and conferences and was involved in conceptualizing research projects and writing up project proposals for funding. • **Faculty of Law & Department of Economics, University of Pretoria, South Africa** (Mar 2006 – Sep 2006). Tewodros coordinated the LLM (in Trade and Investment law) and MCOM (Economics in Trade and Investment) Trade Programmes. The Programmes were designed to address the shortage of African experts in trade and investment areas who can represent African interest at multinational foras, principally WTO. He also organized the Annual African Trade Moot Competition. • **Pan-African Investment Pty Ltd, Johannesburg** (Mar 2006 – Sept 2006). External Consultant contracting to do financial modelling. Successfully completed to build a robust financial model for a project that cost R400 million (US$ 57 million). Involved in econometric modelling of the contribution of the Tourism sector of South Africa. • **Medstra Business Administrators, Pretoria** (Jan 2005 – Mar 2006). Compiled statistical information on the profile of new and existing clients of BESTMED Medical scheme and assisted the Finance Section. • **Department of Economics, Pretoria** (Jan 2005 – Mar 2006). Part-time Researcher on modelling South African exports to the rest of the World using panel econometrics technique. The modelling work involved all industries at SIC 3 digit classification. • **Commercial Bank of Eritrea, Asmara** (Nov 1998 – Feb 2001). Undertook quantitative and qualitative analysis of credit information and documentation as the Credit Administration Officer. • **Commercial Bank of Ethiopia, Addis Ababa** (May 1994 – Sep 1998). Tewodros was a Relationship Officer who identified the specific needs for banking products of each corporate account customer, while conducting on-going

		financial evaluation and analysis.
	Experience	• Research Specialist on growth, poverty reduction, and unemployment • Economics - Trade & Investment Specialist • Trade Projects Coordinator (LLM / MCOM / Trade Moot) • Financial and Econometric Modelling • Panel econometrics Technique Modelling (SIC 3 digit classification) • Quantitative and Qualitative Credit Analysis

3.1.4 Regiments Property: Key Personnel

Name	Umeiya Majam
Current position	Corporate Finance Specialist
Years of experience	15 years
Home office	Johannesburg
Professional qualifications	CA (SA) H Dip Tax Law
Language skills	English
Country experience	South Africa
Employment history	Umeiya brings a wide range of public and private sector experience to Regiments Capital. After obtaining her primary financial advisory education in Structured Finance at ABSA and Real Africa Durolink, she has been involved in various domestic and foreign debt and equity capital raising initiatives, merger and acquisition transactions and consulting assignments, primarily through Leverage Finance and Kurisa Finance. Highlights of her career include the restructuring of the property portfolio and divisions of Telkom SA, the corporatisation of the municipal-owned entities of City of Johannesburg, the cross-border merger and acquisition of Gateway Telecommunications across four countries, and the disposal of the non-core businesses of Transnet. Umeiya has also managed transfers of employees in respect of disposal transactions with Labour Unions, parliamentary and legislative amendment processes as well as inter-governmental business transfers.

Name	Phia van der Spuy
Current position	Property Specialist
Years of experience	15 years
Home office	Johannesburg
Professional qualifications	M Com (International and Local Taxation); CA(SA); B Com Hons (Industrial

		Psychology)
	Country experience	South Africa
	Employment history	Phia has experience in domestic and cross-border vanilla and structured property finance, encompassing the financing of existing property, as well as property developments in the commercial, industrial, retail and housing sectors. She also worked for a property developer as part of the implementation team and was responsible for the funding of its asset book, as well development feasibility studies of prospective development opportunities and actual developments undertaken. Her role also included asset management through the optimisation of assets, including reducing funding and operating costs and increasing income from tenants. She headed business development for a private equity housing fund.

3.1.5 Regiments Securities: Key Personnel

Name	Thabo Maseko
Current position	Head Fixed Income Sales Trader
Years of experience	12years
Home office	Johannesburg
Professional qualifications	➢ Bachelor of Commerce (Financial Management) (UP) ➢ ACI Institute Dealing Certificate ➢ JSE Traders Certificate ➢ Financial Engineering (UP) ➢ Junior Certificate IFM (SAFEX) ➢ Ordinary Certificate IFM (SAFEX) ➢ Addressing Corporate Needs With Treasury Instruments ➢ Credit Monitoring And Control (IBF*) ➢ Accounting For Treasury And Derivative Products (IBF*) ➢ Identifying And Managing Credit Risk In Derivatives (IBF*) ➢ Credit Monitoring And Control (IBF*) ➢ Introduction to Trade Financing (IBF*) ➢ Effective Relationship Management (IBF*) *IBF Institute of Finance and Banking (Singapore)
Language skills	➢ English, North Sotho, Zulu, Afrikaans
Country experience	South Africa, Singapore
Employment history	➢ Thabo Maseko started his career at African Merchant Bank of in 1999 as a graduate trainee. He spent his time at the bank trading foreign Exchange Spot, Forwards, Currency futures and Currency options on the Rand. ➢ Trainee at Deutsche Bank Singapore and Asia Pacific Head Office. Areas of training, Trade Finance, In-house Consulting, Capital Markets Sales, Corporate Banking sales and Private Banking. The other area was at the Monetary Authority of Singapore (IBF*). ➢ He then co-founded Sakhumnotho Group of Companies responsible for Investment Advisory Services to Corporate clients and internally for the group. His duties also included deal structuring, Capital Raising, Project evaluation and Valuations. ➢ He then moved to Maude Street Securities as Fixed Income Sales Trader for Institutional Sales. Ran a proprietary Trading book of Bonds and bond Options for the company as well. ➢ Later on Joined Legae Securities as both Fixed Income and Equities Sales Trader. Primarily developing trade Ideas, and Trade Forecasting and Research writing

		and distribution. ➢ He then also ran a co-founded a corporate advisory and business planning consultancy firm. Leruo Corporate Consulting. Was responsible also for Capital Raising for small businesses and NGOs.
	Experience	➢ Interest rate derivatives sales and structuring ➢ Forex Trading ➢ Technical Analysis ➢ Corporate Finance ➢ Capital Raising

3.1.6 Regiments Capital Principal Investments: Key Personnel

Name	Jonathan Loeb
Current position	Senior Corporate Financier
Years of experience	5 years
Home office	Johannesburg
Professional qualifications	➢ ACMA (Chartered Institute of Management Accountants, UK) ➢ B Com Honours (Finance)
Country experience	South Africa
Employment history	➢ Jonathan is currently a key member of the corporate finance team at Regiments Capital. He is responsible for the analysis, structuring (financial and tax) and implementation of deals both within the group and for clients. ➢ Prior to joining Regiments, he spent two years as the CFO of a small renewable energy business focused on the conversion of waste gases into electricity. His key responsibilities included capital raising, accounting, budgeting, etc. ➢ After his studies, Jonathan worked within the Strategic Finance division of Deloitte Consulting. He worked as an analyst on projects for some of the world's largest mining/resource companies.
Experience	➢ Finance ➢ Capital Raising / Project Finance ➢ Private Equity ➢ Mining/Resources ➢ Renewable Energy

3.1.7 Regiments Capital: Key Operations personnel

Name	Kyansambo Vundla
Current position	Chief Financial Officer
Years of experience	12 years
Home office	Johannesburg
Professional qualifications	➢ CA (SA) ➢ BCom Accounting - Rhodes University (2001) – Earned with distinction ▪ Awarded the Rhodes Honours Scholarship for distinguished achievement in undergraduate studies and ▪ Norman Harris Prize for the top taxation student in the Commerce faculty
Language skills	➢ English, French, Zulu
Country experience	10 Yrs (South Africa) and 2 yrs (United Kingdom)
Employment history	➢ Kyansambo competed her period of articles with BDO Spencer Steward (JHB), during which time she attained her CA (SA) designation. ➢ Then moved to London and worked on the Arbitrage desk as a Product Controller for Credit Suisse First Boston. ➢ Consulting for various Investment firms upon her return and spending a brief time at Teba Bank as a Business Performance Analyst, she then moved to Momentum Group Limited and served as CFO for the Employee Benefits Division for over 3 years before joining Regiments Capital.
Experience	➢ Financial Markets, ➢ Pension Funds Insurance, ➢ Enterprise Risk Management, ➢ Financial Management, and ➢ Management Consulting.
Other responsibilities	➢ Served as an Audit committee member for the Bonitas Medical Aid Fund, ➢ Currently a Non-executive director for the Altx listed Workforce Limited.

Name	Reyana Sallie
Current position	Group Legal and Compliance Officer
Years of experience	10 years
Home office	Johannesburg
Qualifications	• Bachelor of Arts (1991) • Bachelor or Laws (1994) • Certificate in Compliance Management (2001) • Advanced Diploma in Banking (2002) • Advanced Company Law (2012)
Language skills	English, Afrikaans
Country experience	South Africa, Middle East
Employment history	• **Regiments Capital** (2011-Present). Reyana was appointed as group legal and compliance officer. • Reyana has been employed in a legal and/or compliance capacity for the last 10 years at a number of reputable international banks including **UBS** (2003-2005), **Barclays Capital** (2005-2006), **ABN AMRO Bank** (2006-2008) and at **Deutsche Bank** (2008-2010) in the Dubai International Financial Centre.
Experience	• Legal and Compliance • Investment Banking

3.2 Regiments Healthcare: Risk Monitor Group and M-Care

Name	Izak J v H Fourie
Gender	Male
Ethnicity	Caucasian
M-Care role	Executive Committee Member: Chairman
Education	• MBChB. Stellenbosch University (1974) • Med (Urology) (cum laude). University of the Orange Free State (1981) • MBA. Graduate School of Business Administration, University of the Witwatersrand (Wits) (1991) • Post Graduate Diploma in Health Management: Economics and Financial Planning (cum laude). University of Cape Town (1995)
Healthcare experience (professional history)	• Urologist in private practice in Durban and Johannesburg (1981 – 1988) • Medical Advisor to the Lesotho Highlands Water Project (1989 – 1992) • Medical Advisor to the Chamber of Mines of South Africa. Responsible for the co-ordination, policy formulation and strategic planning of all healthcare related issues in the mining industry (1990 – 1996) • Extraordinary Professor, Department of Actuarial and Insurance Science, University of Pretoria (1995 – 2003) • Started own healthcare consulting company from which the Risk Monitor Group has evolved (1996 – present)
Additional positions held	• Board Member of the South African Institute for Medical Research (1991 – 1995) • Director of the Rand Mutual Assurance Company Ltd and the Rand Mutual Assurance Life Company Ltd (1994 – 1996) • Member of the Compensation Board (Tripartite advisory body to the Compensation Commissioner and Minister of Labour) (1994 – 1997) • Consultant to the Department of Transport on the Medical Aspects of the proposed new Road Accident Fund Act (1996 – 1999)

Name	Ferdi Preller
Gender	Male
Ethnicity	Caucasian
M-Care role	CEO M-Care ManCo
Education	Accounting, North West University
Professional history	• Lecturer, North West University • Strategic consultant to the petroleum industry
Healthcare experience	• Founder of M-Care • Instrumentally involved in the running of sub-acute facilities over the last 15 years • Founder of iSomi Management Services – provider of administrative services to medical practices • Steering committee member of Board of Healthcare Funders – assisted the BHF in developing standards and criteria for the sub-acute sector • More than 25 years experience in healthcare economics

Name	Sonja Krause
Gender	Female
Ethnicity	Caucasian
M-Care role	Executive Committee Member : Facility Roll-out Project Manager
Education	Bachelor of Business Science (Honours in Marketing, cum laude) – University of Cape Town (2004)
Professional history	TNS Customer Equity Company (2006-2008): Research Executive – Worked as a market researcher, with specific focus on a global brand equity measurement tool – managed projects, compiled reports, provided technical advice and conducted training

		Burlington Consultants (2008-present): Consultant – Worked as a consultant on strategic advisory and implementation projects. Core skills developed include research, analytical skills, communication skills, client relationship management, strategy development, project planning and management
	Healthcare experience	Two extensive projects for two healthcare NGOs focused on: • Business plan development • Strategic planning • Operational reviews, including development of organisational structures, processes and associated roles and responsibilities • Implementation planning Strategy development and project planning for the M-Care rollout

3.3 Burlington Management Consultants: Key Personnel

Name	James Smith
Date of birth	15 April 1975
Gender	Male
Ethnicity	White
Current position	Director
Education	• Bachelor of Science Engineering (Chemical) (cum laude) – Wits University (1996)
Professional experience	**Burlington Strategy Advisors (2004 –current):** Partner and founding Director of Burlington Strategy Advisors (Pty) Ltd **Bain and Company (1998 – 2003):** Consultant with Bain and Company, a leading global strategy house, in their Johannesburg and London offices **Palabora Mining Company (1996 – 1998):** Process engineer and production manager for smelter and refinery operations on the Palabora copper mining operations
Summary of relevant experience	• 12 years consulting to CEOs and MDs of small, medium and large organisations • 1 year of running own small retail business • 9 years of training, coaching and mentoring experience
Sector experience	• Agriculture, financial services, government, information technology, manufacturing, non-governmental organisations, resources, retail and wholesale, general services, telecommunications, transportation, FMCG

Name	Andrew Titterton
Date of birth	3 September 1971
Gender	Male
Ethnicity	White
Current position	Director
Education	• Bachelor of Science Engineering (Chemical) (cum Laude) – University of Cape Town
Professional experience	**Burlington Strategy Advisors (2007 –2009):** Company Director **Northroad Consulting (2003 – 2007):** Company founding partner. Responsible for operations and sales within the consulting environment. **Bain and Company (1997 – 2003):** Progressed from Associate Consultant to Manager at international strategy consultancy. **Anglo American (1994 – 1997):** Technical assistant to Managing Director of Anglo American Research Laboratories.
Summary of relevant experience	• 14 years consulting to CEOs and MDs of medium and large organisations • 11 years of training, coaching and mentoring experience
Sector experience	• Agriculture, financial services, FMCG, government, information technology, manufacturing, non-governmental organisations, resources, retail and wholesale, general services, telecommunications, transportation, utilities

November 11, 2017 – Statement of David Robert Fine

ANNEXURE B: NIVEN PILLAY ALLEGATIONS IN JULY 2014

McKinsey&Company

August 7, 2014

BY EMAIL

Attn: Eric Wood
Regiments Capital (Pty) Ltd
91 Central St
Johannesburg 2198, South Africa

Dear Mr. Wood;

In light of recent attention related to Niven Pillay and Regiments Capital and its affiliated and associated entities (collectively, "Regiments") related to Mr. Pillay's relationship with Brian Hlongwa, we provide this letter to reconfirm your statements regarding the matter and to provide additional terms with regard to Regiments' relationships with McKinsey Incorporated and affiliated entities (collectively, "McKinsey").

In an email to Norbert Dorr and Vikas Sagar dated July 28, 2014, you stated the following and hereby reconfirm that to the best of your knowledge:

- Niven Pillay and Brian Hlongwa are personal friends, and this friendship predates the establishment of Regiments Group (Regiments has been going for 10 years). This friendship was established when Mr. Pillay was non-executive chairman of City Power and Mr. Hlongwa was an MMC for the City of Johannesburg.

- Messrs. Pillay and Hlongwa have together invested in a number of residential property developments (including a Hyde Park residential development, and the Singaraja-Benmore development). As we understand some of these investments made money (Hyde Park), but others lost money (Singaraja).

- Any monies paid by Mr. Pillay to Mr. Hlongwa relate solely to these investments and are entirely unrelated to Regiments Group (including Regiments Healthcare).

- Regiments Healthcare was established by Regiments Capital to make proprietary investments in, and perform advisory work for, the South African healthcare sector, both public and private. At the time mentioned in the articles, the CEO of Regiments Healthcare was Dr. Shane Dorfman (a medical doctor with an MBA).

- Regiments Healthcare was appointed by 3P Consulting to examine the feasibility and economic viability of the Pholateng PPP's in the Gauteng Public Hospitals, a small piece of consulting for which Regiments Healthcare was paid R3.2m. A portion of the required work was sub-contracted to KPMG by Regiments Healthcare. In consideration of this consulting work, Regiments submitted a detailed assessment of the Pholateng PPP's to 3P Consulting, and a copy of this detailed report has been submitted to the Special

We hope the above provisions will allow us to continue our relationship with Regiments and provide services to our Clients. If you have further questions, please contact our Associate General Counsel Melissa Milstead at 202-662-3153 or Melissa_Milstead@McKinsey.com.

Regards,

Virginia Molino

Virginia Molino
General Counsel

Agreed to this ___ day of August, 2014
Regiments Capital (Pty) Ltd
By:

____
By: Eric Wood
Title: Executive Director

REGIMENTS CAPITAL

BY EMAIL

Ms V Molino
General Counsel
McKinsey and Company
1200, 19th Street, Northwest
Washington
United States

22 August 2014

Dear Ms Molino

REGIMENTS CAPITAL (PTY) LTD / ASSURANCE LETTER

1. I refer to your letter dated 7 August 2014 and wish to advise that we have now had an opportunity to consider the contents a request made to agree to certain trms. Despite your deadline, thank you for the indulgence of further time extended.

2. We are mindful of the concerns expressed and wish to reassure you of our commitment to maintain and enhance our working relationship

3. The allegations in the media have no doubt created an impression of improper conduct on the part of Niven Pillay ("Niven"), an executive director of Regiments Capital (Pty) Ltd ("**Regiments**") and the Regiments Group. It has equally cast negative aspersions on Regiments.

4. Our law, like that in the United States has a presumption of innocence until proven guilty. Whilst these press allegations have cast aspersions, please be mindful of the fact that these articles had been prepared on information selectively obtained. Attempts by both Regiments as well as Niven to engage directly with the law enforcement authorities are ongoing to address the allegations.

5. Whilst you may not be aware, Regiments has over the last decade worked tirelessly in order to build its business brand and reputation. The press reports are therefore of huge concern to us as a business and to Niven, one of its founding members.

6. Before dealing with your request that we agree to certain terms, I feel that it is necessary to share with you certain information so that you are also aware of the steps being taken by Regiments and Niven.

7. Having conducted an initial internal investigation, both parties remain of the view that the allegations in the press are baseless and ill-conceived. However, to ensure that these allegations are objectively and independently considered, Regiments is in the process of appointing a legal firm and a forensic investigation firm to independently conduct a review in respect of the allegations and advise the Regiments Board accordingly. Such investigation will take into consideration the press reports as well as the Court papers involving the Special Investigations Unit's investigation. This investigation is to commence shortly and we anticipate that it will take 2 – 3 weeks for completion.

8. We further wish to advise that independent of steps being taken by Regiments, that Niven is also seeking independent counsel in order to take steps to exonerate his name and standing which has been impaired as a consequence of the press reporting.

9. In relation to my email exchange with Norbert Dorr and Vikas Sagar dated 28 July 2014 the contents set out therein are self-explanatory and I reconfirm the contents to the extent that your bullet points (1 to 7 on pages 1 and 2) in your abovementioned letter accurately records this.

Yours faithfully

Mr Eric Wood
Executive Director

November 11, 2017 – Statement of David Robert Fine

ANNEXURE C: LETTER TO TRANSNET ON TERMINATION OF RELATIONSHIP WITH REGIMENTS

McKinsey&Company

Mr Garry Pita
Group Chief Financial Officer
Transnet SOC Ltd.
Carlton Centre
150 Commissioner Street
Johannesburg
2001

23 February 2016

Dear Garry,

Thank you for our meeting this week and the opportunity to reflect on the progress of our partnership with Transnet. We value our relationship with Transnet who we see as a critical enabler of the South African economy and its success will enable economic growth and improve competitiveness of South African companies. Our Partner group is committed to and passionate about this relationship. We believe we have had impact in supporting Transnet through its growth phase and now through a perfect storm of external macroeconomic factors.

We also took this opportunity to share some of our concerns around our relationship with the contracted Supplier Development partner, Regiments Capital.

Since our discussion, our Partner group has resolved to end the current relationship with Regiments Capital as soon as possible and to put greater effort into ensuring that our improved diligence process for SD partners, including Trillian Capital Partners is fully adhered to. This is informed by a number of factors including, concerns around underperformance by Regiments Capital and elements of our risk management policy.

Our risk management policy designed to maintain our hard earned reputation which we believe our clients also value. This policy takes a very conservative approach to working with persons that are politically exposed or potentially politically exposed. The recent media articles concerning Mr. Mahommed Bobat, who was, until very recently employed by Regiments Capital, were a trigger for an internal review led by our global risk and legal teams. The review underscored the risk in the current situation involving Regiments Capital and Mr. Bobat as a potentially politically exposed person as too high and resulted in the decision to end the relationship. The fact that this was the second situation in which the issue of reputational risk has arisen was a contributing factor. The previous incident involved the allegations against Mr. Niven Pillay; which resulted in him not being allowed to work on any assignments involving McKinsey.

McKinsey and Company Africa Proprietary Limited
Sandown Mews East 88 Stella Street Sandown Sandton 2196 PO Box 652767 Benmore 2010 South Africa

Incorporated and Registered in South Africa No 2013/03125/07
Directors: LJH Arwidi (Swedish) S Wu P Pabhoo VN Magwentshu T Legoete (independent)

DH,

Our risk management practices have evolved significantly in line with the accelerating changes in best-practice risk management. As part of this, our diligence processes for partnering and sub-contracting in general have been tightened to ensure, amongst others, that we are fully apprised of the composition of our partners including with respect to:

- Shareholding of holding companies
- Ultimate beneficial shareholders
- Related parties and group companies (e.g., significant lenders)
- Executive management team and other "key man" dependencies for both the company and group companies

This is to provide assurance that, among other things, we do not have exposure to politically exposed persons.

In the case of supplier development relationships in South Africa, we are required to ensure that partner/sub-contractor meets three additional criteria:

- Majority Black ownership
- Majority Black management and staff or a clear and committed plan to deliver this outcome
- Capability and capacity to execute work and deliver benefits that are commensurate with the share of fees earned

We have been informed that Regiments Capital's management advisory business is transitioning ownership to Trillian Capital Partners. They will be subject to the ownership composition, management and staff composition and capability criteria above. We are not able to commence a relationship with Trillian, or any other partner/sub-contractor until these criteria have been met and approved by our global risk and legal teams.

We have met Mr. Eric Wood to discuss Regiment Capital's underperformance in the ongoing GFB and cost optimization project and our broader concerns on the scale and pace of transformation at Regiments. Specifically:

- The resourcing supplied by Regiments for the delivery of the GFB and cost optimization was well below the numbers contracted for the fee split agreed. In many instances the resources staffed on Regiments' teams were unsuitable to deliver the work. We have shared the feedback on number and quality of resources and their performance on an ongoing basis with Regiments. In addition, we have submitted an invoice of R19m, with detailed backup, to Regiments to compensate McKinsey for the additional resources we have had to deploy to fill the gaps created by under-resourcing. We have done this to ensure Transnet's success took precedence over contractual concerns
- Transformation expected at a management and technical level has not occurred at the rate that we believe is possible at Regiments. We believe this is an important obligation for a SD partner to meet

We, however, remain committed to supplier development and have worked hard to meet our SD commitments to Transnet in letter and spirit. There are numerous examples, including with Regiments, where we have been successful in building new capabilities e.g., coal line. Our experience and knowledge for creating high-quality supplier development is available to Transnet to ensure achievement of its SD objectives. Given the pace of scale of Transnet's SD objectives, you may wish to reflect on whether one SD partner alone is sufficient to deliver the desired impact. The evidence in the GFB optimization project, which required a significant and fast scale-up of resources, would argue for multiple partners. In addition to being urgent, the SD partner transition on the GFB also presents an opportunity to reassess the SD approach. We would welcome the opportunity to be a thought-partner with you on this.

Once again, we are deeply committed to the long-term success of Transnet. We look forward to the opportunity to discuss this further and its implications on current contractual commitments.

Yours sincerely

David Fine
Director

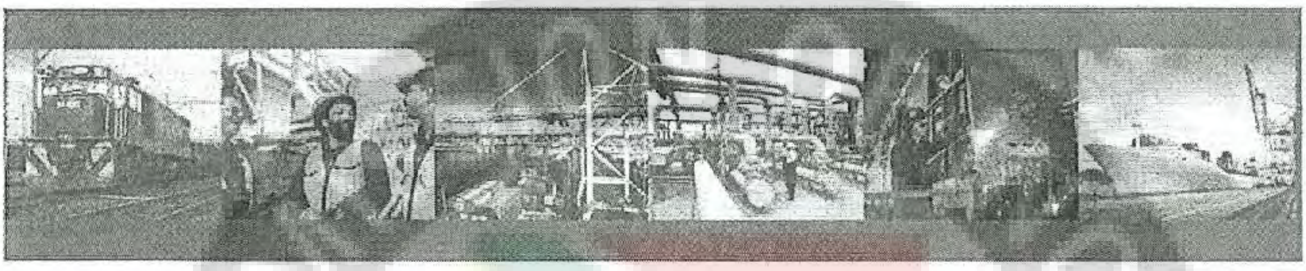
Vikas Sagar
Director

cc: Mr. Siyabonga Gama, Acting Group Chief Executive, Transnet SOC

November 11, 2017 – Statement of David Robert Fine

ANNEXURE D: 1064 LOCOMOTIVES: BUSINESS CASE RECOMMENDATIONS, LETTER OF WITHDRAWAL, RELEVENT PRESS ARTICLES

Procurement of 1064 Locomotives for the General Freight Business



Date of Submission to Board	18th April, 2013
Addressed To	Board of Directors
Title of Submission	Procurement of 1064 Locomotives for the General Freight Business
Date of Review	25th April, 2013

Contents

A. PURPOSE

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

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

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

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

[1] Proportional to MDS-related job creation of 288,000

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 CO_2 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 refuelling and other basic services).

Conclusion

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

Recommendation

Transnet recommends to the Board of Directors for approval:

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

Signed by:

Brian Molefe	Siyabonga Gama	Anoj Singh
Group Chief Executive	TFR Chief Executive	Group Chief Financial Officer

Johannesburg, 25th 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.

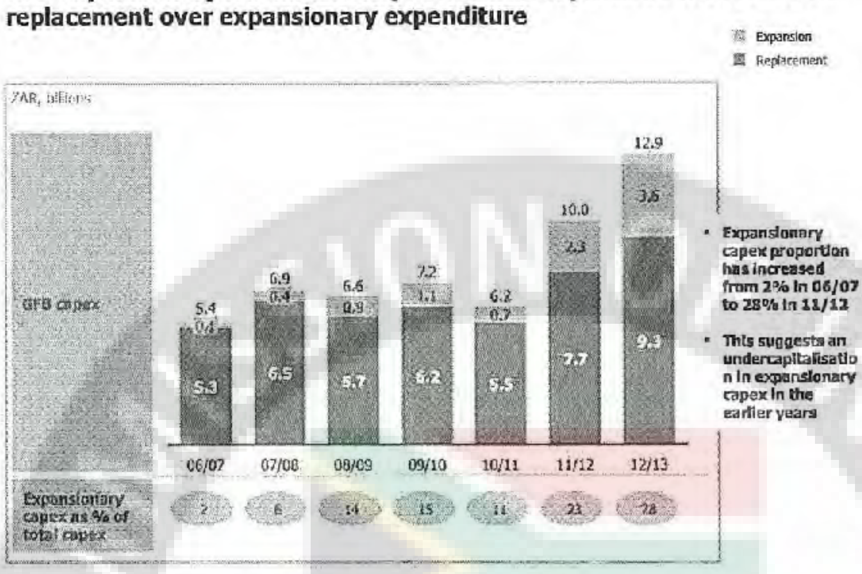
The MDS is informed by future planned investments that generate rail-friendly traffic and target rail-friendly traffic currently on the road. As part of this strategy, TFR has committed to grow its volumes by 142 million tonnes to 350 million tonnes by 2018/19. Over 60 percent of this growth is expected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

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

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

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

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.

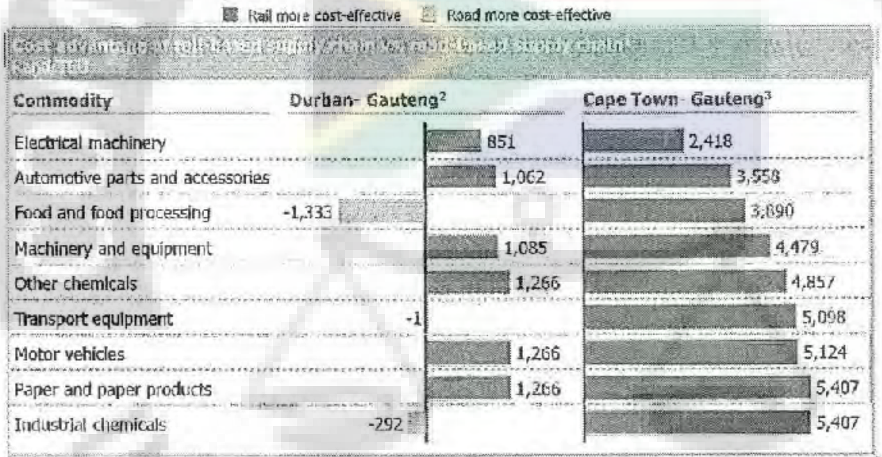
- Haulage by road damages road infrastructure, requiring a significant investment to repair the roads.

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



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, MDS; 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	17.66	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 – Tutuka	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 fuelling 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
Mineral, mining and chrome	• Pricing aimed at market penetration	• Magnetite (Export Maputo)	2.4	• Demand from China driven by steel production
		• NMC - Other	9.6	• Gold ore and other minerals enjoy healthy demand
Intermodal	• Containerise mineral products • Develop Freight hubs in key areas	• Coal (Eskom – Camden)	2.6	• 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 liquid	• 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

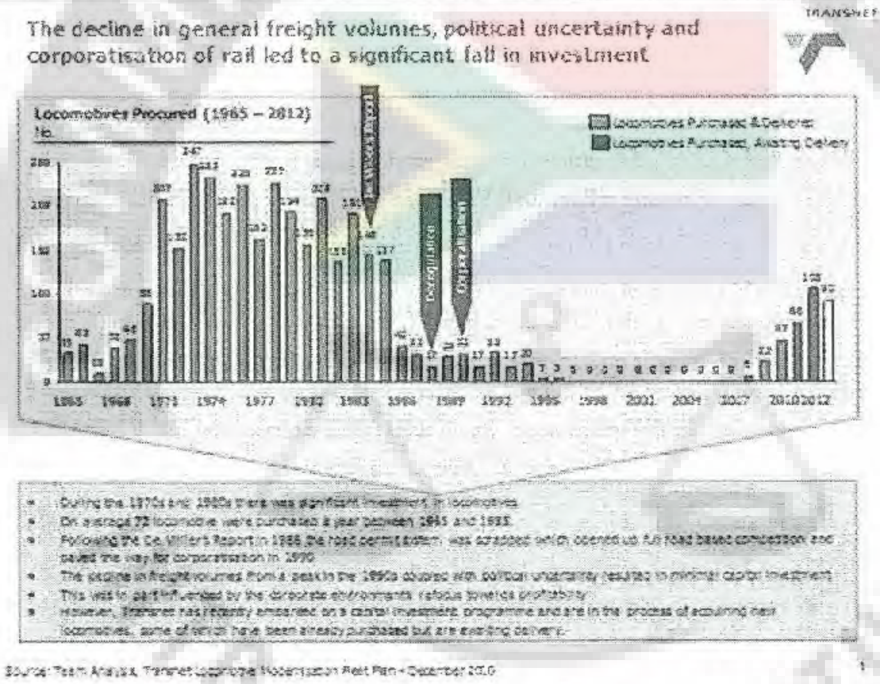
Overview

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



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.

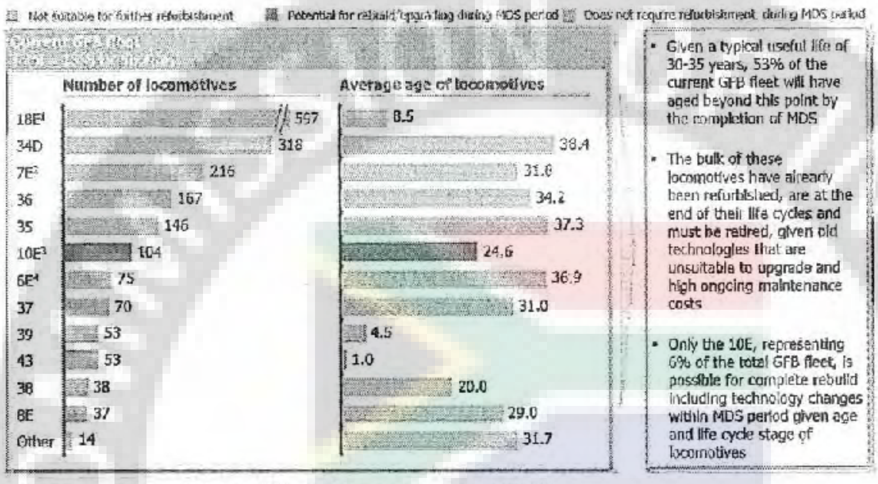
Life extension programmes normally range from 10 to 15 years. Beyond the 15-year period the technology becomes outdated. Although refurbishment options may seem cost-effective on the surface, as the life of a locomotive is extended, failures increase. As locomotives age, maintenance becomes increasingly 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

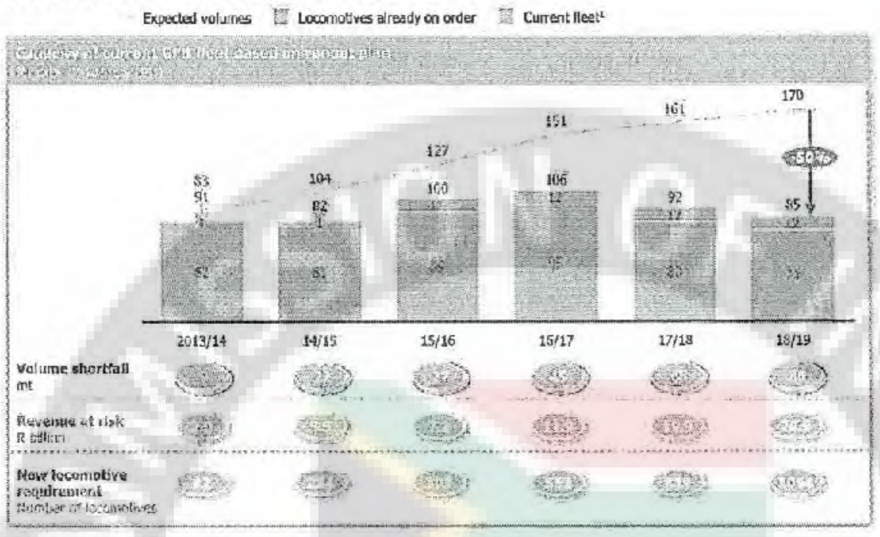


1 18Es show "young age" however are an upgraded version of 6E, which was purchased in the 1970s
2 Includes 7E, 7E1, 7E2, and 7E3
3 10E is included in fleet plan estimate
4 Includes 6E, 6E1

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.

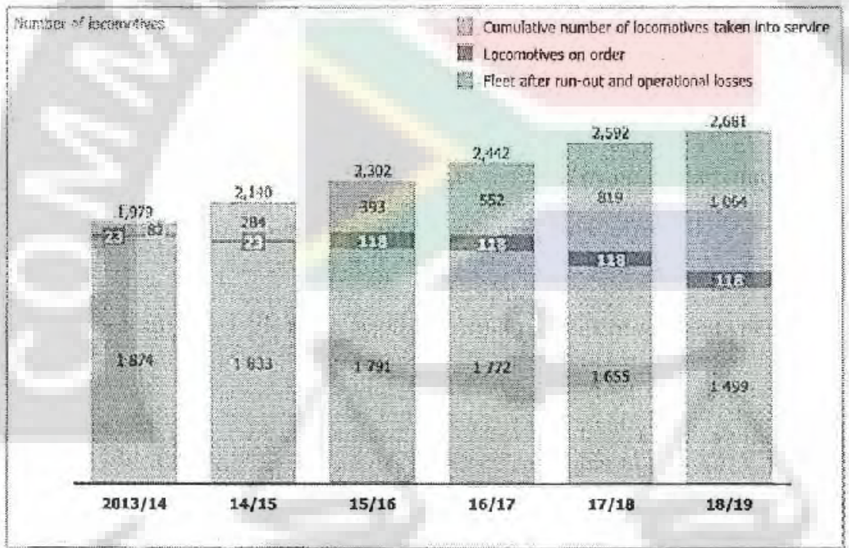
- Standardise the fleet to resolve both operational and maintenance difficulties – such as training drivers, planning route designs, and maintaining locomotives – that arise with a diverse fleet of multiple locomotive types.
- Capture improved operational efficiencies provided by new generation locomotives.

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

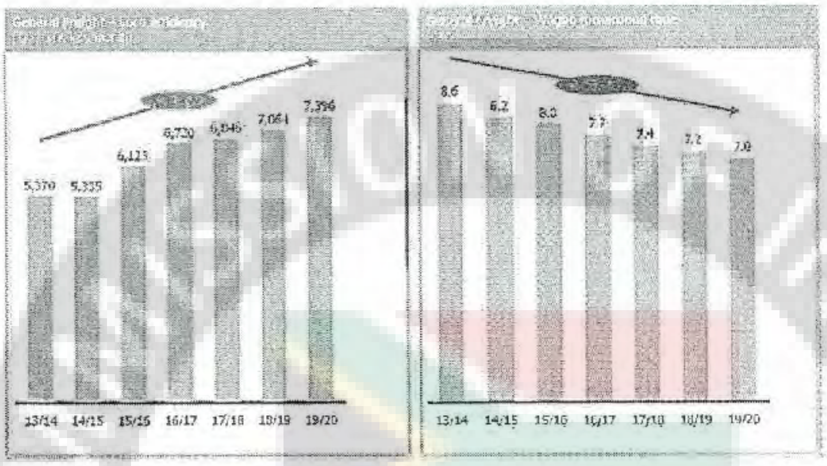


New locomotive procurement is a catalyst to unlock this demand through standardisation which increases flexibility to deliver increased operational efficiencies. This will increase customer satisfaction and enable the shift from road to rail. For example, the exhibit below shows how locomotive efficiency 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 on three factors; firstly, an inherent improvement in utilisation of the current fleet; secondly, in greater tractive effort per locomotive of the proposed procurements; and thirdly, operational flexibility.

Volumes

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

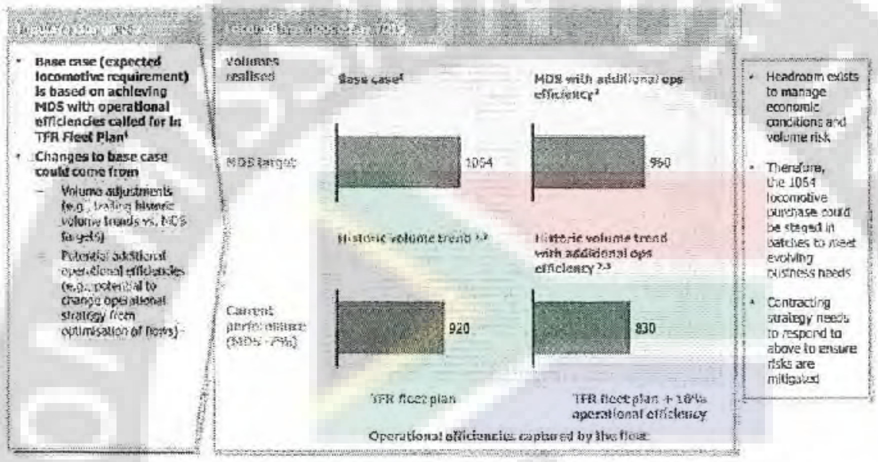
Operational efficiencies

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

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%

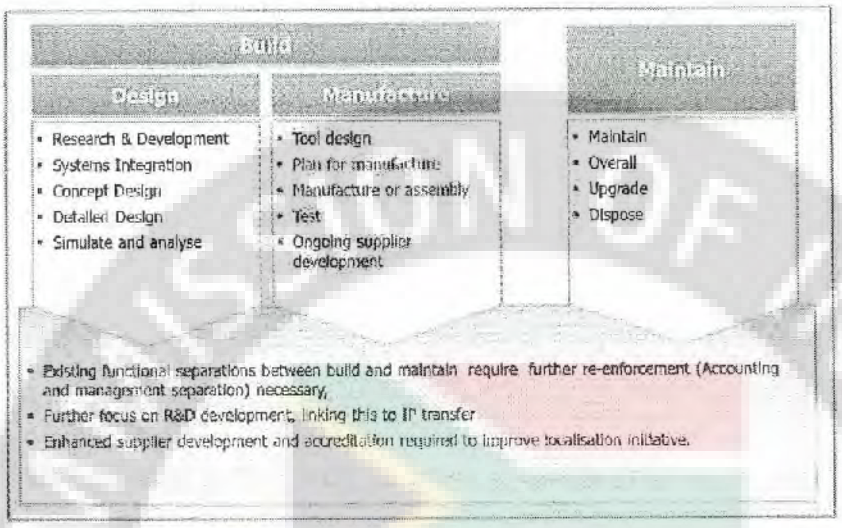
3.3 Role of Transnet Engineering (TE)

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)

Base case assumptions

Fleet strategy	• Increased operational efficiencies from new locomotives called for in TFR Fleet Plan will be achieved • Run-out optimised for current refurbishment state, by loco class
Volume	• Delivery on MDS targets, with volumes increasing from 91mt in 2013/14 to 170mt in 2018/19
Delivery schedule	• Delivery schedule called for in the diesel and electric RFPs can be met (e.g., calls for first 100 diesels in 2013/14 and first 65 electrics in 2014/15) • All 1064 locomotives procured by 2019
Forex	• Current forward ZAR/USD exchange rates at average of 11.0 over the acquisition period
Price	• USD 2.6 million/R25.2 million per diesel and USD3.5 million / R33.9 million per electric, assuming 50% localisation and a 2% localisation premium. RSA component escalated with inflation. USD component escalated at US inflation and converted back to ZAR based on forward exchange rate
Tariffs	• Tariffs as per MDS commitments (escalation ~7% per year from 0.42 R/tonKm in 2013/14 to 0.58 R/tonKm in 2018/19)

Capex: R38.6bn aligned to corporate plan[1]

NPV: R2.7bn[2]

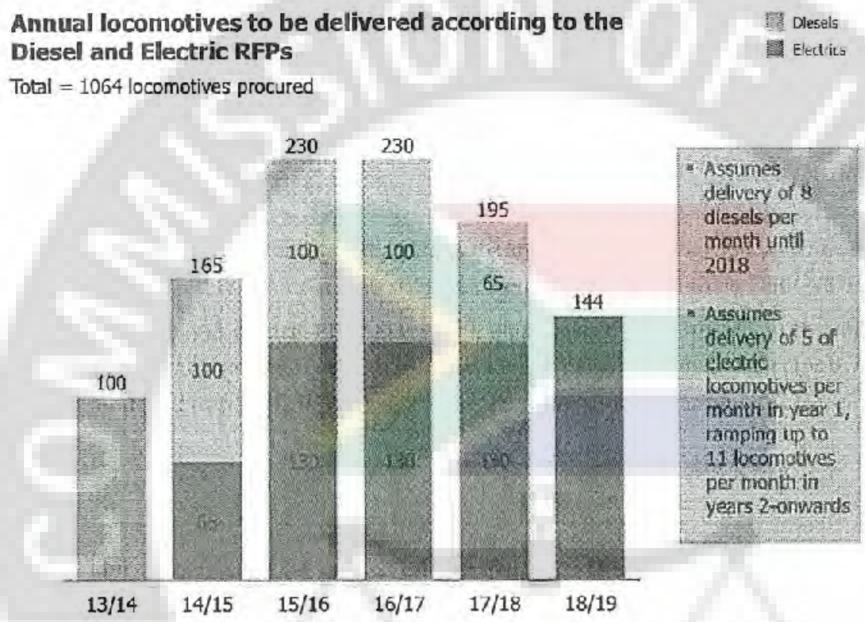
1 Escalated capex for the acquisition of 1064 locomotives in 2013/14 - 2018/19
2 Calculated using hurdle rate of 18.56%; NPV would be R34.1bn if TFR's WACC of 12.56% is used

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



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 GFB at 2013/14			
Fleet type	Number of locos	GTKm per loco	Cumulative GTKM
6E	75	33	2 507
7E	58	130	7 520
7E1	48	107	5 137
7E2	45	94	4 217
7E3	65	98	6 351
8E	37	1	19
10E	104	133	13 795
14E	8	41	330
18E	597	57	34 026
33D	5	8	38
34D	318	24	7 689
35D	146	7	1 006
36D	167	1	244
37D	70	20	1 372
38D	38	22	827
39D	53	54	2 852
43D	55	80	4 395
Total	**1 889**	**49**	**92 324**

Volume capacity was calculated and split across three different categories:

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

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

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	161	170
Existing fleet	83	82	100	106	92	85
1064 locomotives	1	7	21	41	60	77
Volume shortfall	7	15	6	4	9	8

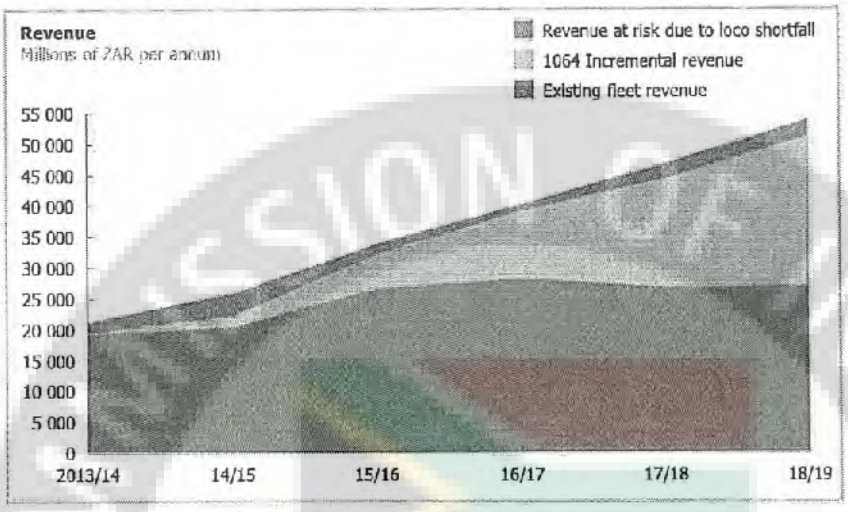
As per the exhibit below, putting volumes and tariffs together yields a view of revenues – MDS targets, revenues allocated to the existing fleet, revenues derived from the new locomotives, and potential shortfalls.

EXHIBIT 18

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

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:

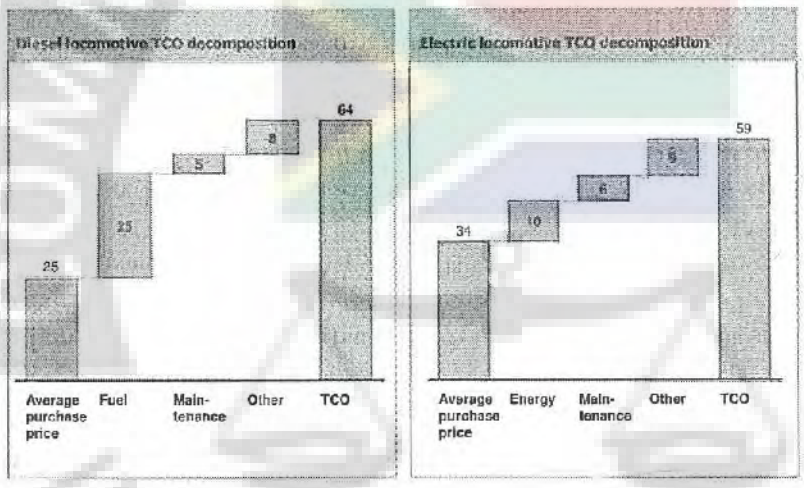
- **Purchase price.** As mentioned above, the purchase price is assumed to be R25 million (US $2.6 million) for a diesel locomotive and R34 million (US $3.5 million) for an electric locomotive in 2013/14. The purchase price of both diesel and electric locomotives assumes a conservative 50 percent localisation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

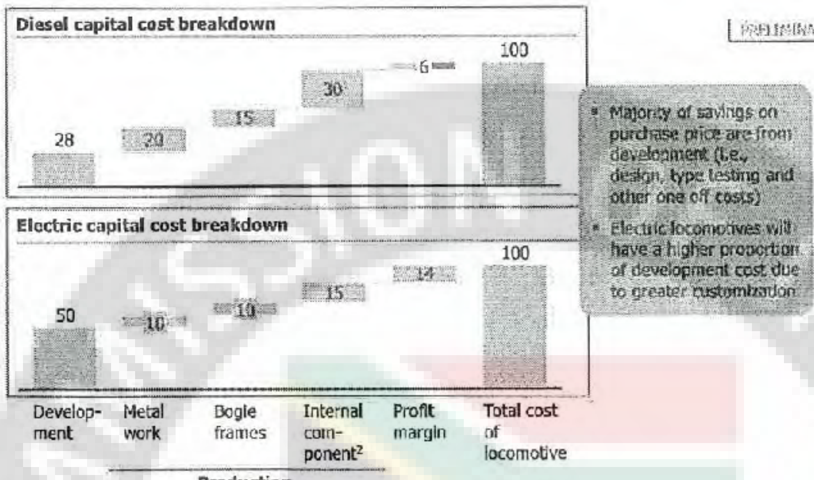


SOURCE: Transnet 1064 Loco Business Case, Expert interviews

EXHIBIT 21

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

PRELIMINARY

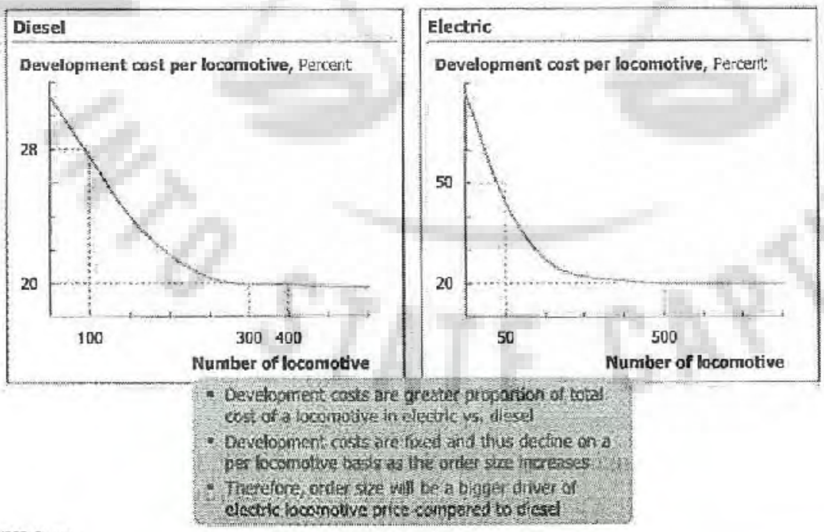


1 Based on standard locomotivemotives with an order of 100 locomotives delivered
2 Traction motor, wiring, alternator, control system, etc.

EXHIBIT 22

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

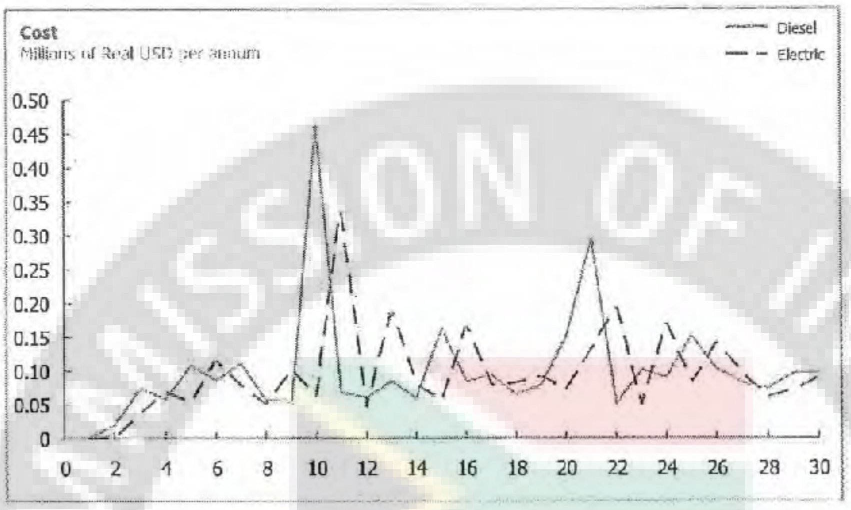
PRELIMINARY



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

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

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

4.4 Breakeven points for NPV: volumes and tariffs

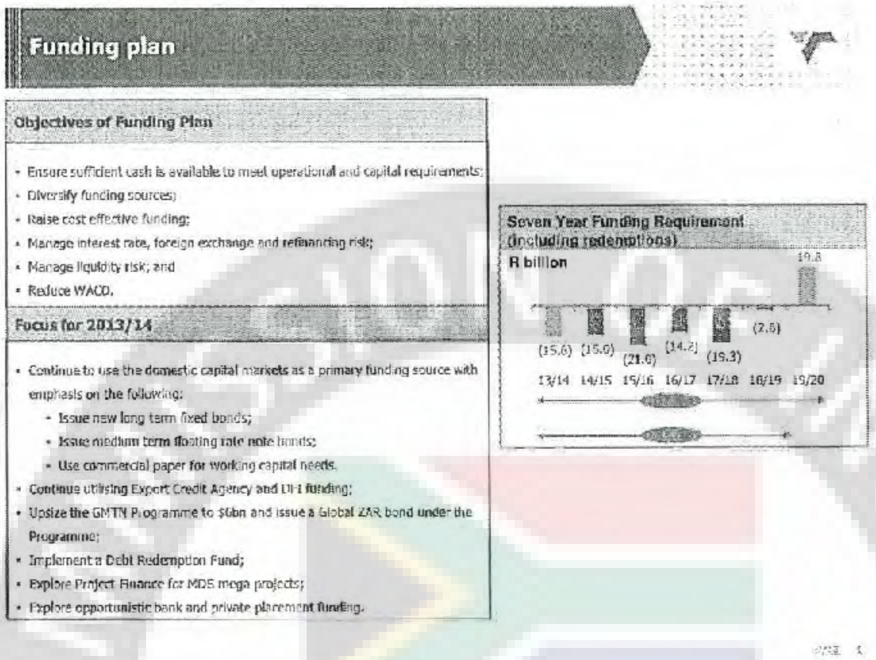
The business case proves to be neutral at the following volumes and tariffs:

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

5. Treasury Considerations

The acquisition of 1064 locomotives will cost R38.6 billion and has been included in the overall MDS funding amount of R86.5 billion over the next 6 years. Consequently, the funding options will include those in the borrowing plan as contained in the approved Transnet Corporate Plan 2013/2014. A mixture of cash generated by operations and external borrowing will be used to fund the acquisition. Two-thirds are assumed to be financed using cash generated by operations, and about R13 billion will need to 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

Potential funding sources

	Available facilities	Expected drawdowns 2013/14
Development Finance Institutions (DFI's)		
African Development Bank A loan	R1,7 billion	R1,7 billion
Export Credit Agency (ECAs)		
US Exim Tranche 2	R1,3 billion	R1,3 billion
Global Medium-term Note (GMTN)		
Available under the GMTN Programme[1] US$250 million	(R2 billion)	R2 billion
Domestic Medium-term Note (DMTN)		
Available under the DMTN Programme (Commercial Paper (CP) and Bonds)	±R22,5 billion	
• Available for bond issuance		R4,4 billion
• Available for CP issuance		R3,3 billion
Bank loans (Domestic banks)		R1,9 billion
DFIs/ECAs		R1,0 billion
Committed facilities available within 24 hour notice	R5,0 billion	
Total	R33,8 billion	R15,6 billion

1. The GMTN will be [illegible] to US$[illegible] billion in 2013/14, [illegible]

Transnet will further explore new funding solutions, investors and markets such as:
- Issuing bonds in other markets (Yen; US Dollar, Euro; Australian Dollar; Swiss Franc; Sukuk markets). The cost of the possible funding to be raised will be evaluated relative to Rand funding
- Issuing a Global ZAR Bond in the international debt capital markets;
- Project bonds and project finance;
- Extending the duration of Transnet's existing domestic bonds, as well as the issuance of new types of bonds for purposes of building Transnet's yield curve; and
- Expand Development Finance Institution (DFIs) and Export Credit Agency (ECA) financing, thereby further diversifying Transnet's funding sources

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

2

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 the magnitude of this transaction will add pressure to the availability of hedging lines for future MDS requirements.

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

EXHIBIT 28

Spot	1 Year	2 Year	3 Year	4 Year	5 Year	6 year	7 year
$R9.13	$R9.59	$R10.04	$R10.52	$R11.00	$R11.48	$R11.98	$R12.55

Impact of localisation

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

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.

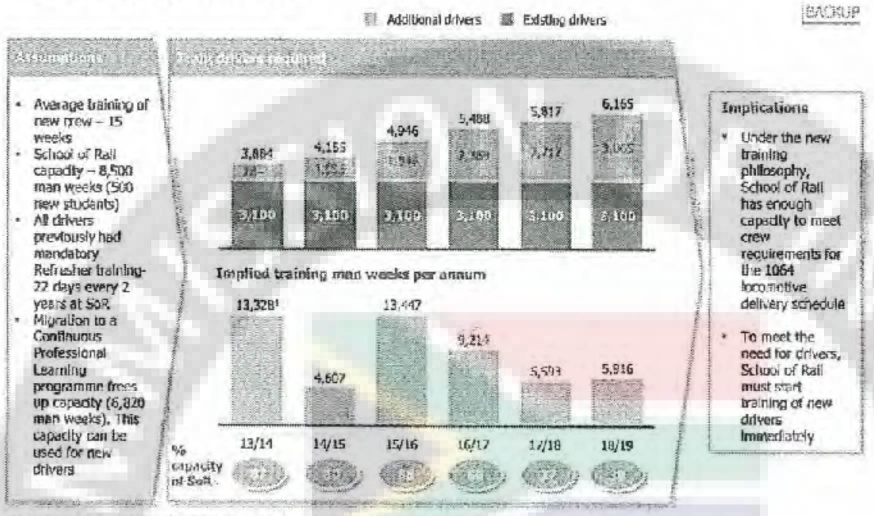
According to TFR's 7-Year Man Plan (see Section E10)2012 figures, TFR has a driver shortfall of 529. It is also estimated that over the life of MDS, TFR will require an additional 3 065 drivers from current levels. However, TFR only has capacity to train on average 500 drivers per year and, at its peak 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	11	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: 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 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 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 Roolkop-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)

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 an 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.

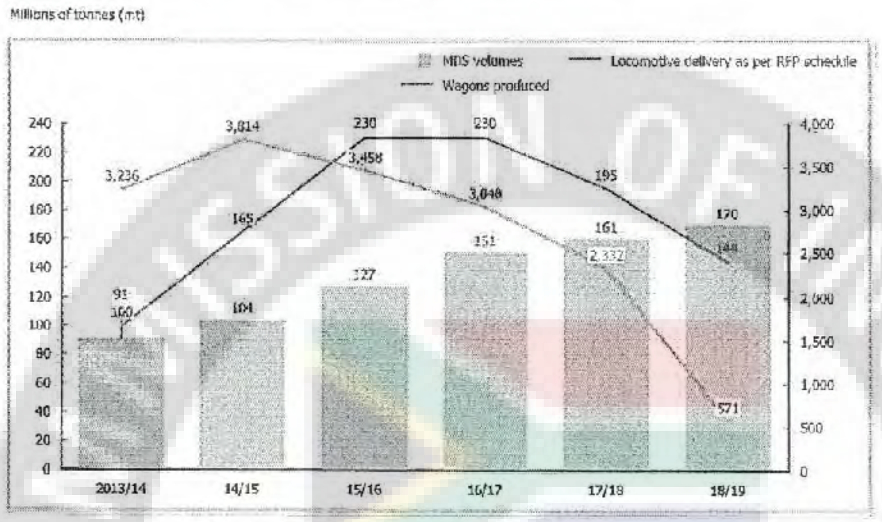
The MDS predicates growth over a number of flows and which extend over a number of operating areas where locomotives are changed because of traction changes dictated by the rail network infrastructure. Wagons are tightly linked to the commodities they transport while locomotives relate to the mass but 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		I	• Specialized procurement and planning team • Conservative payment regimes to incentivize delivery • Optimize number of OEMs for planning required and benefit realized
Market		I	• 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		I	• Hedge all foreseeable foreign currency-based expenditure as per Transnet policy
Operational readiness	Skills	II	• Develop people infrastructure plan • Upgrade training modules in line with new locomotives • Include maintenance staff training in supplier contract
	Maintenance	II	• Implementation of 7 year maintenance plan • Increase capacity by increasing production lines and shifts • Regular review of build programme that aligns TRE factories
	Infrastructure	III	• Develop infrastructure expansion business plan • Implement infrastructure maintenance plan
	Technology	V	• The IATS[1] technologies as part of the new locomotives specifications • School of Rail to provide appropriate IATS training
Transaction governance		II	• Minimize size of working team and minimize dissemination information where possible while enforcing strictest confidentiality • Enforce protocol on document sharing and data rooms
Legal		I	• Ensure transparent procurement process with accountability • Contract with multiple OEMs
Exogenous		II	• 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.

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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.

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[7] Bulk of payment made on delivery and acceptance.

EXHIBIT 35

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

Greatest impact on NPV

	Sensitivities			Impact		
	Base case	Sensitivity 1	Sensitivity 2	Base case	Sensitivity 1	Sensitivity 2
Delivery schedule	• 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 • 22-month electric production • ~120 diesels per year • ~125 electrics per year	• 6 months to complete procurement process • 10-month diesel production • 28-month electric production • ~120 diesels per year • ~125 electrics per year	• Volume impact: -43mt • Revenue impact: -R13.3bn • 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: -R43.1bn • NPV: R1.5bn • CIC: 3.6x to 3.0x (2014/15)
Volume	• 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)
Tariffs	• ~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 3.9x (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
[illegible]	• TFR Fleet Plan	• TFR fleet plan with 5% additional efficiencies	• TFR Fleet Plan with 10% additional efficiencies	• NPV: R2.7bn	• NPV: R5.2bn	• NPV: R7.6bn
[illegible]	• Hedging at current forward rate	• 10% devaluation of ZAR vs. USD	• 10% appreciation of ZAR vs. USD	• NPV: R2.7bn	• NPV: R0.3bn	• NPV: R5.2bn
[illegible]	• USD2.6m (diesel), USD3.5m (electric) before escalation	• Price increase by 10% over base case	• Price decrease by 10% from base case	• NPV: R2.7bn	• NPV: R1.2bn	• NPV: R4.3bn
[illegible]	• 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	• NPV: R6.3bn

7.5 Transaction governance risk

For a transaction such as this, confidentiality is of the utmost importance to maintain the integrity of the procurement process and prevent unwanted media interest. Failure to uphold strict confidentiality may result in procurement delays or even compromise the entire transaction. This risk 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 Enterprise (DPE)
- Appointment of working team members and accountabilities.
- Understanding operational requirements and alignment to business case
- Recommending a procurement strategy, including goals related to environmental issues, supplier development and localisation.
- Understanding and recommending strategies to address all legal ramifications of the locomotive procurement process.
- Ensuring procurement process transparency.

8.2 High-Value Tender Process (HVT)

Objective of the HVT

- A key objective of the High-Value Tender (HVT) Gateway Review Process is to provide real-time guidance, support and assurance against the 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

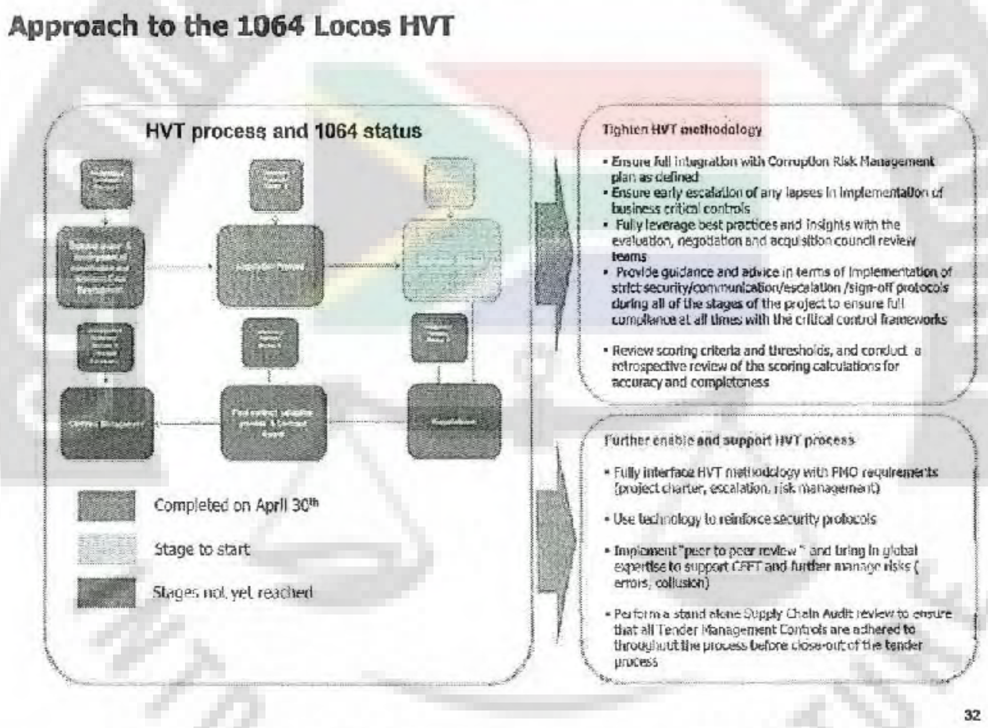
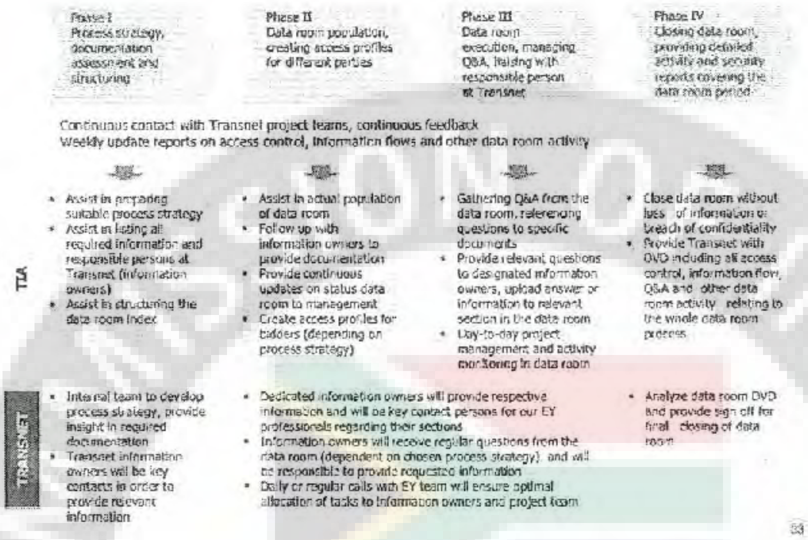


EXHIBIT 38

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 procurement event that will transform the business, increase operational efficiencies, support local supplier development, and enable Transnet to meet its MDS targets.

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

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

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 1996, as amended) by contracting for goods and services in accordance with a system which is fair, equitable, transparent, competitive and cost effective.

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

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

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

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

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

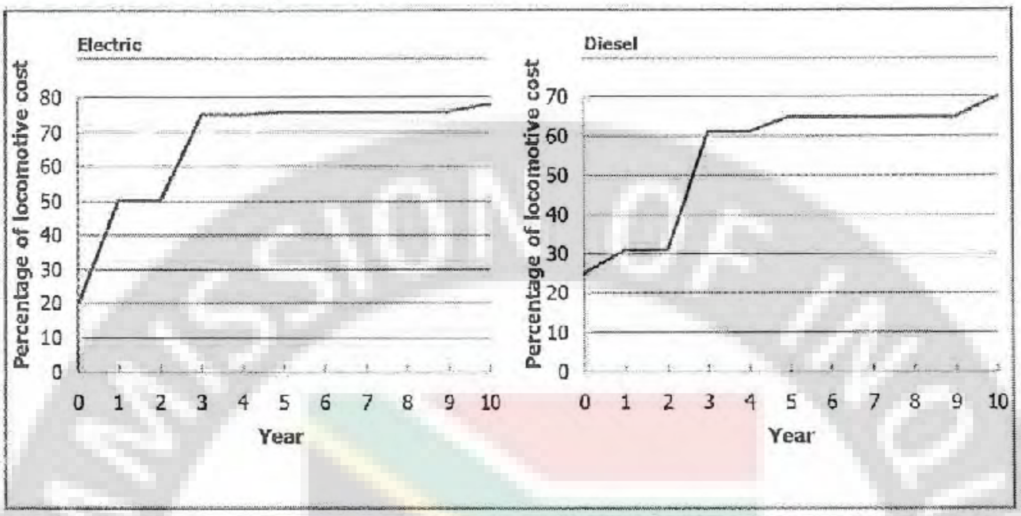
1. 55 percent for diesel locomotives; and
2. 60 percent for electric locomotives.

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.

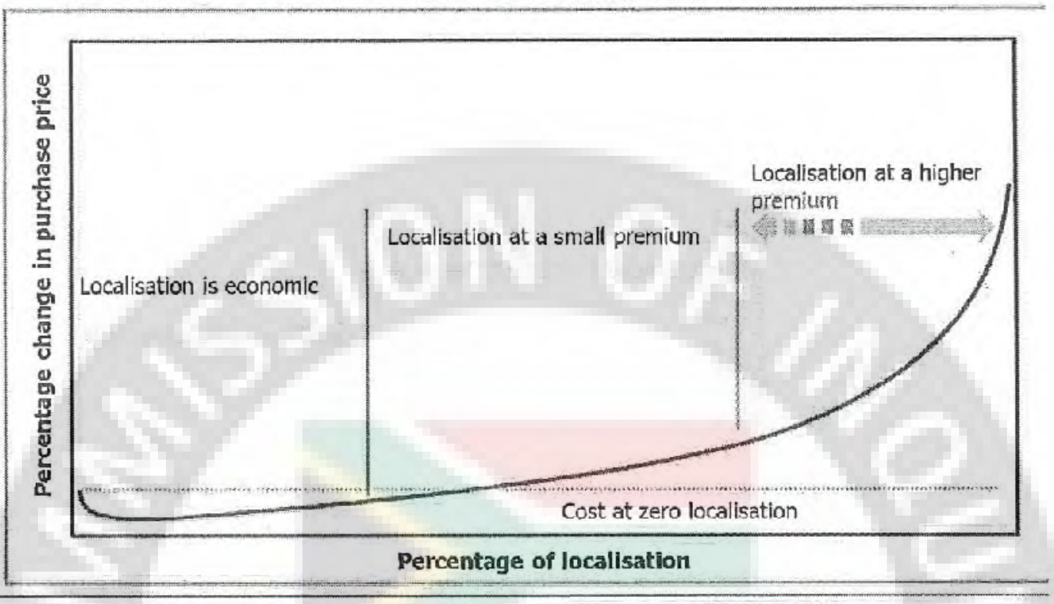
In certain areas, particularly in assembly and fabrication, South African localisation is economic especially given the order size of 465 diesels and 599 electric locomotives.

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 increases with increasing level of localisation

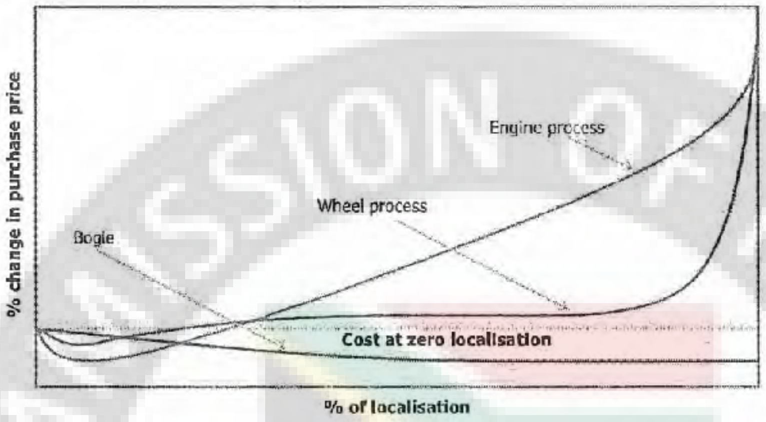


A grey zone exists where the limit of localisation is dependent on OEM investment in manufacturing in South Africa. Part of the way the Transnet RFP is structured is to attempt to capture as much localisation as possible within the grey zone without overly inflating the price premium paid.

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

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	Percentage of 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

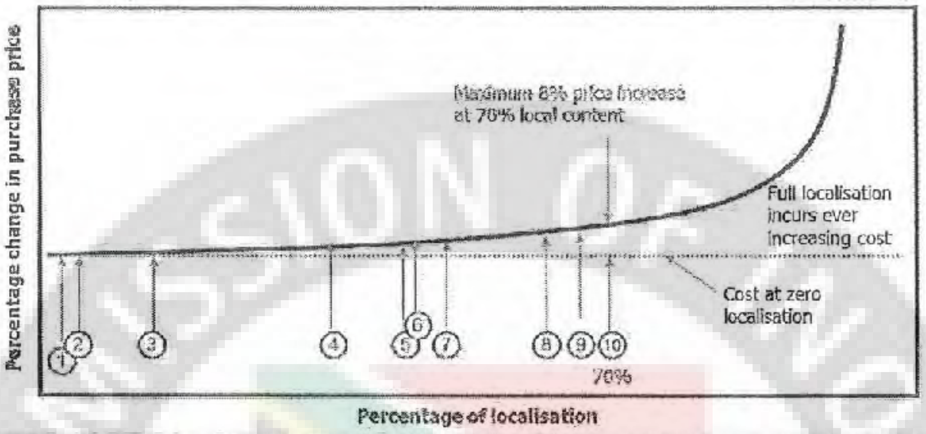
Percent

Categories	Total cost %	Current local %	Target local %	Percentage of Cost to local	Percentage of 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	14	6.33	61
Wheel system	3	0	3	6.45	64
Pneumatic supply system	2	0	1	7.38	65
Engine system	13	0	5	8.07	70
Other	1	0	0		
Grand total	100%	24%	70%		

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

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

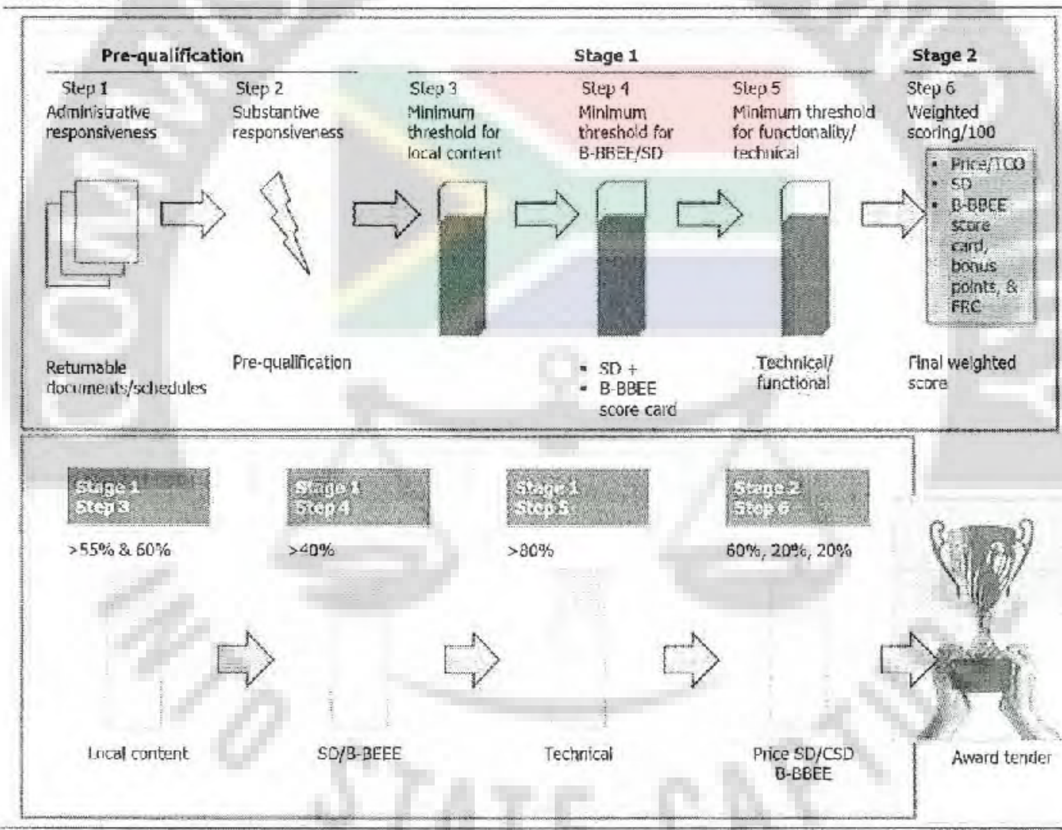
To ensure the bidding process is as fair and transparent as possible. As a long-term procurement event, open tender will identify suppliers with whom TFR can partner, to ensure value for money and compliance with Transnet's support for the NGP and government objectives. The programmatic nature of this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

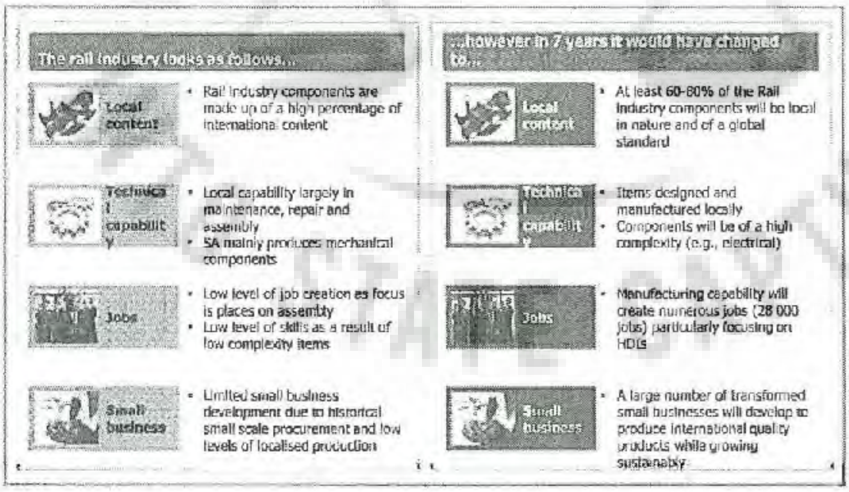
This spend will be leveraged to extract SD value in a manner that increases employment and also facilitates diversification beyond South Africa's current reliance on traditional commodities and non-tradable services. It will address the shortfall in artisan and technical skills by increasing the education 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 2013/14 Budget	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	7 year Ton Increase	ASSUMPTIONS/INITIATIVES
AGRICULTURE & BULK LIQUID	COMMODITIES NOT CLASSIFIED IN GROUPS	2,762	2,072	3,101	3,756	4,018	4,147	4,335	1,573	This category includes OTHER AGRICULTURE PRODUCE for instance BEANS, FMCG (SUGAR etc) as well as GASSES. Demand projections indicates increased volumes by rail in support of the NFPP. Also, there has been increased cross-border demand from Botswana and Mozambique
AGRICULTURE & BULK LIQUID	GRAIN, MAIZE, WHEAT & FOODSTUFFS	4,181	4,477	4.95	5,944	6,055	6,304	6,635	2,451	Domestic harvests average between 15mtpa - 17mtpa, weather permitting. Demand projection [illegible] TFR's projected increase of total market demand [illegible]. 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	2,578	2,894	3,363	3,485	3,646	5,118	2,628	Sappi Ngodwana – Production expansion, will increase demand in 2013 by 115,000 tons from Piet Retief and Lothair areas. The plant will be completed in 2013. The expansion of the Sappi SAICCOR Wood yard rail is expected to increase timber intake by 75,000 pa by 2013. Mondi is building new private siding at Isando.
	AGRICULTURE & BULK LIQUID	12,850	14,388	15,628	18,016	18,661	19,259	21,814	8,665	
COAL	COAL (DOMESTIC - OTHERS)	1,881	2,696	2,825	2,859	3,047	3,047	3,300	1,907	Coal deliveries to the Mondi and SAPPI paper mills, will increase based on the growth in electricity usage over the next years.
COAL	COAL (ESKOM - ARNOT)	0	0	0	2	2	2	2	2	Commissioning 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)	8,794	9,392	12,654	13,836	13,816	14	14	5,206	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	2,237	2,84	2,54	2,05	2,705	1,272	Transnet: SA Coal transportation system development, Export coal line, Waterberg developments, Swazi Rail link, Coal backbone capacity, Eskom Road to Rail, Cross-border connections.
COAL	COAL (EXPORT RICHARDS BAY NAVITRATE)	0,633	1,045	1,183	1,954	1,954	1,954	1,953	1,36	Transnet: SA Coal transportation system development, Export coal line, Waterberg developments, Swazi Rail link, Coal backbone capacity, Eskom Road to Rail, Cross-border connections.
COAL	COAL (EXPORT TCM/MAPUTO)	3,68	4,375	5,925	6,921	9,049	11,735	10,964	7,384	TCM expansion plan is to grow to 16mt in the next five years due to Limpopo projects (Vale and [illegible]).
	COAL	16,656	19,918	24,937	28,182	44,406	47,097	48,825	31,869	
EXPORT IRON ORE LINE & MANGANESE	MANGANESE (EXPORT - ALGOA BAY PE)	5.1	5.1	8	9,887	13,138	14,367	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 materialises. South Eastern node & corridor development – Transnet: Ngqura Transhipment Hub, Integrated CTC development and Manganese Export Corridor.
	EXPORT IRON ORE LINE & MANGANESE	8.7	8.716	11.575	13.047	15.56	17.032	18.9	10.2	
INTERMODAL	COAL (ESKOM - CAMDEN COAL IN CONTAINERS)	2,647	2,2	2,965	4,272	4,376	5,292	5,758	3,151	Coal deliveries to the Powerstations will increase based on the growth in electricity usage over the next years, Camden will use container rail solutions for the next two years and tippler solutions thereafter. TFR Business case for these have been approved.
INTERMODAL	CONTAINERS (3M, 6M, 12M & NON-ISO STANDARD)	6,952	8,095	9,273	10,293	10,358	10,483	11,647	2,796	Linked to GDP growth. Refurbishment and establishment of terminals. Containerising mineral products at key loading sites. Development of Freight Hubs in areas such as Polokwane and Bloemfontein; New Castle Terminal; Depot Strategy; Kingsrest Yard Rail Stack; Reconfigure [illegible] yard to [illegible]; Durban – Free State – Gauteng Logistics and Industrial Corridor – Transnet: Port of Durban expansion, new dig-out port, 16Mt rail capacity expansion, Gauteng hubs and terminals development. Transnet Integrated Container Strategy in consultation with current and potential customers.
	INTERMODAL	13,628	14,269	18,331	19,635	15,335	14,705	18,781	6,153	
MINERAL MINING & CHROME	COMMODITIES NOT CLASSIFIED IN GROUPS	4,261	3,553	4,075	6,256	6,918	7,002	7,477	3,216	Included in this group is Gold Ore & Other lesser Minerals and Ore Mining. These commodities currently enjoy a healthy demand.
MINERAL MINING & CHROME	MAGNETITE (EXPORT MAPUTO)	2,405	3,557	4,25	4,615	4,539	4,823	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 RICHARDS BAY)	4,17	4,293	4,787	5,3	5,3	5,3	5,3	1,13	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 ROC)	1,717	1,929	2,232	2,518	2,822	2,822	3	1,283	Building Order 9 to support current 7 year demand
	MINERAL MINING & CHROME	18,512	20,317	24,454	28,892	30,11	30,507	35,063	14,531	
STEEL & CEMENT	CEMENT	4,965	5,294	5,554	6,111	6,265	6,271	6,513	1,758	Volumes to increase in line with SA's GDP growth (4% on average). TFR also targeting rail-friendly volumes in this sector. There is roughly 4mt of bagged cement currently on road. The Road to Rail strategy aims to target 300,000 tons in the 1st year and gradually capture more over the 7 year period.
STEEL & CEMENT	COAL (DOMESTIC - OTHERS)	5,24	6,631	7,65	8,495	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	1,337	2,238	2,407	2,784	2,879	1,105	These include dolomite, iron slag etc used in the production processes of the Steel Manufacturers and is linked to increased output in the production processes.
STEEL & CEMENT	IRON ORE (DOMESTIC SISHEN)	1,082	2,679	3,639	3,731	3,839	3,839	3,84	2,758	Increases in domestic steel production supported by government infrastructure development plan. Domestic and regional consumption of steel fueling demand for [illegible] & new export project by Aquila from Thabazimbi to Maputo.
STEEL & CEMENT	LIME	1,451	1,536	2,586	2,417	2,501	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	26,467	31,167	35,229	36,469	36,824	38,859	17,024	
Total	General Freight	91,212	104,265	127,273	151,461	160,859	170,454	180,252	89,041	

2. General Freight fleet runout

Locos | GFB FLEET | Runouts and upgrades out same year | Wreck repairs from previous year, Cascades same 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		169	169	75	25																	
7E	7E		57	57	58	58	29																
	7E1				48	48	48	48	48	48	24												
	7E2		43	43	45	45	23																
	7E3		65	65	65	65	65	65	65	65	65	65	65	65	65	65	54	43	32	21	18		
	7E4							17	17	17	7												
8E	8E		58	37	37	37	37	26	13														
9E	9E																						
10E	10E		45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
	10E1		30	30	37	39	41	58	58	58	58	58	58	58	58	58	58	58	58	58	58	58	58
	10E2		17	17	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22
11E	11E				1	1	1	11	23	19	19	19	19	19	19	19	19	19	19	19	9		
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		596	525	587	647	697	727	737	727	682	633	582	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		5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
34	34 GE		107	173	199	199	204	190	176	150	125	75	28										
	34 GM		85	85	119	119	124	111	95	79	79	78	73	69	44	19							
35	35 GE		43	43	39	30	30	35	32	29	26	18	15	2									
	35 GM		110	110	107	107	107	107	107	94	89	57	33	10									
36	36 GE		94	94	86	86	86	85	86	86	86	72	59	44	30	16							
	36 GM		83	83	81	81	81	81	81	81	81	81	81	81	81	67	53	39	25	11			
37	37 GM		50	50	70	70	58	46	34	22	19												
38	X38		35	33	38	38	38	38	38	38	38	38	19										
39	39 GM		55	55	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	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46
NewD	NewD																						
91	91 GE																						
Grand Total			1730	1748	1588	1580	1564	1632	1776	1686	1550	1365	1201	1051	945	842	732	657	582	507	425	356	306
Diesel Fleet (before wrecks)			706	758	850	850	848	906	753	683	628	524	410	310	254	201	152	138	124	110	99	99	99
Electric Fleet (Before Wrecks)			1024	990	1538	1040	1016	1026	1023	1003	922	841	791	741	691	641	580	519	458	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.

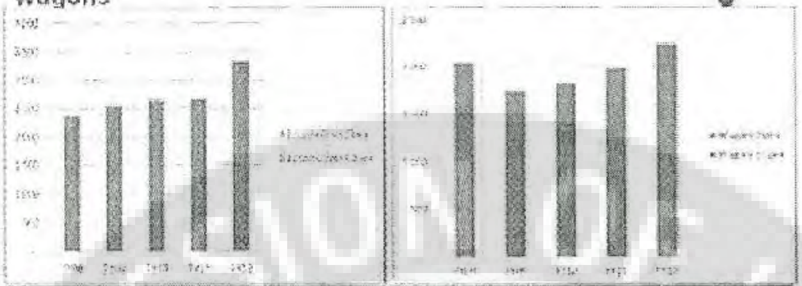
The three locomotives (excluding the new locomotives) with the best ratio of NTK/Cost of Maintenance are the heavy haul locomotives 9E, 11E and 7E1.

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

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

1. EXHIBIT 47

Total maintenance cost for locomotives and wagons



	FY08 (R)	FY09 (R)	FY10 (R)	FY11 (R)	FY12 (R)
Locomotives	2 377	2 551	2 657	2 673	3 335
Capex	1 353	1 319	1 452	1 430	2 003
Opex	1 024	1 232	1 205	1 243	1 332
Wagons	2 044	1 743	1 822	1 888	2 234
Capex	1 430	1 051	1 181	1 204	1 373
Opex	614	692	641	684	861
Grand Total	4 421	4 294	4 479	4 561	5 569
CAPEX					
Locomotive Upgrade	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wagon upgrade	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

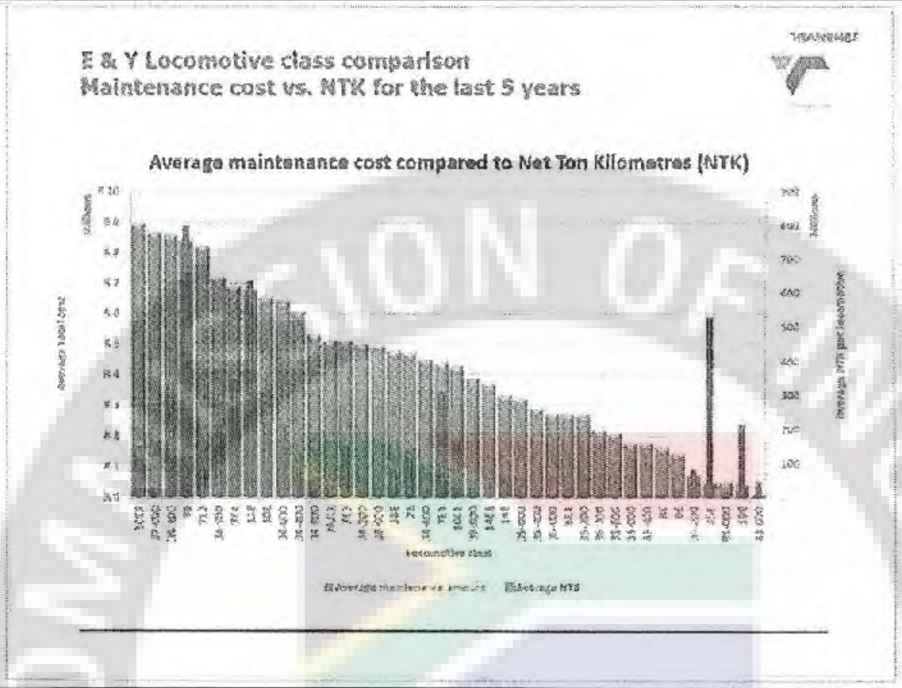
TFR has exhausted the life extension possibilities of its current "workhorse" fleet which are the primary contributors to GTK / NTK. Extending the life of "shunters" and "haulers" does not contribute to increasing GTK / NTK as the locomotives are not used and cannot be used for the heavy loads of main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

GFB	GROUP	GFB 7 YEAR LOCOMOTIVE REQUIREMENT											
		2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
6E/6E1	6E	183	172	134	43								
18E	18E	506	521	662	744	760	715	715	655	615	565	515	465
7E	7E	64	66	42	42	42							
7E1	7E1	0	-	21	21	21	46	46	46	46	46	46	46
7E2	7E	32	34	34	34	34	34						
7E3	7E	11	65	65	65	65	65	65	65	65	65	65	65
8E	8E	58	54	37	33	24	12	12					
9E	9E		30	4	4								
10E1	10E	23	26	36	36	36	51	62	45	45	45	45	45
10E2	10E	59	58	62	62	62	62	62	62	62	62	62	62
14E1	14E	8	8	8									
33	GE	17											
34	GE	115	188	188	188	188	142	142	142	120	120	120	120
34	GM	82	90	94	94	94	94	94	94	94	94	94	94
35	GE	65	69	74	77	79	79	79	79	79	79	79	79
35	GM	79	86	93	93	96	96	95	96	96	96	96	96
36	GE	87	98	98	98	96	98	98	98	98	98	95	98
36	GM	81	84	84	92	92	92	92	92	92	92	92	92
37	GM	46	50	50	50	25	25						
38	X38	34	38	38	38	38	38	38	38	38	38	38	38
39	GM	55	50	50	50	50	50	50	50	50	50	50	50
43	GE	34	62	113	113	113	126	113	113	113	113	113	113
44D NEW		0	-	-	82	179	279	362	393	465	515	535	545
20E		0	-	-	81	202	332	462	599	671	721	771	821
Total		1641	1841	1970	2140	2302	2442	2582	2601	2753	2803	2823	2833

5. Deployment plan

EXHIBIT 49

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TRANSNET

EXHIBIT 50

TRANSNET

GLOSSARY

MUS – MUSSINA
PRZ – PYRAMID SOUTH
PHW – PHALABORWA
NLP – NELSPRUIT
KYO – KAAPMUIDEN
KTR – KOMATIPOORT
HLF – HALFWEG
SLD – SALDANHA
BLE – BELLVILLE
KGR – KRUGERSDORP
ELN – EAST LONDON
NAS – NATALSPRUIT
WED – WELGEDACHT
KAZ – KASERNE
SBG – SASOLBURG
ME – MAFIKENG
SPR – SPRINGS
TIT – TRICHARDT
BPR – BRAKPAN
ISO – ISANDO
BFX – BLOEMFONTEIN
NWT – NOUPOORT
HZL – HOTAZEL
PMG – POSTMASBURG
BEC – BEACONSFIELD
PCM – POTCHEFSTROOM
BU – BULKOR
MTN – MEYERTON
NCS – NEWCASTLE
DSL – DANSKRAAL
DNR – DURBAN
DER – DE AAR
PE – PORT ELIZABET

[illegible]

EXHIBIT 51

TRANSNET

43D Deployment Plan
Efficiency and Volume Growth

143X43D

	Phalaborwa	Saldanha	Welgedacht (Eskom Coal)	Ermelo	Pyramid south
Financial Year 11/12	27				
Financial Year 12/13	35	30			
Financial Year 13/14	17		16	13	5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- Cascading of locos due to this injection is per fill
- The 43D locomotives will run from PHW to RCB and has eliminated loco change-over thereby improving loco and wagon cycle time
- Fuelling will be done both in Phalaborwa and Richards Bay

Financial year 11/12 – 13/14

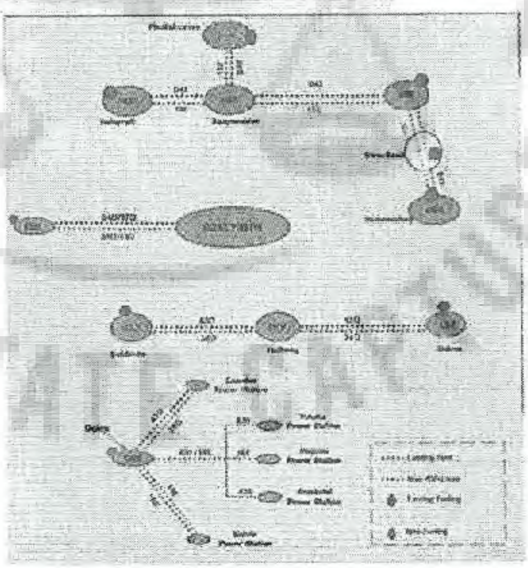
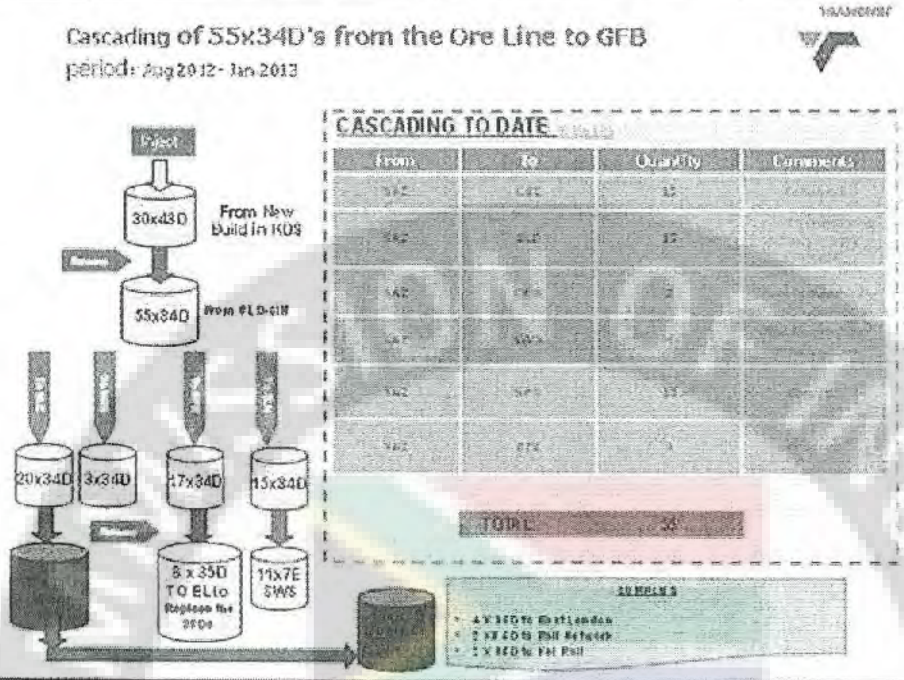


EXHIBIT 52



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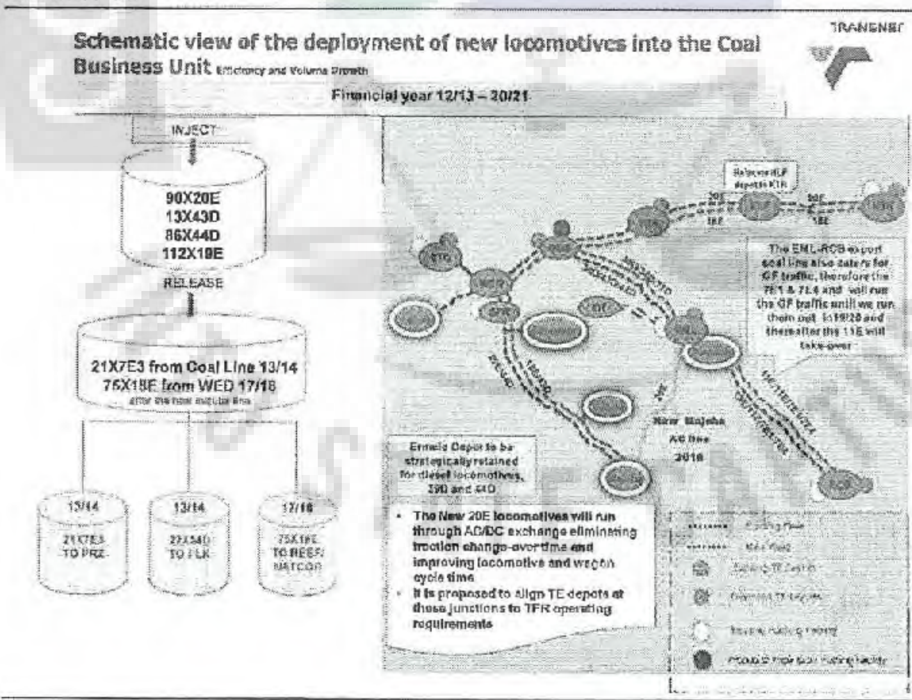

EXHIBIT 54

New Locomotives Deployment Plan

Efficiency and Volume Growth

Financial year 12/13 – 20/21

High Level Delivery, Cascading and Run out Plan for the Domestic and Export Coal Business Unit

TRANSNET

	Current Fin Yr 12/13	Fin Yr 13/14	Fin Yr 14/15	Fin Yr 15/16	Fin Yr 16/17	Fin Yr 17/18	Fin Yr 18/19	Fin Yr 19/20	Fin Yr 20/21
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Grand Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXHIBIT 55

Deployment Strategy & Benefits : Coal

TRANSNET

Coal : RBCT

- The 19E's will be increased from 110 to 222 from 2015/2016 to 2016/2017. The following strategic changes are envisaged:
  - It is to be noted that the 222 x 19E/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 84.7 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 10E1s.
- 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

TRANSNET

Deployment Strategy & Benefits : Coal

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

TRANSNET

Deployment Strategy & Benefits : Coal

- The following are the benefits:
  - Reduced fuel consumption with new diesel locomotives being introduced
  - Improved cycle times for rolling stock
  - Improved reliability
  - Better utilisation of crews
  - Reduced handling and shunting
- Impact on Crew and Maintenance depot
  - Richards Bay to be the Super Locomotive Maintenance depot
  - Standardise the Ermelo depot to few locomotive types, specifically diesels (39200's. 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 66 hour cycle as it will not be seamless and will be somewhat counter-productive.
  - This will then require the 10E1's to be converted to dual power for a one type 41 hour operation.
- Financial Impact Analysis
  - Savings due the introduction of the new operating model from 1 September:

EXHIBIT 58

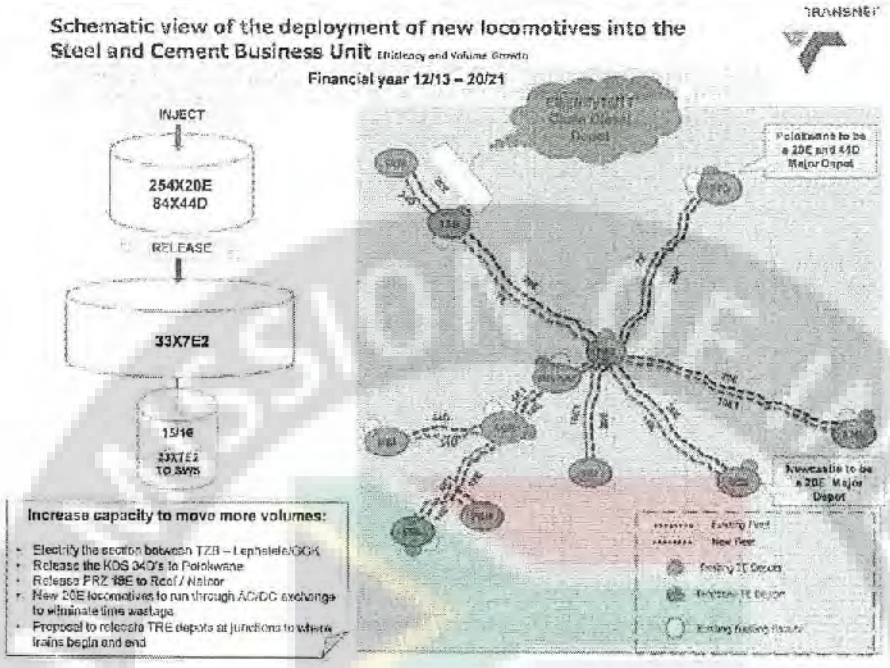
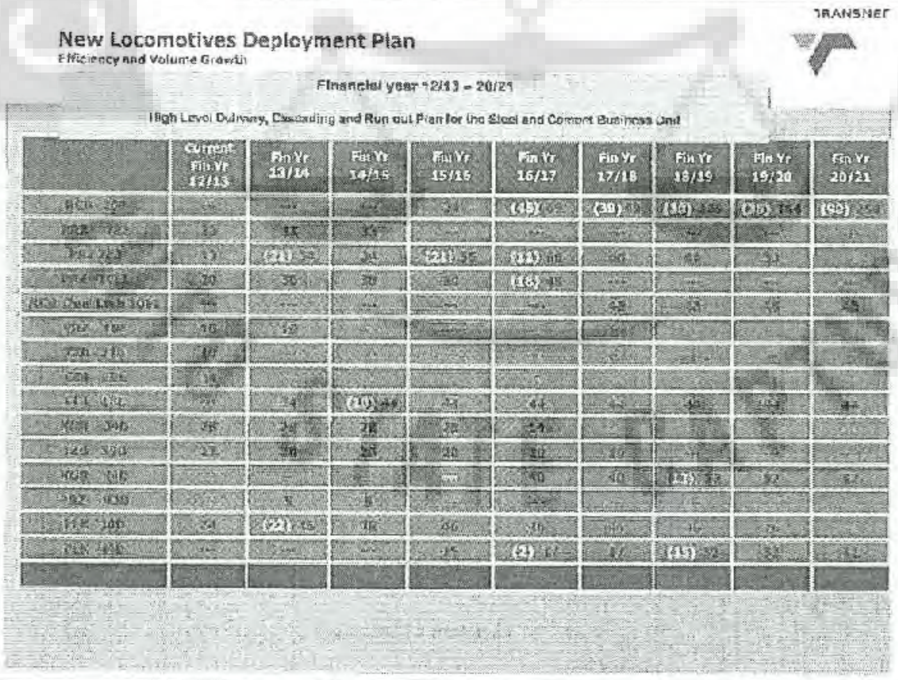


EXHIBIT 59



	Current Fin Yr 12/13	Fin Yr 13/14	Fin Yr 14/15	Fin Yr 15/16	Fin Yr 16/17	Fin Yr 17/18	Fin Yr 18/19	Fin Yr 19/20	Fin Yr 20/21
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RCK Coal Link 10E	[illegible]	--	--	--	--	[illegible]	[illegible]	[illegible]	[illegible]
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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, Bijlkor 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 Santrarand 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

TRANSNET

Deployment Strategy & Benefits : SAC

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

TRANSNET

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

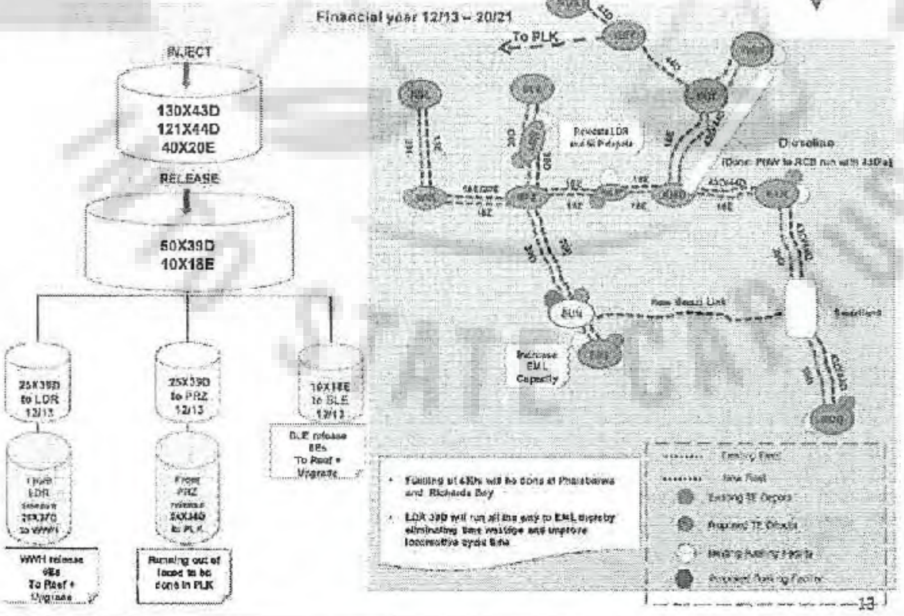

EXHIBIT 63

TRANSNET

New Locomotives Deployment Plan

Efficiency and Volume Growth

Financial year 12/13 – 20/21

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

	Current Fin Yr 12/13	Fin Yr 13/14	Fin Yr 14/15	Fin Yr 15/16	Fin Yr 16/17	Fin Yr 17/18	Fin Yr 18/19	Fin Yr 19/20	Fin Yr 20/21
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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 79 locomotives for the same tons. The GTKs was achieved in advance of what the business case stated.
- Increase the 62 x 43D's at Phalaborwa to 79 to capture the growth in Magnetite and coal from Musina by 2013/2014.
- The locomotive cycle time has improved from 72 hours to 55 hours with the injection of the 43D's
- Wagon cycle time has improved from 7 days to 5 days on the corridor.
- Deployed 39D's at Lydenburg
- Eliminated locomotive change over at Belfast. Running the 39D'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 39D's only
  - Future maintenance to be done at Ermelo
  - Relocate Lydenburg as a Loco and Crew depot to Steelpoort

EXHIBIT 65

Schematic view of the deployment of new locomotives into the Iron Ore and Manganese Business Unit Efficiency and Volume Growth

TRANSNET

Financial year 12/13 – 20/21

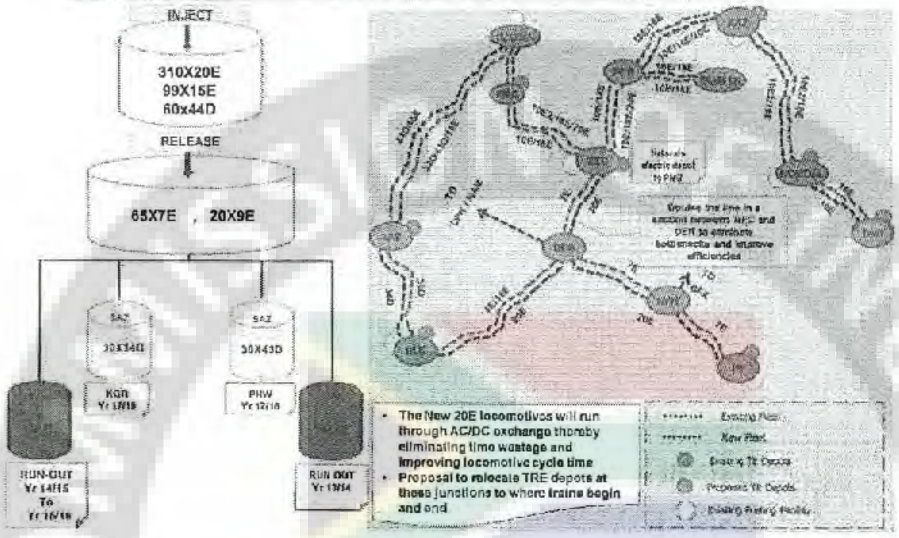

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EXHIBIT 66

New Locomotives Deployment Plan
Efficiency and Volume Growth

TRANSNET

Financial year 12/13 – 20/21

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

GFB	Current Fin Yr 12/13	Fin Yr 13/14	Fin Yr 14/15	Fin Yr 15/16	Fin Yr 16/17	Fin Yr 17/18	Fin Yr 18/19	Fin Yr 19/20	Fin Yr 20/21
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Grand Total	383	374	367	429	472	512	542	587	589

EXHIBIT 67

TRANSNET

Deployment Strategy & Benefits : IOM

Ore Line

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

General Freight Lines

- The deployment of the new electric dual powered locomotives will bring benefit in the manner in which trains are operated. The new AC/DC locomotives will have the capability to run through the interchange at Beaconsfield and Beaufort West thereby eliminating traction change over time.
- The dual powered locomotives for Postmasburg depot will service both the PMG-PE route and the Gauteng-Cape Town/PE route with Swartkops being the super depot.
- Swartkops 7E's retired in 2015/2016, 33XPRZ 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

TRANSNET

Deployment Strategy & Benefits : IOM

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 15E and 34s to 15E and 43000, this is approximated to be around 1M litres
- Yard capacity to be reviewed at Kimberly due to run through and only hot seat changes.
- Parking of SWS 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 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 70

New Locomotives Deployment Plan

Efficiency and Volume Growth

TRANSNET

Financial year 12/13 – 20/21

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

	Current Fin Yr 12/13	Fin Yr 13/14	Fin Yr 14/15	Fin Yr 15/16	Fin Yr 16/17	Fin Yr 17/18	Fin Yr 18/19	Fin Yr 19/20	Fin Yr 20/21
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	(30) [illegible]	(10) [illegible]	[illegible]	[illegible]
[illegible]	[illegible]	14	46	[illegible]	[illegible]				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	(10) [illegible]	10	10	(10) [illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	15	(25) [illegible]	[illegible]	[illegible]	(15) [illegible]	(5) [illegible]	[illegible]

EXHIBIT 71

Deployment Strategy & Benefits : CAB

General Freight

- KazernelCity 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 hook-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 2017/2018: SAVING

EXHIBIT 72

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

Financial year 12/13 – 20/21

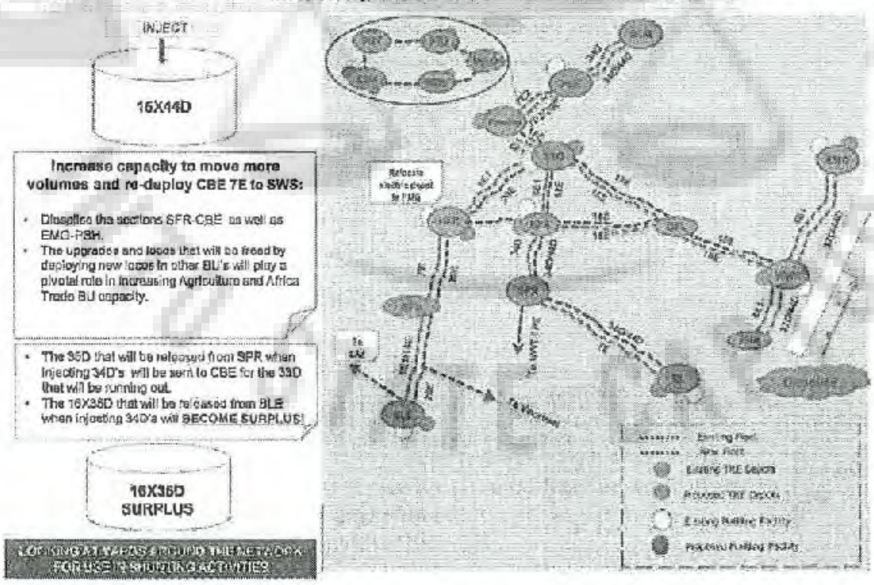


EXHIBIT 73

TRANSNET

New Locomotives Deployment Plan

Efficiency and Volume Growth

Financial year 12/13 – 20/21

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

	Current Fin Yr 12/13	Fin Yr 13/14	Fin Yr 14/15	Fin Yr 15/16	Fin Yr 16/17	Fin Yr 17/18	Fin Yr 18/19	Fin Yr 19/20	Fin Yr 20/21
[illegible] 35D	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible] 34D	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible] 18E	5	[illegible]	(10) 15	15	15	15	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	–	–	–	–	–	–
[illegible]	–	60	(50) [illegible]	100	[illegible]	[illegible]	(40) [illegible]	(55) [illegible]	(26) [illegible]
[illegible]	[illegible]								
[illegible] 34D	[illegible]	(11) [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible] 34D	15	20	[illegible]	[illegible]	20	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	–	[illegible]	–	–	–	–	[illegible]	[illegible]	[illegible]

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 areas.
- 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"

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
WACC																	
Discount factor			[illegible]	71%	60%	52%	42%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0%	0%
PPI			4.5%	[illegible]	5.5%	5.7%	5.6%	5.5%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CPI	0.052	5.2%	[illegible]	5.5%	[illegible]	5.6%	[illegible]	5.6%	6.0%	6.0%	[illegible]	6.0%	[illegible]	[illegible]	[illegible]	[illegible]	6.0%
Volume increases			[illegible]	13	35	60	80	79	79	79	79	79	79	79	79	79	79
Escalation factor CPI			1.05	1.11	1.17	1.24	1.31	1.38	[illegible]	[illegible]	[illegible]	4.71	[illegible]	[illegible]	[illegible]	7.50	[illegible]
CPI discount factor			95%	90%	85%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total volumes (Net tons)			91	104	127	151	161	170	173	170	172	170	170	170	170	170	170
Incremental Volumes (Net tons)			1	7	23	41	60	77	[illegible]	[illegible]	[illegible]	[illegible]	77	[illegible]	40	23	5
Tariffs Average (R/Tonkm)			0.42	0.45	0.48	0.50	0.54	0.58	0.84	1.12	1.50	2.01	2.63	2.85	3.02	3.20	3.85
Average distance (Kms)			552	551	553	538	539	542	542	543	542	542	542	542	542	542	542
Revenue	109 108		272	1855	5517	10847	17437	24155	48548	54252	72661	97959	111358	81952	65025	35592	5884
Total Diesel TCO	22 080		2574	3323	4040	4046	4729	3047	4854	6166	8745	11214	5820	6821	3475	0	0
Diesel TCO																	
Initial capital outlay	8 314		2 553	2 709	2 876	3 058	2 190	0	0	0	0	0	0	0	0	0	0
Disposal value	0																
Fuel	8 057		50	459	824	1 233	1 713	2 004	2 814	3 735	4 956	6 577	5 600	3 940	2 067	0	0
Maintenance	1 849		1	14	69	124	220	327	986	869	1 584	1 687	1 187	494	470	0	0
Personnel costs	3 029		0	130	256	398	559	662	1 018	1 462	2 069	2 769	2 977	1 675	880	0	0
Insurance	49		0	2	5	7	10	11	16	21	28	58	53	23	12	0	0
Emissions	182		0	9	17	26	36	42	60	80	107	144	123	87	46	0	0
0% 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	21 763		318	2516	5218	6033	5892	6481	5836	5485	7082	10150	11525	9642	7261	4617	1265
Electric TCO																	
Initial capital outlay	12 252		318	1 974	4 951	5 352	5 689	6 670	0	0	0	0	0	0	0	0	0
Disposal value	0																
Fuel	3 806		0	21	138	337	577	340	1 405	1 956	2 511	3 456	4 918	3 683	2 768	1 751	470
Maintenance	1 724		0	0	1	17	70	152	685	1 346	1 433	2 599	2 109	1 610	1 224	839	240
Personnel costs	3 401		0	17	110	275	468	697	1 312	1 863	2 665	3 557	4 428	3 779	2 841	1 778	483
Insurance	53		0	0	2	3	8	12	21	27	37	49	61	52	39	24	7
Emissions	531		0	3	19	46	80	117	204	273	356	439	608	519	390	244	68
0% 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	12 463		3028	3456	3579	3474	2985	1178	908	1238	1998	2330	2741	2275	1697	910	248
Purchase cost	10 037		3022	3417	3462	3229	2559	649	0	0	0	0	0	0	0	0	0
Capex	1 583		3	23	70	151	242	339	591	817	1135	1577	1877	1561	1136	627	172
Opex	[illegible]		3	17	48	95	142	190	318	421	563	734	864	714	511	282	77
Total infrastructure costs	18 491		1085	3171	3673	4272	4719	6603	3038	4065	5440	7280	8345	6880	4933	2727	741
Expansion	9 513		1026	2787	3379	3023	3092	4967	0	0	0	0	0	0	0	0	0
Capex and replacement capex	8 978		60	384	295	1249	1627	1637	3038	4065	5440	7280	8545	6880	4933	2727	741
Overhead costs	23 910		112	360	1585	2781	4055	5163	5539	11427	15291	10465	13456	13367	13556	7665	2082
Net cashflow before tax	10 397		-8945	-10772	-13077	-10559	-5901	-470	13325	25871	34346	45678	55981	47188	34082	20474	5547
28% Effective Tax costs (negative = credit)	7 658		0	-341	-799	-1039	-1616	-235	3240	7075	9446	12619	15540	13101	9580	5686	1557
Cashflow after tax	2 739		-8 945	-10 431	-12 288	-9 520	-4 285	-259	14 084	18 797	24 898	33 059	40 442	34 057	25 032	14 787	3 994

8. Risk register

No	Key Elements	Risk Something will Occur	Impacts leading to...	Causes caused by...	Controls controlled by...
1	Change Management Risk	Ineffective change management in implementing the strategies as encompassed in the	> Lack of buy in from labour > Lower 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 (R70,9bn) > Loss of Tonnages	> Current planned timelines may be at risk for local production l 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 Elements	Risk Something will Occur	Impacts leading to..	Causes caused by..	Controls controlled by..
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 > projects falling behind schedule, > underutilised assets	> lower than anticipated customer demand > The anticipated customer demand does not materialise > The customer demand exceeds planned demand > not obtaining the right wagon mix for the right volumes of commodities at the right time	> Annual budget review of the demand (Demand file) > Logistic integration function (monitors asset performance & allocate resources)) > 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)
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 > Delay in project schedule/ deployment > Underutilised assets > Poor assets handling assets	> Insufficient maintenance skills (artisans, technicians) > Insufficient new generation technology maintenance skills > Train drivers not adequately equipped to utilise the new fleet > Inadequate transfer of knowledge of skills from the OEM to Transnet > Lack of project management skills	> Maintenance staffing plan > Succession plan & training with SCR > 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 Impact of strike action at major supplier plants	> Projects delay commissioning > Power shortages > Cost overruns > Scope creep	> Eskom's inability to secure long term sourcing contracts > Industrial action from major suppliers > Earthquakes > Floods > War > Sanctions or trade restrictions the world countries > Component prices going up	> Efficiency Improvement Initiatives > Energy Saving Initiatives > Establish Energy Efficiency Forum > High level engagement with Eskom as to plans to address shortage of capacity (including contractual agreements with Eskom) > Complete list of TFR projects submitted to Eskom. > Contracts clauses > 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 Elements	Risk Something will Occur	Impacts leading to...	Causes caused by...	Controls controlled by...
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	> Inadequate process to define the URS > Lack of fleet ownership to identify the technology functional needs (no clear UFS)	> 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

9. Fraud risk management plan

1064 – Transnet Locomotive Acquisition Process: Fraud / Corruption Risk Management Plan							
Activities	Status	Responsibility	Progress Update	Start Date	End Date	Objective	Measurement
Fraud Ethics							
Rollout Awareness Education training sessions to internal stakeholders involved in the 1064 Locomotive Acquisition process, which includes Fraud, Ethics & Information Security		Forensic Champion / TIA Forensic OD 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 Pacts for suppliers bidding for the supply of the locomotives.		Forensic Champion / TIA Forensic OD 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 OD 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.
Governance							
- Establishment of a Locomotive Acquisition Steering Committee (LSC) - Finalize 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.
High Value Gateway Review Process		Forensic Champion				-Provide assurance that due process is 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 OD 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 OD Leader				- Determine compliance with the Gifts Policy - Identify possible incidents 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 OD 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 proposed for 1064 locomotives, including site visits, 3rd tier business interests against Transnet restricted vendors and their directors		Forensic Champion / TIA Forensic OD Leader				- Determine compliance with all Transnet related Policies	- Timeous delivery of the final report to Steering Committee.
Conduct Pinnecast and Herodine Analysis on all internal stakeholders involved in the 1064 Locomotive Acquisition process.		Forensic Champion / TIA Forensic OD Leader				Identify possible 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 OD 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	346	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)

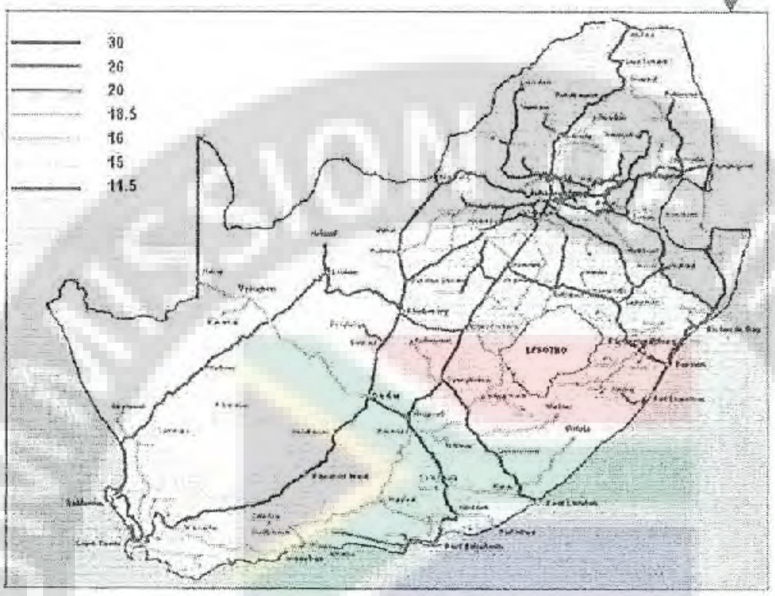


EXHIBIT 76

Electrification (Current status)

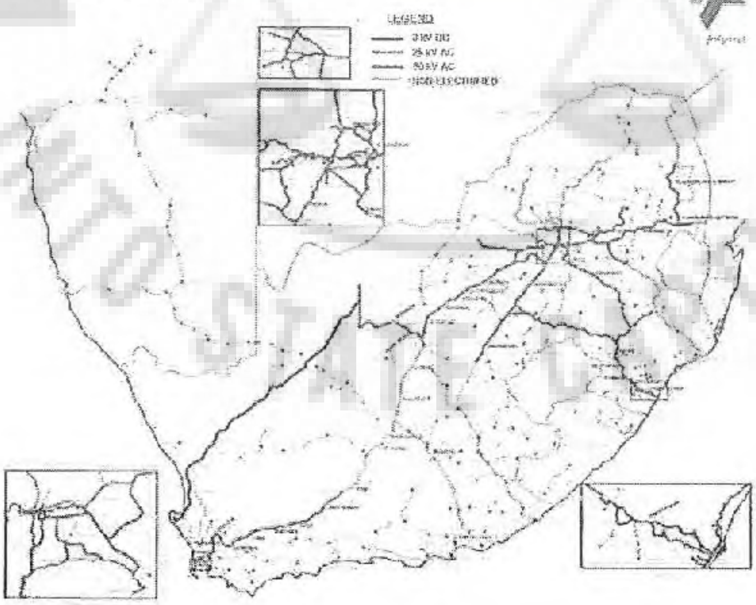


EXHIBIT 77

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 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 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 Roolkop-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

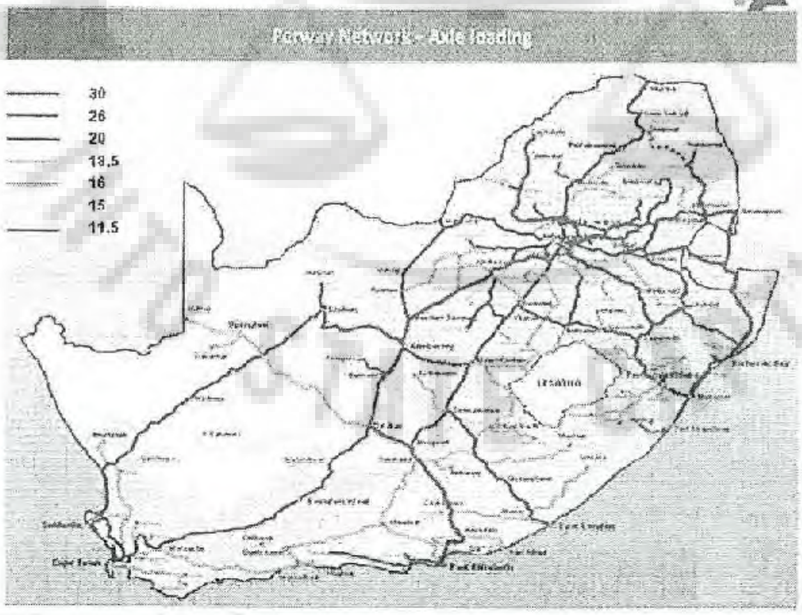


EXHIBIT 79

Electrification (Future status)

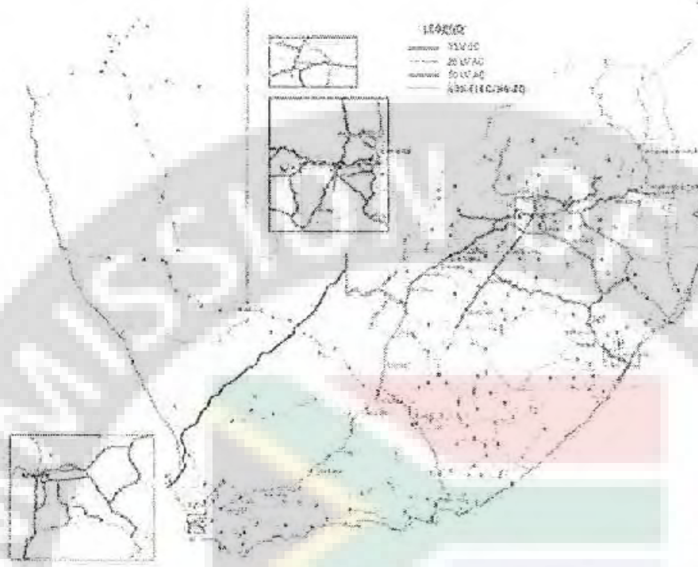


EXHIBIT 80

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 (480 000 – 550 000/year) ▪ Increase ballast screening (690km – 750km) ▪ One 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 (665km 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 055kkm 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 signaling	• 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, Natcor, Sentrarand area, Houtheuwel – Klerksdorp) • 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 signaling systems in the central region (Gauteng area) • Remodeling track layout and resignalling Gauteng area (Elsburg – India – Jupiter – Wattles) • 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, remove 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

3

EXHIBIT 82

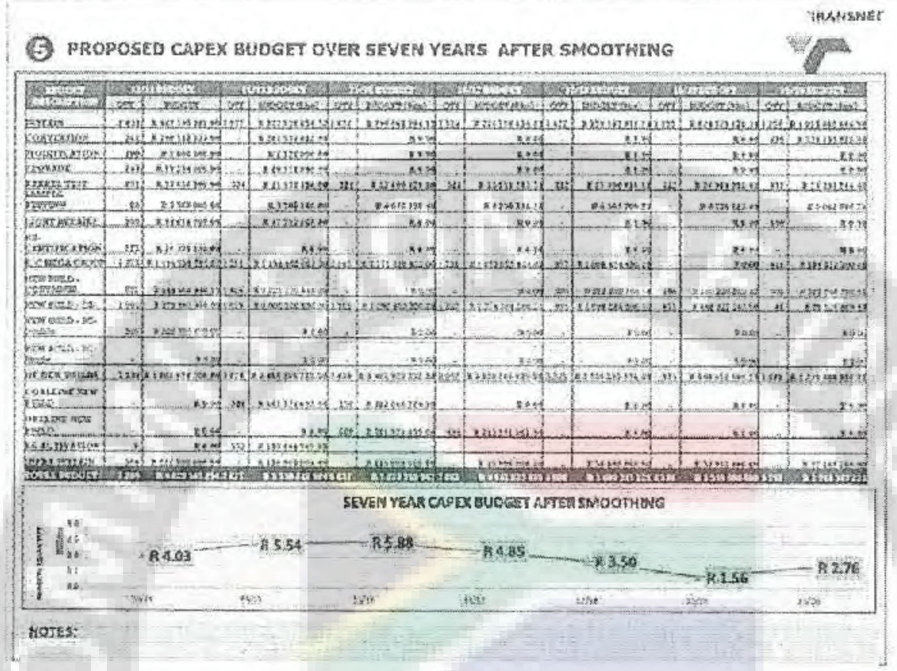
Maintenance infrastructure expenditure timeline (3/3)

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 countrywide • 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 countrywide • 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

4

12. Wagon requirements

EXHIBIT 83



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	34,026	43	53	4,235
Total	**1038**	**74,031**	**Total**	**850**	**18,626**

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

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

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

TRANSNET

PRELIMINARY

General locomotive specifications

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

1 Bo-Bo: 2521 kw at 34 km/hr and Co-Co: 3778 kw at 34 km/hr

SOURCE: 1064 Loco Business Case Annexure K Locomotive Specifications

4

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

Advisory services related to the acquisition of the 1064 locomotives tender

TRANSNET

RFP GSM/12/05/0447

Memorandum of withdrawal

04 February, 2014

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.

□ □ □

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

Appendix/attachments:

Summary of Professional Practices

November 11, 2017 – Statement of David Robert Fine

ANNEXURE E: NOTE TO REGIMENTS RE. AFRICA CONFIDENTIAL PRESS REPORTS

Fw: Follow up on our call

Vikas Sagar to: Benedict Phiri 2017-06-13 07:33 PM

Cc: Alexander Weiss

Vikas Sagar | Senior Partner
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jodie_van_der_merwe@mckinsey.com

----- Forwarded by Vikas Sagar/JOH/Africa/MCKINSEY on 2017-06-13 04:50 PM -----

From: Vikas Sagar/JOH/Africa/MCKINSEY
To: eric@tcp.co.za
Cc: David Fine/JOH/Africa/MCKINSEY@MCKINSEY, Benedict Phiri/JOH/Africa/MCKINSEY@MCKINSEY
Date: 2016-02-15 04:44 PM
Subject: Follow up on our call

Hello Eric,

Our conversation earlier today refers; I referenced the article below which you may already seen.

We are concerned from a risk and reputation management perspective and also need to better understand the situation to respond to related questions from our client service staff (many of whom worked with Mo Bobat). To this end it would be helpful to:
+ Get your opinion on the article
+ Have you shed light on Bobat's current relationship with Regiments or Trillian and also at the time to which the article refers
+ Get your input, if any, on the alleged relationship between Bobat and the politically exposed persons referred to in the article. This is a critical issue to address for McKinsey's risk management framework and potentially also to comply with the legislation we are subject to like FCPA

I understand you are taking a couple of days off and appreciate your offer to respond to us within a day.

Thanks

Rgds
Vikas

Vikas Sagar | Director
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melanie_eddison@external.mckinsey.com

http://www.biznews.com/leadership/2016/02/15/named-van-rooyens-two-gupta-advisors-who-almost-hijacked-sa-treasury/

November 11, 2017 – Statement of David Robert Fine

ANNEXURE F: LETTER FROM TRILLIAN CONCERNING INVOLVEMENT OF MOHAMED BOBAT

TRILLIAN
Management Consulting

Att: Mr Vikas Sagar
McKinsey&Company
88 Stella Street
Sandown
2196
cc: Mr David Fine, Mr Benedict Phiri

26 February 2016

Dear Sir

RE: MOHAMED BOBAT

In response to your e-mail dated 15 February 2016, I can confirm that Mohamed Bobat was an employee at Regiments Capital until he resigned in December 2015. At the time of his resignation, Bobat was a Principal within the management consultancy division at Regiments.

Bobat has no relationship with Trillian nor has he had any relationship with Trillian. I am unable to comment on Bobat's alleged relationship with the politically exposed persons referred to in the article to which you make reference as he independently pursued the advisory role in his own personal capacity.

I am also not in a position to comment on the remaining allegations made in the article to which you refer, but I can confirm that Bobat is a previous employee of Regiments Capital as stated in the article. That relationship was terminated subsequent to his resignation. Regiments Capital had no prior knowledge of his appointment as a special advisor to the minister and our first knowledge of the appointment was when it became public knowledge.

Yours sincerely

BIANCA SMITH

CEO

Trillian Management Consulting (Pty) Ltd
Reg No: 2016/111769/07
Address: 4th Floor, 23 Melrose Boulevard, Melrose Arch, 2196
Directors: B.S Smith, B Bernard
A Trillian Capital Partners Company

November 11, 2017 – Statement of David Robert Fine

ANNEXURE G: TERMINATION OF INTERACTIONS BETWEEN TRILLIAN AND MCKINSEY

McKinsey&Company

February 25, 2016

CONFIDENTIAL

Eric Wood
Trillian Management Consulting
ericw@tcp.co.za

Dear Mr. Wood

TRILLIAN, HUBEI HONGYUAN, E GATEWAY GLOBAL CONSULTANTS FZC, AND ESKOM DUVHA BOILER PURCHASE

We refer to your discussion with Mr. Vikas Sagar with respect to the above matter on 23 February 2016. We have also now received a Duvha Unit 3 Combined Clarification Register from Eskom confirming that:

1. Trillian Management Consulting is the BBBEE partner to Hubei Hongyuan, the principal boiler vendor in respect of the Duvha Unit 3 boiler purchase, and
2. E Gateway Global Consultants FZC, Trillian's subcontractors on the Generation Work Package, have been appointed as EPCM coordinators in respect of the Duvha Unit 3 boiler purchase.

We are of the view that Trillian and E Gateway's respective roles as described above may represent a material conflict of interest with their prospective respective roles under the Procurement and Finance Packages contemplated under the 3-year at-risk contract due to be executed between McKinsey and Eskom to support its Top Consultants Programme. In particular, Trillian has identified the following initiatives to be undertaken by it in respect of the Finance Package: "Rebuild – Duvha Unit 3 Recovery Project to recover the 600MW capacity loss" and "Insurance claims management for the Duvha Unit 3 Recovery Project".

Despite the potential material conflict of interest represented by these roles, the multiple conversations we have had on the basis for our potential work with Trillian, our unanswered requests for you to confirm your corporate structure and related party interests, we learnt of Trillian's involvement with Hubei Hongyuan and E Gateway's role for the first time during an internal Eskom tender clarification meeting held on 22 February. We find this development unacceptable, particularly in light of the high levels of transparency and good faith we expect from entities with which we seek to partner, the potential legal and reputational ramifications involved, and the specific nature of the relationship between BBBEE partners and organisations they work with. We are duty bound to Eskom to avoid material conflicts of interests and ensure that our prospective subcontractors and their subcontractors give effect to the same obligations. Where we do not give full effect to these obligations, we face the potential prospects of legal action flowing from such breach. Potential conflict issues may also create risks to our clients, whose interests we always place first.

Given the above, we have automatically triggered a global review (in line with McKinsey's risk management policies) of our potential arrangement with Trillian on work for Eskom. An emergency risk and legal call was held on the evening of 23 February 2016. To give effect to the conclusions of this call, and to progress both our internal conversations and ongoing discussions with Eskom, we request that you furnish us with the written confirmations below before or during the course of Friday 26 February, with confirmation on point 4 by 5pm today, 25 February:

1. Detailed account of the form and legal status of Trillian's relationship with Hubei Hongyuan;
2. Detailed account of the form and legal status of Trillian's relationship with E Gateway Global Consultants FCZ;
3. Confirmation that Trillian, its employees, or any of its subcontractors or affiliates have no other interests which may conflict with their respective roles as advisor to Eskom;
4. Confirmation that, pending your detailed response to this letter and with immediate effect, no Trillian personnel, subcontractor personnel, or personnel of any affiliate undertaking will conduct or undertake any activities on any element of the Top Consultants Programme which may lend themselves to a conflict of interest whether real or perceived;
5. Confirmation that Trillian indemnifies, defends and holds McKinsey harmless from any and all claims brought against McKinsey in respect of and relating to Trillian's relationship with Hubei Hongyuan and any services performed by Trillian and/or any of its subcontractors or their affiliates for Eskom.

We should note that we will also inform Eskom of these developments.

We look forward to your favourable reply.

Yours sincerely,

Georges Desvaux
Managing Partner, Africa

Jean-Christophe Mieszala
Chair, Client Service Risk Committee
Europe, Middle East & Africa

McKinsey&Company

March 10, 2016

CONFIDENTIAL

Eric Wood
Trillian Management Consulting
eric@tcp.co.za

Dear Mr. Wood

TRILLIAN, HUBEI HONGYUAN, E GATEWAY GLOBAL CONSULTANTS FZC, AND ESKOM DUVHA BOILER PURCHASE

The above matter refers. Mr. Vikas Sagar has forwarded your e-mail dated March 08, 2016 to us. We have noted the contents thereof with thanks. We wish to inform you however that our global risk review remains ongoing with a view to being concluded during the middle of the coming week. To this effect, in addition to your undertaking to furnish us with a detailed group profile of the Trillian Group (which we have still not received), we would also appreciate your detailed responses to our letter dated February 25, 2016 before the close of business on Friday 11 March 2016. Your response should contain the following, as previously requested by us:

1. Detailed account of the form and legal status of Trillian's relationship with Hubei Hongyuan;
2. Detailed account of the form and legal status of Trillian's relationship with E Gateway Global Consultants FCZ;
3. Confirmation that Trillian, its employees, or any of its subcontractors or affiliates have no other interests which may conflict with their respective roles as advisor to Eskom;
4. Confirmation that, pending your detailed response to this letter and with immediate effect, no Trillian personnel, subcontractor personnel, or personnel of any affiliate undertaking will conduct or undertake any activities on any element of the Top Consultants Programme which may lend themselves to a conflict of interest whether real or perceived;
5. Confirmation that Trillian indemnifies, defends and holds McKinsey harmless from any and all claims brought against McKinsey in respect of and relating to Trillian's relationship with Hubei Hongyuan and any services performed by Trillian and/or any of its subcontractors or their affiliates for Eskom.

We look forward to your favourable reply.

Yours sincerely,

Georges Desvaux
Managing Partner, Africa

p.p.
Jean-Christophe Mieszala
Chair, Client Service Risk Committee
Europe, Middle East & Africa

McKinsey&Company

March 15, 2016

CONFIDENTIAL

Eric Wood
Trillian Management Consulting
eric@tcp.co.za

Dear Mr. Wood

TERMINATION OF INTERACTIONS BETWEEN MCKINSEY AND THE TRILLIAN GROUP IN RESPECT OF THE TOP CONSULTANTS PROGRAMME AT ESKOM

We refer to our letters to you dated February 25 and March 10, 2016 and to which we have not received any formal responses. In particular, we did not receive your responses to the following requests:

1. Detailed group profile of the Trillian Group including ultimate beneficial shareholders, related parties and executive management;
2. Detailed account of the form and legal status of Trillian's relationship with Hubei Hongyuan;
3. Detailed account of the form and legal status of Trillian's relationship with E Gateway Global Consultants FCZ;
4. Confirmation that Trillian, its employees, or any of its subcontractors or affiliates have no other interests which may conflict with their respective roles as advisor to Eskom;
5. Confirmation that, pending your detailed response to this letter and with immediate effect, no Trillian personnel, subcontractor personnel, or personnel of any affiliate undertaking will conduct or undertake any activities on any element of the Top Consultants Programme which may lend themselves to a conflict of interest whether real or perceived;
6. Confirmation that Trillian indemnifies, defends and holds McKinsey harmless from any and all claims brought against McKinsey in respect of and relating to Trillian's relationship with Hubei Hongyuan and any services performed by Trillian and/or any of its subcontractors or their affiliates for Eskom.

As we mentioned to you, our global risk committee has reviewed and discussed the proposal to work with Trillian, as our BBBEE partner, on our engagement with Eskom. As a result of this discussion, we have decided not to proceed with this proposal.

DJ

McKinsey&Company

Whilst we are aware that this will be a disappointment to you, we hope that you will understand that, for a programme of this scale and importance, we require more clarity on our partner firm than you have been able to provide us to date. We may consider any additional information that you may furnish subsequent hereto.

We will inform Eskom of the recent developments and trust that you will be willing for our team to discuss with you and with Eskom how to transition arrangements in a way that best supports Eskom's plans.

We will also communicate any advices from the client in this regard.

Yours sincerely,

Georges Desvaux
Managing Partner, Africa

Jean-Christophe Mieszala
Chair, Client Service Risk Committee
Europe, Middle East & Africa

McKinsey&Company

30 March, 2016

CONFIDENTIAL

Mr. Anoj Singh
Group CFO
Eskom Holding SOC Ltd
Megawatt Park
Sunninghill, Sandton
Johannesburg
South Africa

Dear Mr. Singh

TOP CONSULTANTS PROGRAMME

We refer to your letter to us dated February 19, 2016 and our response thereto dated February 25, 2016. This letter serves as an update on further developments since our last letter to you on February 25, 2016. In particular, you may recall, that we confirmed to you that we will not be in a position to commence a relationship with Trillian, or any other partner/sub-contractor until the criteria below have been met and approved by our global risk and legal teams:

- Shareholding of holding companies
- Ultimate beneficial shareholders
- Related parties and group companies (e.g., significant lenders)
- Executive management team and other "key man" dependencies for both the company and group companies
- Majority Black ownership
- Majority Black management and staff or a clear and committed plan to deliver this outcome

We have requested the above, and other additional relevant information, from Trillian on separate occasions including via letters to them dated 25 February 2016 and 10 March 2016. We have, to date, not received any formal responses to each of the letters despite the respective deadlines of 25 February 2016 and 11 March 2016.

We have also had separate discussions with Mr. Eric Wood on a number of occasions. During these meetings, Mr. Wood orally provided partial information

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concerning Trillian's potential shareholders and directors but expressed that the information was neither complete nor final. The information received served as input into McKinsey's risk management process and review of the proposed contracting arrangement which has been ongoing.

All information received to date concerning our requests to Trillian, as set forth above, was presented and evaluated during a periodic McKinsey global risk committee meeting. The committee came to the following conclusions:

- McKinsey does not know enough about Trillian, its ownership and governance to be comfortable going ahead on a programme of this scale
- Trillian's speed and clarity of response to McKinsey's questions has not been satisfactory
- McKinsey is uncomfortable about Trillian's transparency on conflict issues
- McKinsey has material concerns around reputational risk to the Firm given the above.

As a result, McKinsey's interactions with Trillian have now been terminated with confirmation having been sent to Trillian.

We acknowledge that the draft of the Services Level Agreement between Eskom and McKinsey entails the requirement of outsourcing a percentage of the total consulting fee to a Supplier Development partner. We are fully committed to giving effect to this obligation despite the termination. In light of the previously envisaged sub-contracting relationship with Trillian which, under the current conditions, will not be possible, we would appreciate an opportunity to develop options with Eskom to ensure that we meet our supplier development obligations.

We are very much committed to support Eskom on this going forward. Please take it as our sign of commitment that we so far continued our teams to push for impact

Yours sincerely,

Dr. Dr. Alexander Weiss
Director

Georges Desvaux
Managing Partner, Africa

Anoj Singh, Group Chief Financial Officer

TRANSNET

DF2

WITHOUT PREJUDICE OF RIGHTS

Mr. David Fine
McKinsey Incorporated
88 Stella Street
Sandown Mews East
Sandton
2196

Dear Mr Fine

Initial discussions on Consulting services required

This letter serves to inform you that the Group Chief Executive of Transnet SOC Ltd has approved a number of consulting assignments to a McKinsey led consortium, subject to the successful conclusion of a Master Services Agreement.

As you are aware, Transnet is bound by regulatory policies, procedures and processes in respect of procurement. These processes require amongst others, a request for proposal to be issued for approved transactions, evaluation of the final bid proposals and subject to meeting Transnet's requirements in terms of the full scope of work as set out in the request for proposal, a final Master Service Agreement may be concluded.

The approvals received from the Group Chief Executive are for the following consulting services:

1. Maximisation of the Coal Line – breakthrough of 2 mt per week initiative.
2. Manganese Execution Support to provide critical support that to the Programme Director.
3. NMPP Acceleration including de-risking of the schedule and cost escalations, risk management and resolution management.
4. Assessing the options to renegotiate the Kumba Iron Ore (1a) Contract.

While our teams expedite the issuing of the request for proposals for the above assignments, due to the urgency of the services required, I kindly request that you mobilise a McKinsey led consortium to have the initial discussions with our teams. In the unlikely event that we may not successfully conclude the above-mentioned assignments, Transnet SOC Ltd will reimburse all costs incurred by yourselves.

I am looking forward to working with your teams on these critical assignments.

Yours Sincerely,

Anoj Singh
Date: 02/04/14
Group Chief Financial Officer

DF3

Treasury Regulations for departments, trading entities, constitutional institutions and public entities Issued in terms of the Public Finance Management Act, 1999

Regulation 16A6.4

16A6.4 If in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

DF4

CHAPTER 15 : SPECIAL CASES

15.1 CONFINEMENTS

Confinements are to be used under the following circumstances:

- for transactions over the value of R2 million
- usually when Goods/Services are required on a once-off basis
- when the nature of the Goods/Services fall within one of the grounds for Confinement

cidb

In the context of construction procurement, a "Confinement" to one Bidder is referred to as a negotiation procedure.

15.1.1 Definition

A Confinement is a mechanism where permission is sought from the person with the appropriate Delegation of Authority to **"confine"** enquiries for required Goods/Services to one or a limited number of Bidders.

A Confinement is a departure from the norm of an open, competitive bidding process and as such must be treated with great circumspection. The misuse of confinements has the potential to entrench monopolies and as such is at odds with the imperatives of the New Growth Path. The NGP seeks to encourage open competition and the introduction of new entrants into the market, particularly those from previously disadvantaged communities.

It is important to note that confinements only apply to transactions over R2m. These rules therefore do not apply to transactions falling below R2m. The quotation system applies to such transactions regardless of the number of quotations the buyer is able to obtain.

15.1.2 Grounds

Confinements will only be considered under the following circumstances:

a) where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.

b) the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;

c) for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or

d) when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time.

15.1.3 Types of confinements

Depending on the circumstances one of the following two Confinement routes will be applicable:-

a) The normal Confinement route:
- prior authority to confine must be obtained from the person with the relevant delegation;
- bids will close at the relevant AC (relevant AC to be indicated in the submission for approval); and
- the relevant AC will consider the award of business.

b) Confine and award which is only to be used in cases where there is a sole supplier and/or cases of extreme urgency:
- prior authority to confine and award must be obtained;
- the submission to the person with Delegated Powers must fully motivate the reason for the urgency and provide an indicative / benchmark price;
- bids will close at the relevant AC (relevant AC to be indicated in the submission for approval);
- the business will be awarded by the person with the delegation to the relevant Bidder provided that the final price is within the benchmark as initially approved by the person with the delegation to approve the Confinement; and
- the AC must be informed after award.

15.1.4 Delegation of authority

a) Depending on the value of the transaction, only the GCE, BADC and the Transnet Board have the authority to authorise a Confinement.

b) The relevant monetary thresholds for authorising confinements in terms of the DoA Framework effective 1 June 2013 are as follows:

(i) GCE – up to but not exceeding R250 million;

(ii) BADC – up to but not exceeding R1 000 million; and

(iii) The Board – exceeding R1 000 million.

c) In instances where a confinement is confidential the GCE may approve such confinement without the confinement request being routed via any other authority.

15.1.5 Process

a) The submission for Confinement must be fully motivated in writing by the end-user and the OD CPO to the OD's main AC and the OD's CEO for prior written support of the recommendation to confine. It is important to properly motivate submissions taking into account all relevant factors. Poorly motivated submissions will be referred back to the OD concerned for re-motivation. The submission should be submitted on the relevant template under cover of a memo to the GCE.

b) Only if the reasons advanced for the proposed Confinement are supported and considered to be in the best interest of Transnet, should the Confinement of business to one or more contenders be escalated to Group.

c) The Confinement request must be considered by the Transnet GCSCO and the Group CFO each of whom shall indicate whether or not they support the request.

d) The matter must then be submitted to the GCE, the BADC or to the Board itself for final approval depending on the value of the transaction.

Figure [25] – The Confinement process

15.1.6 Confinement divided between more than one Bidder

Should it be decided to divide the total requirement of a Confinement between more than one Bidder, the total value of the business and not the individual contracts shall determine the level of approval required for the Confinement. Only after the necessary approval has been obtained, may the individual contracts be signed by the Manager with the necessary delegated contractual powers.

15.1.7 Amendment to contracts awarded via Confinement

a) Where a Material Amendment (i.e. the price, duration or scope is increased by more than 10%) to a contract awarded via Confinement is required, the matter must be sent to the relevant AC for support. The AC must submit the amendment to the original approver of the Confinement for prior approval of the amendment. The same principle applies where the cumulative value of amendments equals or exceeds 10% of the original contract value.

b) Where an amendment increases the price, duration or scope by less than 10%, this should be submitted to the AC for approval.

c) Where an amendment to a contract results in the value of the Confinement reaching a higher approval level, the matter must be sent to the original approver for review and recommendation. Approval must then be sought from the person with the delegated authority to approve the higher value of the Confinement.

d) Please refer to paragraph 22.5.7 for the general principles relating to contract amendments.

15.2 EMERGENCY PROCUREMENT PROCEDURE

The emergency procurement procedure is to be used under the following circumstances:

- Where the circumstances giving rise to the emergency were unforeseeable;
- Where engaging in normal bidding procedures or any other methods of procurement would be impractical; and
- Where the occurrence requires immediate action

The concept of retrospective authority applies only in the context of emergencies. Where an emergency process is followed correctly, condonation is not required.

15.2.1 Definition

a) The following circumstances would normally be regarded as sufficient grounds for invoking the emergency procedure i.e. a situation has arisen where there is an imminent risk of:

- human injury or death;
- human suffering;
- serious business disruption that could not have been reasonably foreseen;
- interruption of essential services;
- serious damage to property or financial loss;
- suffering or death of livestock or other animals; or
- serious environmental damage or degradation.

b) The concept of an "emergency" must be applied restrictively and should not be used as an excuse for bad planning. As such, in order to qualify for the emergency procedure:

- the circumstances giving rise to the emergency must not have been foreseeable;
- engaging in bidding procedures or any other methods of procurement would be impractical; and
- the occurrence requires immediate action.

An emergency should not be attributable to a lack of proper planning. In such instances appropriate action must be taken against the individual(s) responsible for the bad planning.

15.2.2 Process to institute the emergency process

a) The end-user requests authority from the person with the necessary delegation of authority to institute the emergency procurement procedure. If possible, the end user must notify procurement of the emergency requirement telephonically followed by email.

NB: Each Entity is responsible for developing its own Emergency Procedural Manual, covering all the relevant disciplines in the entity, and assigning specific persons and value thresholds, for the different roles (i.e. to institute the emergency procedure). Please see attached Appendix D for the Matrix for Approval of Emergency Procedures.

b) The duly authorised Manager to invoke the emergency process will consider the request and decide on whether to grant such authority. He/she will notify the requestor in the form of an email, SMS or even verbally. If by SMS or verbally, this must be confirmed in writing or by e-mail afterwards.

c) Procurement will invite a Bid(s) from a supplier(s) best able to deal with the emergency immediately. Alternatively, if the emergency occurs after office hours or it is not possible to contact procurement, the end user, after having received the required approval as per sub-paragraph (a) above, may invite the Bid/s directly from suppliers and/or issue instructions to commence the work.

d) Retrospective authority must be obtained as soon as possible thereafter.

15.2.3 Retrospective authority for the emergency procedure

a) Thereafter the AC or higher in terms of the Procurement Process Approval Delegations must be approached for retrospective authority for the emergency provided the transaction is within the AC's threshold. The AC must consider the motivation and provide retrospective authority if the emergency is validated. The AC is required to be vigilant with regard to exercising this power as the emergency procurement procedure must be adequately justified. The AC must furthermore consider any amendments to emergency transactions with circumspection.

b) Retrospective authority must be sought using the standard template.

c) The concept of retrospective authority applies only in the context of emergencies and does not apply to the condonation process.

d) If an emergency procedure is followed correctly, condonation is not required. It is also important to note that a correctly followed emergency procedure also falls outside the ambit of the Confinement process. However, if the use of the emergency procedure was not justified, it will equate to non compliance with procurement processes and condonation would have to be sought.

15.3 HIGH VALUE TENDER PROCESS (HVTP)

- The High Value Tender Process (HVTP) subjects all transactions falling within the High Value Tender threshold to independent scrutiny and validation of all commercial, contractual, process and governance aspects of the Bid process.
- The process enables Supply Chain to detect any shortcomings at key gateways in the Bid process and to make appropriate corrections before any award of business is made.

15.3.1 Principles

a) The HVTP applies to all transactions falling within the High Value Tender threshold. The HVTP offers an opportunity for peer review, guidance, advice and the sharing of good practice and experience. The HVTP subjects all high value bids to independent scrutiny and validation of all commercial, contractual, process and governance aspects of the bid process.

b) The process enables Supply Chain to detect any shortcomings at key gateways and to make appropriate corrections. This further reduces Transnet's risk on larger value acquisitions as any inefficiencies are addressed before any award of business is made.

The gateways that are reviewable in the process are as follows:

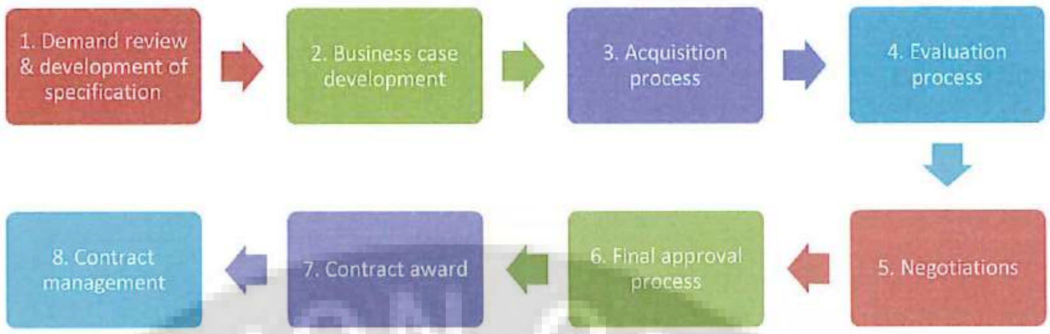


Figure [26] – The HVT process

15.3.2 The HVT Process

The following steps must be followed for any transactions falling within the High Value Tender threshold:

Entities must contact and involve the HVT team from the outset of the bidding process i.e. at the demand review stage;

The HVT team must attend to all procurement processes and advise Entities during each phase of the process as follows:

- Review the demand and business cases.
- Review the RFX document for accuracy and correctness before going to market.
- Assess the adequacy of the procurement proposed mechanism used i.e. RFP/RFI/Confinement and determine if governance is being followed by ensuring that the approval process has been complied with.
- Ensure that in all high value bids, a CFST contains at least Technical, Financial, Operational and Legal Support.
- Advise on the scoring methodology and governance issues related to the evaluation process.
- Advise the teams during the evaluation process on all bids;
- Advise and support teams during the moderation process of scores on all bids;
- Review AC documents for accuracy and correctness.
- Advise teams during the negotiation process and also determine if governance processes have been followed.
- Advise teams during the contracting process and also determine if governance processes have been followed.
- During each gateway review the HVT team will raise questions and/or concerns. The teams may not continue with the process until all the HVT team's concerns have been addressed.
- The HVT team must report significant process breaches to Transnet management. Firstly at Entity level, and if still not satisfied with the outcome / corrective action, such matters must be reported to the OD CPO before being escalated to the Group iSCM.
- The HVT team must document lessons learnt throughout the process and provide feedback so that processes may be improved.

A detailed description of the HVTP and associated templates can be found on the iSCM Transnet Intranet.

15.4 UNSOLICITED BIDS

- An Unsolicited Bid is an offer unilaterally submitted by a potential supplier of its own accord and received by Transnet outside of its normal procurement process.
- Transnet is not obliged to consider Unsolicited Bids received outside its normal bidding process.
- These rules do not apply to Bidders who merely seek to be registered on Transnet's Potential Vendor Portal (TPVP) in order to be considered as potential suppliers for future business. When Goods or Services are to be acquired from such Bidders, the normal procurement mechanisms are to be used

15.4.1 Definition

An Unsolicited Bid is an offer unilaterally submitted by a potential supplier of its own accord and received by Transnet outside of its normal procurement process.

Transnet does not encourage the consideration of Unsolicited Bids. Furthermore, Transnet is not obliged to accept Unsolicited Bids.

15.4.2 Risks

There are a number of risks related to the consideration of Unsolicited Bids:

a) It potentially undermines fair and competitive bidding processes.

b) It can result in purchasing Goods/Services at higher than market-related prices.

c) Transnet runs the risk of being accused of infringing on the Unsolicited Bidder's intellectual property if it uses the concepts used in the Unsolicited Bid to approach the market.

d) There is also danger that an Unsolicited Bid may be received, evaluated and regarded as an excellent proposal and accepted, only to ascertain afterwards that there were many suppliers in the market supplying the same or better goods or technology at much better / similar prices.

15.4.3 Criteria for consideration of unsolicited bids[3]

Transnet may only consider an Unsolicited Bid if the following requirements are met:

a) the product or service offered is a demonstrably or proven unique and innovative concept;

b) a need for the service or product has been established;

c) the product or service will be exceptionally beneficial to Transnet or have exceptional cost advantages for Transnet;

d) the Bidder is the sole supplier of the service or product; and

e) the reasons for not using one of the normal bidding processes have to be found to be sound by the person with the necessary delegation of authority.

15.4.4 Unacceptable unsolicited bids

Transnet must reject an Unsolicited Bid if the Bid:

[3] *This section is largely based on the Municipal Finance Management Act Regulations and National Treasury's Practice Note 11 of 2008/2009 on Unsolicited Proposals*

a) relates to known institutional requirements which can, within reasonable and practicable limits, be acquired by conventional competitive bidding methods;

b) relates to goods or services which are generally available; or

c) does not comply substantially with the requirements of paragraph 15.4.3 above.

15.4.5 Rejection of unsolicited bids

Should Transnet decide to reject an Unsolicited Bid, the following steps must be followed:

a) The Bidder must be notified of the decision;

b) All documents received in the Unsolicited Bid must be returned to the Bidder; and

c) Transnet must ensure that it does not make use of any intellectual property or data that was contained in the Unsolicited Bid.

15.4.6 Process for consideration of unsolicited bids

a) The Unsolicited Bid must be considered by an evaluation team. The minutes of the evaluation meeting must be recorded.

b) The evaluation team should investigate and verify whether there are no other suppliers in the market.

c) In the event that the evaluation team has resolved to procure the Goods or Services, depending on the contract value, the Confinement or quotation process must be followed and thereafter a recommendation made to the AC, Manager or person with the relevant authority to approve the award.

d) All copies of Unsolicited Bids, records of discussions, records of deliberations and copies of correspondence relating to it, will be kept by the procurement official who led the process, and the AC secretary for record purposes.

15.4.7 Information to accompany the recommendation for award of the unsolicited Bid

The following information must be contained in the recommendation:

a) A detailed description of the goods or services;

b) A detailed description of benefits Transnet is to derive from the envisaged acquisition;

c) The costs associated with the acquisition of the service or product;

d) The validity period of the Unsolicited Bid;

e) Proof of certification that the Bid was submitted by the person who holds the intellectual property rights in the goods or service; and

f) Certification by the evaluation team that there are no other suppliers who can provide the goods or services.

15.5 CONTRACT CONSOLIDATION

Contract consolidation may represent optimal value for Transnet in the following circumstances:

- where more than one Entity have existing contracts for the same Goods / Service with the same or different suppliers with significant price variations and differing contract terms; or

- where one or more Transnet Entity become aware that another Entity has already concluded a contract for the Goods /Services required by it and wish to utilise the existing contract ('piggybacking').

15.5.1 Principles

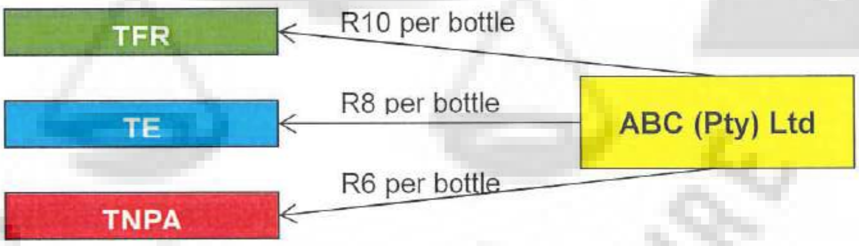
Consolidation of existing contracts is potentially problematic from a governance and operational perspective. For this reason, Transnet must endeavour to approach the market with a consolidated demand signal clearly outlined in a single RFP, rather than having each Entity approach the market in a piecemeal fashion and thereafter seeking to consolidate a number of different contracts. Therefore, when an Entity identifies the need to acquire goods/services that are common to more than one entity, it is imperative that they first ascertain whether it is feasible and advantageous to approach the market with the consolidated requirements of all Entities that require the goods / services.

Transnet can gain significantly from consolidating its demand. Due to economies of scale, it will be in a better position to negotiate price and contractual advantages. In addition, it will lessen the administrative burden on Transnet to manage a multiplicity of contracts.

15.5.2 Triggers for consolidation

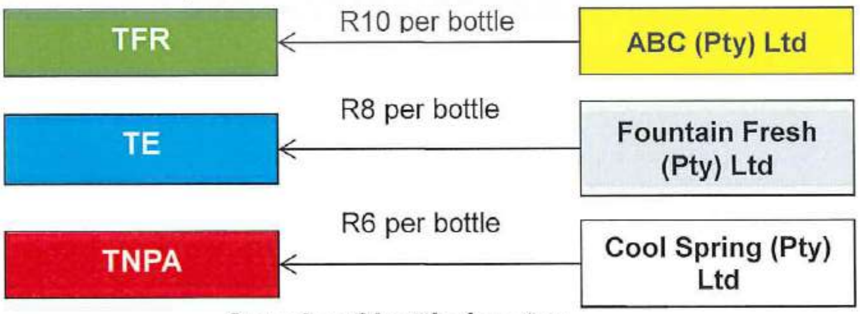
One of the following circumstances should trigger the need for consolidation of existing contracts:

a) The same commodities or categories of commodities are being purchased by more than one entity from the same supplier but with differing prices and contract terms. For example:



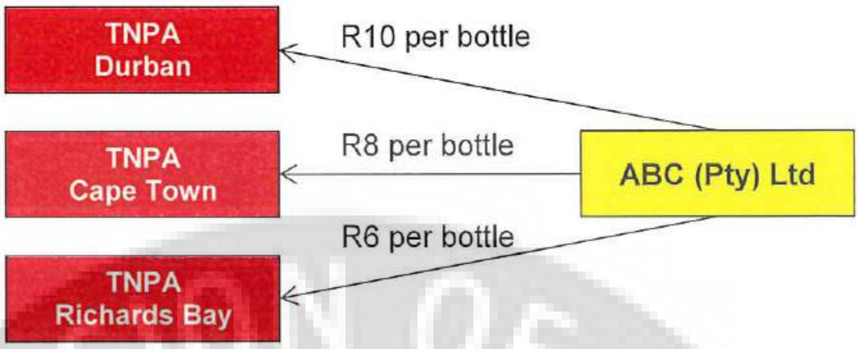
Supply of bottled water

b) The same commodities or categories of commodities are being purchased by more than one entity from different suppliers with differing prices and contract terms. For example:



Supply of bottled water

c) The same commodities are being purchased by one OD from the same or different suppliers, with significant price variations. For example:



Supply of bottled water

15.5.3 Factors to consider when consolidating

The following factors need to be considered when consolidating existing contracts:

a) The probable increase in volumes required from the preferred suppliers (expressed in %) if contracts were to be consolidated;

b) Whether the existing contracts allow volume changes, and what the contract terms and conditions regarding volume changes are;

c) Price differentials between various contracts;

d) Other key contractual differences (e.g. specifications, delivery, payments, volume discounts etc.);

e) Whether the contracts allow for cancellation 'without cause';

f) The expiry dates of the various contracts;

g) The cost of termination (penalty for breach); and

h) Current contract management and monitoring.

The merits of each case should be evaluated based on the factors above in order to determine the feasibility of consolidation. Once the feasibility of contract consolidation has been determined, a decision will be made on whether to renegotiate one of the existing contracts or issue a new bid.

The cost of termination of existing contracts must be calculated and then weighed against potential benefits of consolidation in terms of cost and Quality. It is important to note that existing contract periods must be adhered to where financially viable. Paying high penalties due to the cancellation of existing contracts should be avoided as far as possible.

Where it is clear that there is no financial benefit for Transnet to renegotiate the existing contracts then the process to be followed would be to issue a new bid for the consolidated spend, when the existing contract(s) terminate.

15.5.4 Deciding on which contract to consolidate

Once a decision has been made to consolidate, the next issue is to determine which contract is the most favourable for consolidation. In arriving at this decision, the following factors must be considered:

a) Identify the contract that entails the biggest spend or usage;

b) The OD and/or region contributing the largest volume;

c) Whether one supplier can meet all Transnet's requirements;

d) The perception regarding potential market challenges (type of commodity and potential suppliers);

e) The competitive landscape of these Goods and Services; and

f) New suppliers in the market.

15.5.5 Process for consolidation of a number of existing contracts

a) Where it is considered feasible to consolidate spend to one of the existing contracts, all other contracts must be terminated. The most favourable existing contract would be increased to include other Transnet Entities' requirements after negotiation. The Transnet Entity originally managing that contract will be responsible to initiate the approval process for the increase of contract value.

b) Where the increase in value is below 10% of the original contract value, the matter must be submitted to the relevant Entity AC for noting.

c) If the increase in contract value is above 10%, the matter must be submitted to the relevant Transnet Entity's AC for approval.

d) Once the relevant Transnet Entity has approved the increase, the matter must be submitted to the other Transnet Entities' ACs for information.

e) Where consolidation would result in a substantial increase in the scope and value of the contract (more than 50% of the original estimated contract value as approved by the AC), it would be peremptory to embark upon a new bid process for the consolidated spend.

f) Inclusion of entities into the consolidated contract may be on a staggered basis. For example, where a current Transnet Entity's contract expires 3 months after the consolidated contract commences, that contract can be allowed to run its full period. Thereafter, the entity will be included in the new transversal agreement, with a sliding-scale volume discount structure being coupled to the pricing.

g) Contract "owners" must notify all Transnet users of the new transversal contracts that are in place to ensure maximum advantage for Transnet. However, please note that this mechanism is to be regarded as almost an interim measure. Ideally all entities must be approached during the demand planning stage already to obtain their estimated requirements beforehand for inclusion in the consolidated RFX document.

h) Note that the process to be followed for the normal increase of contract values and cancellation of contracts will still apply.

15.5.6 "Piggybacking"

a) "Piggybacking" arises when an existing contract has been identified, which one Transnet Entity has concluded for specific goods/services, and which another entity would like to utilise for their requirements.

b) The Transnet Entity who wishes to "piggyback" off an existing contract should obtain prior approval from the AC of the Transnet Entity that concluded the contract. Once approval from that AC is obtained, the supplier should be approached to indicate whether he/she is able to meet the increased volume as well as any price discounts that may be offered.

c) Where the increase in value is below 10% of the original contract value, the matter must be re-submitted to the relevant AC for noting. If the increase in contract value is above 10%, the matter must be re-submitted to the relevant Entity AC for final approval.

d) Once the relevant Entity has approved the increase, the matter must be submitted to the other ACs of Entities who want to make use of this contract for information.

e) The respective Transnet Entities must make satisfactory arrangements between themselves regarding the apportionment or recovery of costs for goods / services, if applicable.

f) Where consolidation would result in a substantial increase in the scope and value of the contract (more than 50%), it would be prudent to embark upon a new bid process for the consolidated spend.

15.6 ACQUISITIONS ASSOCIATED WITH INCOME GENERATING CONTRACTS

15.6.1 Although income generating contracts are in principle excluded from this Procurement Procedure Manual, all associated expenditure contracts necessary to fulfil such contracts (i.e. procurement contracts to acquire the necessary Goods or Services), falls within the ambit of the PPM.

15.6.2 For example, TFR negotiates an income generating contract to transport fuel from the Port of Durban to Zimbabwe. This would be a pure income generating contract and although it might require approval from the TFR Exco or even Transnet Board of Directors, it would fall outside the scope of the PPM and AC approval would not be necessary.

15.6.3 However, if TFR needs to purchase 2 additional locomotives and 90 rail tank wagons to provide this Service (fulfil the contract); such associated expenditure / procurement contracts would fall within the ambit of the PPM and would also require AC approval.

15.6.4 The only exception to this rule would be in circumstances where a Transnet Division or Specialist Unit needs to respond to an external bid invitation (e.g. TRE responding to a bid invitation issued by PRASA for the supply of suburban coaches). In such instances Transnet would need to prepare its bid for the income generating contract taking into consideration any goods/services that it would need to acquire in order to respond to the bid. The limited time available to respond to such bid invitation would not allow the Transnet Division or Specialist Unit to invite bids in the normal manner for goods/services required.

15.6.5 In such cases, irrespective of the monetary value of such transaction(s), the CEO, BADC or the Board may authorise such "confined" requests for bids from potential suppliers and/or approve the selection of possible joint venture partners/subcontractors, etc., without AC approval, provided that the matter(s) be reported for the AC's information as soon as possible after the Transnet OD has lodged its bid. When obtaining bids in respect of goods and services required in order to respond to an external bid invitation, the Transnet Entity must clearly state that the award of any business pursuant to such bids cannot be guaranteed and is conditional on the Transnet Entity being selected as the Successful Bidder.

15.6.6 Such transaction(s) need not be submitted for approval again, should the Transnet Entity be selected as the Successful Bidder, as this could lead to delays in the execution of such external income generating contract.

15.6.7 On completion of the project, the AC should be informed of the outcome in detail, e.g. how the selected subcontractors/JV Partners performed, whether the project was completed on time, what income was derived from the income generating contract after all outsourced parts have been accounted for, etc.

DF5

David Fine

From:	Mohammed Mahomedy Transnet Group Capital JHB <Mohammed.Mahomedy@transnet.net>
Sent:	05 March 2020 23:54
To:	David Fine
Cc:	Yusuf Mahomed Transnet Corporate JHB; Ndiphiwe Silinga Transnet Corporate JHB; Damian Hattingh; Xandra Blacklaws
Subject:	[EXT]Re: Progress update

Good day David

My apologies for the delayed response

With reference to your mail, we advise that the matter has been largely concluded by the management team relating to discussions held to date. We have gone through the under mentioned high level processes and submitted the requisite memorandum to the Exco, which was recommended by the Exco to the Sub committee of the BoD (the FIC)

1. Review of the procurement processes for Mc Kinsey contracts, which in most cases were signed off by the governance teams.

2. In cases where Mc Kinsey and Regiments were involved in contracts, we have reviewed the payments and invoices (for internal authorization). We confirm that Regiments were paid separately, however we have not concluded on the review processes related to payments made to Regiments

3. We have considered the evidence provided by both our internal teams as well as that corroborated by Mc Kinsey submissions. Largely we have assessed value was derived in the work executed except for the iron ore pricing negotiation contract.

4. As part of the engagements to date, we have acknowledged the following a. The MNS report recommends the payment of approximately R2,5 million, relating to disbursements, to Transnet b. Mc Kinsey informed Transnet of a claim of approximately R72,5 million, which the former indicted its willingness to not pursue should a settlement be reached.

5. Mc Kinsey has also advised of its willingness to provide certain services to Transnet As part of the settlement

The proposal and memorandum was submitted to the FIC (Finance and Investment committee, a sub committee of the BoD of Transnet) late in 2019. The FIC recommended that management should not continue with finalizing any settlement at the time, citing in the main a reputational risk if Transnet continues to associate itself to Mc Kinsey.

Management continue to discuss the matter internally and we will revert if there is a change in Transnet's position. In the meantime, we will also engage the GCE, and Portia Derby, who has joined Transnet in February 2020.

We appreciate your patience in the matter and look forward to continued engagement to conclude the matter.

Kind regards
Mohammed

Sent from my iPhone

DF6

COMPANY PROFILE

REGIMENTS CAPITAL

REGIMENTS CAPITAL™

July 2012

CONTENTS

1 ABOUT REGIMENTS CAPITAL

Regiments Capital is an integrated investment banking and advisory firm focused on providing services to all sectors of government (national, provincial and municipal), state-owned enterprises and corporates. Regiments Capital consists of four core businesses:

- Financial Advisory
- Capital Markets
- Real Estate
- Proprietary Investments

As a leading financial advisor to public and private businesses across South Africa, Regiments Capital draws on the exceptional financial market skills of its members to provide unrivalled and unique solutions to its clients.

Since its inception in 2004, Regiments Capital's Financial Advisory business has successfully delivered on wide ranging mandates to a number of clients, including ACSA, City of Johannesburg, City of Tshwane, Transnet, SAA, City of Ekurhuleni and DBSA, amongst others. Projects typically include treasury restructuring, large scale capital raising, structured solutions for debt and/or equity, risk management solutions, etc.

The Group's Capital Markets business manages funds on behalf of its valued clients (such as the management of the sinking fund on behalf of the City of Johannesburg) and our Real Estate business generates significant returns through large property development opportunities. The most notable of these developments, the Kgoro Sandton Gateway (a large mixed-use development on the platform above the Gautrain station in Sandton), is currently in progress.

In addition to the Financial Advisory, Fund Management and Real Estate businesses, Regiments Capital's Proprietary Investments unit led a broad-based BEE consortium in the acquisition of 12.2% of Capitec Bank Holdings Limited. We previously held a stake in Nedbank through the Eyethu Corporate Scheme and have recently structured an investment into MTN through the MTN Zakhlele BEE scheme. Regiments Capital has also made a number of strategic investments in the private sector.

Regiments Capital's team comprises of leading corporate finance and economic professionals with extensive experience in transaction advisory, financial product engineering, financial modeling, large scale capital raising, fund management, structuring and property development.

The various business areas of Regiments Capital will be discussed briefly in the following sections.

1.1 Advisory

Since its inception in 2004, Regiments Capital's Financial Advisory business has successfully delivered on wide ranging mandates to a number of clients, including ACSA, Transnet, SAA, City of Johannesburg, City of Tshwane, City of Ekurhuleni, DBSA, amongst others. Projects typically include treasury restructuring, large scale capital raising, structured solutions for debt and/or equity, risk management solutions, etc.

Our financial advisory services cover the following areas:

- **Capital Markets Advisory:** Regiments Capital possesses a breadth and depth of expertise with respect to the debt capital markets encompassing debt raising, structuring, arranging, broking, trading, and investment. Regiments Capital has focused its debt origination services primarily on the public sector. Some of our accomplishments in capital market advisory includes the following:
  - Regiments Capital has successfully raised R1.5 billion in the form of short term funding and R1 billion in the form of long term funding for the City of Johannesburg;
  - Regiments Capital has played an important role in the development and upgrading of airport facilities by raising commercial funding of R1.75 billion and R4.2 billion DFI funding for the Airport Company of South Africa;
  - Regiments Capital has concluded (together with JPMorgan Chase and Calyon Bank Limited) a R5 billion Euro bond issue for Eskom Holdings Limited. This issue was 5 times oversubscribed.
  - Advising Sovereign Foods on a R700 million capital raising programme.
- **Treasury and risk management solutions:** Our clients also benefit from the specialized financial risk management solutions we provide and an in-depth knowledge of treasury functions we command. Regiments Capital designs and implements strategies for clients' treasury divisions to help them address the challenges of a rapidly transforming environment. Our close relationship with leading local and international financial institutions help clients to effectively underwrite the mix of products and provide world-class execution capabilities. The corporate solutions we provide include financial risk management consulting, cash and asset liability management. Some of the treasury and financial risk management projects we have completed thus far include:
  - Regiments Capital analysed and optimized the financial risk management framework and structured the treasury functions for Transnet;
  - Regiments Capital established a financial risk management framework and assisted in the establishment of the treasury functions for Airport Company of South Africa; and
  - Regiments Capital has successfully reviewed the treasury functions of the City of Tshwane and provided recommendations.

- **Structured financial solutions:** The Regiments Capital team's extensive experience in financial markets trading and structuring not only ensures that clients receive the very best advice and structuring services to enhance existing business operations, but also lays the path for future growth with the more efficient use of capital and access to advanced funding mechanisms. These structuring capabilities provide Regiments Capital an opportunity to leverage its capabilities to offer unique debt- and equity related products. Some of the structured solutions we provided to our clients include:

    - Optimization of the balance sheet of the City of Johannesburg;
    - Structured property solution for Ekurhuleni Metropolitan Municipality; and
    - Interest rate hedge strategy for ACSA totalling in excess of R6 billion.

- **Financial, Econometric and Escalation modelling:** As part of our commitment to provide the best and one-stop solutions to our esteemed clients, Regiments Capital's Economic Research Unit caters for the need of our external clients and internal clients including Regiments' Securities, Advisory, Investments and Fund Management businesses. The stock broking, private equity, advisory, securities, investments and fund management businesses benefit immensely from the research outputs of the Economic Research Unit. By maintaining econometric and quantitative approaches to its solutions, it sufficiently combines qualitative and quantitative techniques and produce deliverables that are as scientific as possible. Drawing on the skills of top class econometricians and a consortium of data providers and academics, Regiments Capital integrates a range of intricate modeling methods to present results and help clients forecast most likely outcomes and conduct policy simulations where required. Some of our major products include socioeconomic impact studies on policy interventions of the national, provincial and local governments.
  Along the various macro- and micro-econometric modeling, we also have a qualified and experienced team to conduct robust financial and cost escalation modeling for our clients. The cost escalation models we built at Regiments Capital integrate clients' financial models with specific econometric based cost driver models.

- **Strategy Advisory:** Regiments capital, through its subsidiary 'Burlington Consultants', has been able to assist clients with developing business plans and feasibility studies for market entries and new technology. Burlington is a leading provider of strategy development services in South Africa. Burlington is the market leader in areas of commercial due diligence and investment support, and is one of the few local players that can offer top tier strategy consulting services. Our approach is highly analytical to give fact-based solutions (Burlington sweats the detail).

Burlington has worked on over 150 engagements with more than 60 organisations ranging from major listed corporates to mid-sized private companies, private equity and institutional investors, and government and civic organisations.

Since its inception in Johannesburg, Burlington's unique offering has been well received by a broad spectrum of clients, resulting in sustained growth of our local team. The following factors have been critical to our success:

- A single-minded focus on delivering exceptional results for our clients
- An outstanding track record of past projects and client relationships
- The delivery of an international-standard, top-tier consulting product at rates that take into consideration the realities of local economics
- Local ownership and management who have an intimate understanding of the African business environment
- Senior staff with considerable local and international management consulting experience combined with non-consulting, real-world exposure to a range of industries
- An exceptional team of consultants nurtured through a structured development program
- AAA rated Black Economic Empowerment credentials

Burlington offers a full range of management consultancy and advisory services including strategy formulation, operational improvement and organisational development, aimed at assisting our clients in achieving full potential in their businesses.

In addition, our transaction services support investors assessing opportunities through commercial due diligence and assist vendors or entrepreneurs seeking funding by developing investment memoranda and business plans.

1.2 Fund Management

Our fund management mainly provides innovative asset management solutions using a liability-plus approach. This is basically a risk management advisory service targeted at annuity funds.

The principal features of our asset management solutions include the following:

- Closely tracking our clients liabilities,
- Liabilities plus approach,
- Sophisticated infrastructure to support liability analysis and the impact of investment decisions,
- Dynamically manage the assets to match the liability, and
- Strong oversight and risk management.

Regiments Capital uses a dynamic asset-liability management approach in managing annuity based funds. Asset-liability management is the practice of managing risks arising from the mismatch between assets and liabilities. The dynamism introduced to our approach is due to the active management of assets that would respond to the possible changes in underlying liabilities.

Some of the areas where the Liability Plus approach has been successfully used include:

- Debt Redemption: Assist clients in managing and repaying large debt commitments on time.
- Rehabilitation Fund: Ensuring timely provision for the financial redemption of rehabilitation liabilities through identifying, managing and hedging the financial drivers impacting on the underlying liability.
- Post-Retirement Medical Liability: Post-retirement health benefits that are paid out after retirement. These unfunded medical liabilities are generally driven by medical inflation which has historically been significantly higher than general inflation.
- Retirement Annuity/ Pension Fund: Savings plan for retirement that is put in place to allow individuals to enjoy the same life style during their retirement as they do during their working life.

Regiments Capital has earned a reputation for designing and managing a successful debt redemption fund that has proven to outperform the benchmark over the years. Currently, Regiments Capital manages a debt redemption fund for the City of Johannesburg. The fund's outstanding performance over the years can be seen from the following figure.

1.3 Stock Broking (Fixed income and money market)

In 2005, Regiments Capital acquired a 51% controlling interest in FFO Securities, a JSE registered stock- broking firm specializing in fixed income and money market transactions. In 2008, Regiments acquired the balance of equity in the firm, making it a 100% owned subsidiary, and proceeded to re-name the company "Regiments Securities". The company was recently ranked third by volume of fixed income transactions traded.

1.4 Real Estate

Our Real Estate business generates significant returns through large property development opportunities. The most notable of these developments are Kgoro Sandton Gateway – a large mixed-use development on the platform above the Gautrain station in Sandton, and Ferguson Office Development in Illovo.

Developing and managing property funds also falls under the purview of Regiments Real Estate. It currently manages the Gauteng Fund, COJ Fund, and Housing Fund.

1.5 Portfolio and Strategic Investments: Own balance sheet investments

In addition to the Financial Advisory, Fund Management and Real Estate businesses, Regiments Capital's Proprietary Investments unit led a broad-based BEE consortium in the acquisition of 12.2% of Capitec Bank Holdings Limited. We previously held a stake in Nedbank through the Eyethu Corporate Scheme and have recently structured an investment into MTN through the MTN Zakhlele BEE scheme. Regiments Capital has also made a number of other strategic investments in the private sector.

2 Our Credentials

Regiments Capital operates primarily in the public sector space and caters for the complex needs of local, regional and provincial governments, state owned enterprises, corporations, institutions and entities responsible for infrastructure development.

2.1 Funding Plan Preparation and Fund Raising Credentials

City of Johannesburg – Development of Funding Strategy for CoJ's R11bn Medium Term Budget (2009 to Present)

In 2009, Regiments Capital was appointed as funding facilitator for the development of a funding strategy for CoJ's R11 billion medium term budget.

Following approval of the funding strategy, Regiments Capital was appointed to assist the CoJ in implementing the recommendations of the funding plan. Over R2.3 billion of short and long-term debt was raised for their capital expenditure programme.

City of Tshwane – Long term sustainability financial plan
July 2009

In 2009 COT appointed Regiments Capital to assess COT's cash flow and liquidity, analyze revenue sources, identify critical success factors for COT and develop solutions to optimize COT's balance sheet. Regiments capital raised 700 million for COT.

Eskom – Capital raising and issuance of a 500 million Euro bond
(October 2005 – February 2006)

In October 2005, Eskom appointed Regiments Capital as joint lead managers together with Calyon and J.P. Morgan for the capital raising and issuance of a 500 million Euro bond.

Airports Company South Africa – Capital Raising Program (2006-2007)

In 2006, Regiments Capital was appointed by Airports Company South Africa (ACSA) as advisors in their capital restructuring program. A review on SAA's 5 year R21 billion capex and opex programs was then carried out. Appropriate financially modelled balance sheet trigger and target ratio's based on comparative airport analysis were developed together with a 5 year funding plan including spread of financial instruments.

Regiments designed, ran and managed of RFP processes for appointment of a ratings adviser and debt lead managers for SAA and assisted with the registration of R12 billion Domestic Medium Term Note (DMTN) borrowing program (including obtaining shareholder (NDOT) and National Treasury approvals); advised on the setup of a bond redemption fund; and successfully managed the inaugural ACSA R2 billion 12 year bond issues in March 2007.

ACSA – Re-appointment of Regiments Capital in March 2008

Review and update ACSA's Capital Expenditure Programme; requiring the preparation of an optimal funding plan through the modelling of all expected cash flows. Our mandate included assisting in the structure, pricing, placement and redemption planning of debt raised in fulfilment of ACSA's capital expenditure plan. We then reviewed ACSA's current financial risk management framework and executed the funding plan.

Our advisory services made recommendations for ACSA's revised financial risk management framework and placed key human resources at ACSA for the establishment of an optimal treasury, financial risk management and cash management solution. Regiments Capital then updated and reviewed ACSA's 5 year R22 billion funding plan and advised on the issuance of two of its bonds (AIR02 and AIRL01) collectively valued at R1.151 Billion.

Regiments assisted ACSA on the drafting, adjudication and appointment of ACSA's panel of advisors on the DMTN. In order to assist ACSA with the achievement of the proposed funding plan, Regiments Capital negotiated R9bn worth of committed general banking facilities with various local financial institutions having conducted a hybrid feasibility study; originating, structuring and advising on the pricing and quantum for a R1.75bn commercial banking term loan as well as R5bn term loan from various Development Finance Institutions including ECA Funding.

Sovereign Foods – Analysis of the CAPEX plan and development of the funding plan (February 2008 – April 2008)
In February 2008, Sovereign Foods appointed Regiments Capital to perform an analysis of the CAPEX plan and develop a funding plan. Sovereign Foods then engaged Regiments Capital to become the capital raising agent pursuant of the funding plan.

2.2 Treasury Review and Risk Management Credentials

Treasury review, analysis of asset portfolio, and balance sheet restructuring (September 2006 – February 2007)
a world class African city
Regiments Capital performed a treasury review in 2007 involving reviewing the CoJ treasury policies, procedures and processes in line with the MFMA and National Treasury regulations.
Regiments Capital analyzed the asset portfolio for the CoJ and realized R650m from financial asset sales (Note: These financial assets were previously underperforming).

Interest rate risk management: Facilitator of the execution of interest rate swap
a world class African city
Regiments Capital was appointed to assist the CoJ to execute interest rate swap transaction in March this year.
The CoJ had a long term loan of R 1 billion that carried a flexible interest rate linked to 3-month JIBAR. The swap allowed the CoJ to fix the interest rate instead of paying a variable rate that they used to pay in the past.

Liquidity management: Bond redemption fund (Department of Treasury)

Regiments Capital designed a unique asset management solution to provide efficient redemption of all listed debt of CoJ in compliance with the terms of the MFMA. Management of a R5.7 billion (CoJ01, CoJ02, CoJ03, CoJ04, CoJ05 and new retail bond) sinking fund on behalf of CoJ, in line with the unique asset management solution. Regiments reports on the fund's performance on a quarterly basis to the CoJ senior treasury management team and semi-annually to the Asset and Liability Committee (ALCO).

Funding Facilitator (June 2009): Financial risk management

In 2009, Regiments Capital was appointed as funding facilitator in order to identify, measure, manage and report on financial risks within the approved cash management framework. Regiments Capital's key objective was to ensure that the cash resources of the City were utilised optimally and assist in the adequate planning of funding or investment decisions.

City of Tshwane – Treasury review (July 2009)

In 2009, the COT appointed Regiments Capital to assist COT treasury in reviewing and advising on a treasury model for the treasury. The COT treasury is primarily a group risk management and execution service provider, which in the course of its duties services a number of divisions of COT. Regiments Capital is currently making recommendations based on the review. Key risks are being identified, quantified and action plans recommended.

Denel: Identify, assess and measure exposure to foreign exchange risk

Denel appointed Regiments Capital to indentify, assess and measure the company's exposure to foreign exchange risk since a substantial portion of Denel's costs are incurred in Euro or US dollars. A financial analysis of Denel's capital structure was performed together with a Rand/Euro market evaluation. Regiments developed a comprehensive strategy to protect Denel against foreign exchange risk advising on the percentage of exposure to hedge, what instruments to use and how often the strategy needed to be measured and reported.

Financial risk management framework and treasury policy and strategy

Regiments Capital was mandated by the largest state owned enterprise ("SOE") in South Africa to develop a financial risk management framework ("FRMF") that enabled the group to successfully embark on a significant corporate restructuring exercise. The Regiments Capital approach, unlike those of other advisory firms, was a solution driven approach and custom designed to meet the critical needs of the client.

The SOE therefore played an integral role in developing the design of the solution and, most importantly, Regiments Capital made available its diverse exposure to various first world treasury systems for the benefit of the SOE.

The mandate also entailed designing a template for the restructuring of the SOE's entire group treasury division to a world-class treasury in order to tackle the challenges of a rapidly transforming environment. Regiments Capital was actively involved in the implementation of the solution.

Development of an Enterprise Risk Management Framework (ERMF) (July 2005 – January 2006)

Regiments Capital was mandated by SAA to develop an enterprise wide risk management framework ("ERMF") which mirrored the FRMF to ensure optimal decision making processes across the organisation. The scope of the project ensured that the ERMF process was aligned with the FRMF and the overall strategic objectives as defined in the overall restructuring program of the group.

SASRIA – Development of a business plan for their expansion into Africa (February 2010 – May 2010)

In February 2010, Sasria appointed Regiments Capital to develop a business plan for their intended expansion of their operations into Africa. It involved market and risk analysis, financial modelling and other aspects of a business plan for each country Sasria intended entering. Regiments also assisted with the submission of the business plan to National Treasury for approval according to section 54 (2) of the PFMA.

2.3 MODELING AND OTHER CREDENTIALS

Nedbank - Assisted with the development of an econometric credit risk index model (September 2008 – December 2008)

Nedbank appointed Regiments Capital to assist with the development of an econometric credit risk model. The scope of the work consisted of:

- Single Factor Analysis,
- Multi-Factor Analysis,
- Default prediction,
- Development of the portfolio indices,
- Development of the master index,
- A Nedbank-specific forecast of asset-class and aggregated default rates,
- Regression analysis related to the various portfolios, and
- Back testing of the estimated variables.

Development Bank of South Africa (DBSA) – Performed an independent valuation of the assets, used as collateral against its credit exposures (March 2009 – August 2009)

Regiments Capital was appointed by DBSA to perform an independent valuation of all the collateral held by the bank. The scope of the work included:

- Providing an updated, complete and accurate collateral register of all the collateral currently held by DBSA. The register included collaterals from both performing and non-performing loans.
- Establishing a robust and logical approach to value the collateral
- Valuing the assets held as collateral.

Development Bank of Africa – Assisted with the implementation of a Project Finance Risk Rating Tool (October 2008 – February 2009)

Regiments Capital assisted the Development Bank of South Africa ("DBSA") with the implementation of a Project Finance Risk Rating Tool.

The objective of the planned project was to build a rating model for the project finance portfolios, using a cash flow projection and simulation approach while:

- Prioritizing simplicity and flexibility over complexity and avoiding a 'black box' approach
- Tailoring the model to particularities of South African project finance deals (and more generally deals within the SADC region), including special attention to the multinational nature of transactions, and country-related risks including government support and legal systems
- Including standardized cash flow projection models to enhance consistency of credit analysis
- Enabling sensitivity and scenario analysis
- Offering the capability to link into monitoring/early warning processes, in particular the ability to re-rate projects already existing in DBSA's portfolio.

United Bank of Africa (UBA) – Implementation of a Top-Down Pillar II Capital Impact Assessment with Respect to Basel II Regulatory Capital (August 2008 – January 2009)

Regiments Capital assisted the United Bank of Africa Plc ("UBA") with the implementation of a top-down Pillar II capital impact assessment with respect to Basel II regulatory capital.

UBA which is the largest financial services institution in West Africa with a balance sheet size in excess of one trillion Naira and more than six million customer accounts engaged Regiments to assist with meeting both its regulatory and internal risk capital demands.

3 Staff Resume

3.1 Regiments Capital

3.1.1 Executive Directors

Name	Litha Nyhonyha
Current position	Executive Chairman
Years of experience	20 years
Home office	Johannesburg
Qualifications	• BCom – University of Cape Town • Qualified CA(SA)
Professional associations	• Member of South African Institute of Chartered Accountants (SAICA)
Language skills	English, Xhosa
Country experience	South Africa
Employment history	• **Regiments Capital** (2004 – current). Together with his existing partners, Litha started Regiments Capital. Litha is also a director of Worldwide, South African Express Airways (a wholly owned subsidiary of Transnet) and chairman of Plessey. He is the immediate past chairman of the University Council of the new North West University formed after the merger of the former Potchefstroom University and the former University of North West. Regiments Capital is the parent company of Regiments Fund Managers which runs the CoJ Debt Redemption (Sinking) Fund. • **Worldwide African Investments** (2001 – 2004). Litha joined Worldwide African Investments to restructure the group and develop its financial services strategy. This lead to Worldwide focusing its financial interests on NBC Holdings, an actuarial consulting and fund administration business. In 2002 Litha was seconded by Worldwide to NBC to stabilise the business and return it to profitability. He successfully established the business but due to disagreement on strategy with the Executive Chairman decided to exit NBC at the same time the majority shareholder, Worldwide was exiting. • **SA Express Airways** (1994 – 2005). Litha was the Founder-Director of SA Express Airways and was also the Chairperson of the Audit Committee. He has served on the SA Express Board for over 10 years. • **Thebe Investment holdings** (1992 – 2001). In 1992 he established Thebe Investment Holdings, the first significant BEE investment holding company in South Africa, with Mr Vusi Khanyile. At Thebe, Litha was responsible for all acquisitions and growing NAV from R100 000 to over R500 million in a few

	years. • **Ernst and Young** (1989 – 1992). After completing his articles in 1989 he completed his articles of clerkship in Ernest and Young. After serving as senior audit manager, Litha moved to the corporate finance department of Ernst & Young until his departure in 1992.
Experience	• Financial Services Strategy Development • Acquisitions and NAV growth • Senior Audit Manager • Corporate Finance

Name	Eric Wood
Current position	Executive Director
Years of experience	25 years
Home office	Johannesburg
Qualifications	• Masters of Management (ENT and NVC), *Cum Laude* (Wits) • Completed Accounting Articles
Language skills	English, Afrikaans, Spanish
Country experience	South Africa, Poland, Czech Republic, Hungary
Employment history	• After completing his accounting articles in 1985, Eric joined the stock broking firm of **Frankel Kruger Vinderine** as a trainee bond dealer. There he established a bond option operation that grew to become the largest bond option broking business (by volume) in the SA market. • In 1988 **Investec Bank** approached Eric in order to set up a Fixed Income trading business. This business developed into the largest market maker of bond options and exotic fixed-income derivatives in SA. Under Eric's guidance the business was expanded into Equity derivatives trading, Fixed Income and Equity structuring and Gold and Kruger-rand trading. Eric was subsequently approached in order to expand Investec's interest rate desk into trading Caps, Floors and Swaptions in RSA and Eastern Europe. Eric was appointed to the Investec Group Strategy and Policy committee in 1994. He was instrumental in the appointment of Investec as official Market Makers for South African Government Debt and served as chairman of the Primary Dealers Association in 1999 and 2000. In addition, Eric was appointed to bond exchange EXCO in 1999 and 2000. • In January 2002 Eric left Investec Bank in order to pursue new business opportunities. He subsequently set up the infrastructure for a Hedge Fund

	business for **Credit Commerciae (Pty) Ltd** and proceeded to attract capital for the first of their hedge funds. He was involved in the trading and operating of this fund form 2002 to 2004. • In 2004, Eric left Credit Commerciae to jointly found **Regiments Capital**.
Experience	• Statutory Audit and Advisory • Financial Risk Management and Governance • Foreign and Local Debt Origination • Regulatory Compliance • PFMA and MFMA

Name	Niven Pillay
Current position	Director
Years of experience	23 years
Home office	Johannesburg
Qualifications	• BSc (Electrical Engineering/Computer Science). Princeton University. • Bachelor of Public and International Affairs - Princeton University
Language skills	English
Country experience	South Africa
Employment history	• Niven started his career as a management consultant with **Andersen Consulting**. • In 1992, Niven joined **Standard Merchant Bank** to start up the Interest Rate Derivatives business. By 1994, Standard Merchant Bank enjoyed 70% market share in this business. In late 1994, Niven was appointed Director with responsibility for Derivatives. • In June 1995, Niven left SCMB to spend a 4-month stint with **Investec** with responsibility for cross-market structuring. • His next job was with **ABN Amro** where he spent 1 year establishing the trading operation in Johannesburg before being transferred to London to start up the Emerging Markets Derivatives business. • After 3 months, he joined **UBS** in London as Executive Director: Emerging Markets Derivatives. • He started at **Wipcapital** in December 1999 as Executive Director and Head of the Structured Markets Division until he left to join Regiments Capital in 2004. • Niven is currently in the process of setting up **Regiments Capital's** ALCO Risk Management Advisory (primarily to insurers and pension funds) and Fixed

		Income Fund Management business. • Niven is also the preceding Chairman of **Johannesburg City Power**. • Niven is the executive director in charge of the CoJ Debt Redemption (sinking) Fund since inception in 2006.
	Experience	• Consulting • Financial Modelling :It Systems, Interest Rate Derivatives & Cross Market Structuring • Trading • Risk Management Advisory • Debt Redemption (sinking) Fund Specialist.

3.1.2 Regiments Fund Managers: Key Personnel

Name	Paul Bate
Current position	Investment Strategist
Years of experience	31 years
Home office	Johannesburg
Qualifications	• C.A.I.B (1975) • Diploma in Financial Management (Damelin Management School 1983) • Managerial Finance, Advanced Management Finance, Tax and Management Planning (Wits Business School 1983 – 1985) • Advanced Financial and Banking Management-Wharton Business School, Philadelphia (USA 1985) • Banking and Managerial Finance-Insead International Business School Fontainebleau (France 1989) • Asset and Liability Management – Sungard Financial Systems, Boston (USA 1993)
Language skills	English
Country experience	South Africa, Zimbabwe
Employment history	• **Regiments Capital Pty Ltd (2010 – present).** Senior Fixed Income/Money Market Trader and Fund Manager. Paul has been the Senior Trader on the CoJ Debt Redemption (sinking) Fund since joining Regiments. • **ALM (Asset and Liability Management) consultancy (2003 – 2009).** Commenced offering ALM workshops to banks on the African Continent and conducted in excess of 65 workshops in 14 countries outside of South Africa, including workshops for the International Finance Corporation of the World Bank. In addition workshops were conducted for banks/institutions in South Africa including ABSA, Nedbank, KPMG and Mercantile Bank. Established a relationship with Nedbank to conduct workshops and install ALM risk models in their Africa operations. Risk models were also installed into 5 other banks on the continent, including Bank Windhoek in Namibia. • **African Merchant Bank Ltd (1997 – 2002).** Approached to head up the Money Market Desk at AMB. His responsibilities as Head of Money Markets and Funding included balance sheet management, group funding, liquidity management, statutory requirements, money market trading, Head of Alco Committee, corporate lending and relationships as well as being a member of the Risk Committee. In January of 1999 Paul was seconded to African Bank (a subsidiary of AMB) in charge of the Treasury Division. His duties included risk management, treasury policies and procedures and Alco development. In 2002 Paul was appointed as Treasurer at AMB. Built an ALM risk model which was approved for

	use by Deloitte and Touche and the Reserve Bank. • **Msele Corporate and Merchant Bank Ltd (1995 – 1997).** A start up wholesale treasury operation that culminated in the formation of FBC and thereafter the merged entity with Fidelity Bank Limited. Paul departed before the FBC/Fidelity merger to join African Merchant Bank Ltd. • **Standard Merchant Bank Ltd (1981 - 1995).** Upon relocating to South Africa, Paul joined Standard Merchant Bank as a Manager in the Banking Division responsible for corporate clients. In 1983 he was tasked to establish the Domestic Treasury Trading Desk running 2 corporate asset books. These books grew from start-up of R100m to R3bn at the end of 1995 with a client base in excess of 400. Between 1986 and 1988 his role broadened to asset liability management, product pricing, bank funding and money market trading. In 1990 he was appointed as the Assistant General Manager in the Treasury Division responsible for the running, structure and control of SMB's balance sheet. Following the merger of SMB and the corporate division of SBSA, Paul was appointed as the Director of Funding and Corporate. His portfolio including the funding of the entire Standard Bank Group with an asset base of R65bn. • **Barclays Bank International Ltd (1965 – 1981).** Paul began his career at Barclays Bank Zimbabwe in October of 1965. Following numerous promotions throughout his career at Barclays, Paul departed as an Assistant Branch Manager responsible for 65 Employees. Paul and his family immigrated to South Africa in 1981.
Experience	• Asset Liability Specialist and ALM Training Expert • Fixed Income and Money Market Trading • Risk Management • Debt Redemption (sinking) Fund Trading Specialist.

Name	Sybil Kekana
Current position	Senior Investment Analyst
Years of experience	13 years
Home office	Johannesburg
Qualifications	• Bachelor of Commerce Honours (Finance) Pretoria University • Diploma in Investment Management (Johannesburg University) • Bridging Certificate Theory of Accounting (Johannesburg University)
Professional association	• Member of the Association of Corporate Treasurers of Southern Africa
Language skills	English, North Sotho

Country experience	South Africa
Employment history	Sybil Kekana started her career at **Standard Bank of Southern Africa** in 1991 as a graduate trainee. She spent two years at the bank before moving to **Rennies Travel** as a Foreign exchange consultant in charge of dealing in foreign exchange sales to leisure and corporate clients. In 1993, Sybil was promoted and moved to the internal audit department of Rennies Travel. She worked as an internal auditor in charge of branch audits. In 1996 she moved to **Price Waterhouse Coppers (PwC)**. She worked with PwC from 1996-2000 as an internal auditor, responsible for manufacturing and public sector audits. Amongst the others her major clients included Medscheme, Land Bank, Hudaco, Department of Housing and Transnet. She gained valuable experience in various systems and processes, legislation compliance and GAAP in practice during her years with PwC. Sybil was in charge of overseeing these audits from inception to audit report stage. Sybil's diligence, attention to detail and meticulous approach to audit assignment contributed to her success in this field. She joined **Standard Corporate and Investment Bank** in 2000 working as a senior manager on the Interest Rate Derivatives Sales and Structuring division where she was responsible for structuring interest rate solutions for a portfolio of clients. Her main job functions included providing pricing on interest rate products such as swaps, options and cross currency interest rate swaps to corporates and parastatal clients. The 5 years spent at Standard Bank was instrumental in shaping her career in the financial market. Apart from executing deals with clients Sybil was instrumental in developing training manuals for graduate trainees at the bank. As part of her development on interest rate sales and structuring she conducted educational seminars involving mechanics of financial markets to corporate and parastatal clients. Sybil joined the **South Africa Post Office** in 2006 as a Treasury Dealer in charge of managing Post Office's R4 billion investment portfolio. She reported to the Post Office Group monthly Asset and Liability Committee on the performance of the portfolio. Sybil project managed the implementation of a treasury management system for the Post Office Group. She is also member of the working committee responsible for Postbank corporatisation scheme. She is an ex-officio member of the Postbank Committee.
Experience	• Interest rate derivatives sales and structuring • Funds management • Internal Audit • Managing of sinking fund sales and distribution.

Name	Andrew Daniel Lanyi
Current position	Portfolio Manager

Years of experience	10 years
Home office	Johannesburg
Qualifications	MSCi Physics, Cambridge University (2002)
Language skills	English
Country experience	South Africa, New York, United Kingdom
Employment history	• **Regiments Capital** (Mar 2012 - Present). Daniel is currently a portfolio manager at Regiments Fund Managers. • **Rand Merchant Bank** (Jun 2010- Oct 2011). Daniel was an Interest Rates and Derivatives Trader • **Royal Bank of Canada** (2008-2009). Daniel was an Interest Rates Trader, specifically trading EMEA Interest Rates (European, Middle East and Africa) Interest Rates. • **HSBC** (2007-2008). Daniel was an Interest Rates Trader, specifically trading Rand/Poland EMEA Interest Rates (European, Middle East and Africa) interest Rates. • **Goldman Sachs** (2002-2006). Daniel was a GT10 EFEX forwards trader, specifically trading the Emerging Markets EFEX spot and forwards, Options (all categories) and EMEA Interest Rates (European, Middle East and Africa).
Experience	• Interest Rates Trading EFEX spot and forwards • Emerging markets EFEX Trading • Options Trading • EMEA(European, Middle East and Africa) Interest Rate Trading

Name	Shaun Dunstan
Current position	Portfolio Manager
Years of experience	10 years
Home office	Johannesburg
Qualifications	• BCom (Finance), University of the Witwatersrand,2001 • SACI Certificate, 2002 • RPE Certificate, 2003
Language skills	English
Country experience	South Africa, New York, United Kingdom

Employment history	• **Regiments Fund Managers** (Mar 2012 - Present). Shaun is currently a portfolio manager at Regiments Fund Managers. • **Standard Bank SA** (Jul 2011 - Feb 2012). Shaun was a head of Bond trading at Standard Bank, managing bond trading book and driving Standard Bank brand awareness locally and offshore. • **Nedbank Capital** (Jun 2009 - Jun 2010). Shaun was a member of Interest Rates Sales and structuring for the asset managers. • **Deutsche Bank** (May 2006 - Jun 2009). Shaun was the Bond Market Maker and Trader, specifically to generate Income and stimulate business development and growth for foreign bond trading between South Africa and United Kingdom market. • **Rand Merchant Bank** (Mar 2003 - May 2006). Shaun started as a trainee and moved across all desks (Money Market, FRA SWAPS FX Commodities and Bond Desk). He was then promoted to the Interest Rate desk in charge of the interest rates desk and the Bond Book primarily to facilitate trades for client services.
Experience	• Fixed Income trading • FX Trading

Name	Brett Mahon
Current position	Fund Manager / Quantitative Analyst
Years of experience	9 years
Nationality	South African
Home office	Johannesburg
Qualifications	• BSc. Engineering (Electrical), University of the Witwatersrand, 2002 • FSB Registered Persons Exam, RE5, 2010
Language skills	English
Country experience	South Africa, Ireland
Employment history	• **Regiments Fund Managers** (Mar 2011-Current). *Hedge Fund Manager and Quantitative Analyst.* Brett manages the Duality Systems Primary Fund. The fund is a market-neutral quant equity fund. Brett also assists is general system design, research and modelling for the Regiments Group. • **Duality Systems** (Nov 2008-Mar 2011). *Director.* As a director of the business Brett oversaw all aspects of the business and specialised in system design,

	trading strategy design and risk management. Brett also co-authored the systems used throughout the business. These systems managed all aspects of the fund from live trading, risk analytics and back-office profit and loss management • **Coronation Capital** (Oct 2005-July 2008). *Risk Manager.* Major responsibilities involved monitoring and managing group-wide market and credit risk, including risk reporting for the executive board. Reporting and analysis was required for both for the local and offshore (UK and Ireland) branches of the group. This reporting included Value at Risk, volatility / underlying risk matrices and total market and credit exposure. Brett developed a system running in C#, R (mathematics package), VBA and SQL to achieve these ends. In addition to this, the company ran the *SunGard Front Arena* front-to-back office system. Maintenance and upgrading this system from a functional point of view was his responsibility. • **Comair Limited** (June 2005-October 2005). *Application Development Contractor.* Work included analysis and development of software for the airline. The project included both windows forms applications and web applications. This ran on top of a web service layer along with web components. These components formed the basis of the www.kulula.com website. • **MyBeat Interactive** (Jan 2004 – June 2005). *Senior Software Developer.* Brett performed full life-cycle development of various products and services offered by the company. He was involved in the architecture/design phase through development, testing and software maintenance. He was also responsible for the database design aspects and performance tuning of the live systems
Experience	• Quantitative Analysis – Statistical Modelling, Monte-Carlo analysis, Time-series analysis. • Software Architecture and Development • Algorithm Design • Project Management, Business Development • Equity analysis and trading • Risk Management – Market and credit risk management across asset classes • ALM Risk Management of sinking funds.

Name	Michael Barber
Current position	Fund Manager / Quantitative Analyst
Years of experience	9 years

Nationality	South African
Home office	Johannesburg
Qualifications	BSc Engineering (Electrical), Wits 2002, *Cum Laude*
Language skills	English
Country experience	South Africa, United Kingdom
Employment history	• **Regiments Fund Managers** (Mar 2011 onwards). Michael is currently a hedge fund manager and quantitative analyst at Regiments Fund Managers. He has also worked on exotic derivatives pricing, and software systems design and optimisation for the Regiments group. • **Duality Systems** (Oct 2009 to Mar 2011). Michael was a director and quantitative analyst at the market-neutral equities fund, focusing on trading system development and analysis. His analytical work included the design of the statistical modelling framework used in the business, development of advanced statistical models, cointegration modelling, and other statistical arbitrage work. On the systems side, he handled the design and construction a high-frequency algorithmic trading solution, as well as the analytics infrastructure used for all the live market instrumentation for real-time trading decisions. • **Deutsche Bank, South Africa** (Jul 2007 to Oct 2009). Michael was a quantitative developer responsible for the design and implementation of high frequency statistical arbitrage trading systems in several emerging markets, including South Africa, Brazil and Turkey. Related work included the design and testing of related systems, including low-latency market data feeds, tick data archival and analysis, and statistical analysis. He was also responsible for the deployment and integration of an online pre-trade risk-analytics solution. • **RiskWorX**, including **Rand Merchant Bank** and **Standard Bank** (Sep 2006 to Jul 2007). Michael was employed as a risk analyst and integration engineer. As a risk analyst, he was responsible for developing pricing algorithms for various vanilla and exotic instruments traded by Standard Bank, as well as assisting with the value-at-risk calculations and reporting. As an integration engineer, he was responsible for integration of front-office and risk systems, diagnosis of errors, resilience planning, and system performance optimisation. • **Mintek** (Feb 2003 to Sep 2006). Michael was a senior engineer at Mintek, responsible for designing and building advanced, high-performance online process control systems for the minerals processing industry. His main focus was on AC arc furnace control systems, statistical process control, and several components of system integration and user interfaces.
Experience	• Statistical modelling • Optimisation and machine learning

	• Advanced software design, development, and integration • Derivatives pricing and modelling • Trading strategy development and back-testing • Statistical arbitrage and high frequency trading • Risk analytics • Sinking fund analysis

Name	Thabo Letlaka
Current position	Fixed Income Trader
Years of experience	4 years
Home office	Johannesburg
Qualifications	• Post Graduate Diploma in Management (Actuarial Science Conversion) (University of Cape Town (UCT), 2007) • Bachelor of Science (Mathematics and Statistics) (Rhodes University, 2004)
Professional associations	• Actuarial Society of South Africa Student
Language skills	English, Xhosa
Country experience	South Africa
Employment history	• **Regiments Capital Pty (Ltd)** (August 2008 - Current). Thabo joined Regiments Fund Managers as a Risk Associate in the Trading team. He is also working with Health Monitor Company (a company in the Regiments Capital group) working in the HIV/AIDS team modelling the cost impact of HIV/AIDS on entities • **RisCura Solutions Pty (Ltd)** Started in February 2008 and left later that year. Thabo's responsibilities lay in the unitisation team. He did reporting and analysis on the performance of the Funds and also handled other queries that the Fund's trustees required. The second set of responsibilities he had, were with the quantitative (quant) research team, where he handled quant queries. • **Momentum Collective Benefits**. 4 Months of Vacation Work as a UCT student. As a university student Thabo Letlaka worked for Momentum Collective Benefits as Risk Analyst in the (Premiums) Quotes division, where he analysed the premiums groups of lives for various Sums Assured. This was on an initial and re-broke basis.
Experience	• Economic Modelling • VBA Development

	• Sinking Fund Performance Analysis • Healthcare Actuarial Modelling • Fixed Income and Derivative Trading

Name	Louis Schutte
Current position	Risk Analyst
Years of experience	5 years
Home office	Johannesburg
Qualifications	• MSc. Quantitative Risk Management – North West University (2005) • BSc. Honours Quantitative Risk Management – North West University (2004) • BSc. Business Mathematics and Informatics – Potchefstroom University (Cum Laude) (2003) • N4, N5, N6 Mechanical Engineering – Potchefstroom Technical College (1999)
Language skills	English, Afrikaans
Country experience	South Africa
Employment history	• **Regiments Capital (August 2008 – current).** Louis joined Regiments Capital as a Risk Analyst in the Financial Risk Advisory unit in August 2008. Louis Managers the Risk process of the CoJ Debt Redemption (sinking) Fund. Since joining Regiments he has been working on a collateral valuation project for a development bank. He also worked on a Basel II project for a Nigerian bank in which Regiments was asked to calculate the overall regulatory capital as per the Basel II accord for the entire banking group. Other projects that he worked on include writing of a business plan for a SOE and loan analysis for the two major municipalities in Gauteng. • **Standard Bank (2007 – 2008).** Louis was part of a project team that conducted a proof of concept project to implement an Integrated Financial and Management Accounting solution for Standard Bank Off-shore Group on three of their products. The solution was part of SAP Bank Analyser. Tasks performed include documentation, customising and testing. He was also assisting in the customising of the SAP Balance Analyser which is part of the SAP Bank Analyser by doing customising, testing and writing of documentation. The system was being implemented for one retail product as the analytical finance solution in a proof of concept project. • **ABSA (2006 – 2007).** Louis undertook creating SAS data sets in preparation for stress testing models to be built, assisting with maintaining and updating the QRM system for market and credit risk and with the population of the Bank Act

	returns 200 series from SAP BW as required by the SARB. He also assisted in implementing the Basel II solution in QRM by making sure that the regulatory capital was being calculated correctly. He performed all the functions relating to the Calculation Process technical setup and configuration based on the Basel II approaches selected by ABSA for Retail and Wholesale lines of business on the SAP Credit Risk Analyser which is part of the SAP Bank Analyser. Louis also assisted in sorting out data issues relating to the Calculation Process of the regulatory capital requirement of ABSA bank for Retail and Wholesale, ran the Calculation Process in the SAP Credit Risk Analyser, analysed the errors and results and reported back to managers on a monthly basis. He re-configured the Credit Risk Analyser in release 5 of SAP and assisted with the population of the Bank Act returns 200 series from SAP BW as required by the SARB. • **ABSA Insurance (2005 – 2005).** Louis managed a small research project as part of M Sc. studies on the insurance cycle, the factors that impact it and how it could potentially be forecasted.
Experience	• Process Consultant • Quantitative Risk Management • SAP – Bank Analyser: Including configuration of the Credit Risk Analyser • SDL (FDB) • AFI • BW Business Explorer • Risk and Data Analysis Skills using SAS • Risk Dimensions • Enterprise Miner (Data Mining) • S+, R and Matlab programming language • Sinking Fund Risk Specialist

Name	Tiro Mokoka
Current position	Business Development Associate
Years of experience	5 years
Home office	Johannesburg
Qualifications	BCom – Business Management (UNISA)
Language skills	English, Tswana
Country experience	South Africa, United Kingdom

Employment history	• **Regiments Capital** (2012-Present). Business Development Associate. Tiro is involved in growing the business. This includes meeting with clients, determining their requirements and communicating these to Regiments in order to build custom solutions. • **Keliana Management** (2008-2008). Marketing and Events Manager. Tiro planned, managed and controlled the marketing campaign for Emoyeni Conference Centre. It was his mandate to manage CRM with clients, and expand the client base. All events at the centre were planned, and executed by him. • **South African Breweries** (2007-2008). Events Co-ordinator. Tiro's duties involved planning, managing and controlling all beer selling opportunities such as beer fests, concerts, fashion shows, golf days and sports days to name a few. He also managed all staff, promotional activities, catering and security for the events. Tiro planned the annual/quarterly/monthly budgets for the events department, and implemented the events strategy for SAB Isando. • **Verpakt services** (2006-2007). Risk and fraud contact agent • **First National Bank** (2005-2005) .Financial sales consultant
Experience	• Business strategy consultancy • Marketing • Events management • Marketing

Name	Brian Gritzman
Current position	Risk Administrator
Years of experience	4 years
Home office	Johannesburg
Qualifications	• BSc(Mathematics and Mathematical Statistics), Wits, 2009
Language skills	English
Country experience	South Africa
Employment history	• **Regiments Capital** (2009 – present). Brian joined the Regiments Fund Managers division as a Risk Analyst. Brian forms part of a team that is responsible for the management of the debt redemption fund. His main responsibilities amongst the others include, overseeing the fund's risk and investment management processes and modelling and developing structured products. He is also part of a team augmenting the current risk system on the existing platform to a new platform developing the functionality on the new risk system. Brian was appointed to

		oversee and manage the migration of COJ's debt redemption fund from the Dibanisa back office to Maitland. • **Regiments Capital** (2008 – 2009). Brian joined Regiments Capital as a Risk Analyst assigned to the Development Bank of South Africa (DBSA) Project undertaken for the Workout and Recovery Unit. In addition, Brian formed part of the Nedbank Credit Risk Index (CRI) Project Team designed to provide the client with a relative risk measure for providing credit to a portfolio exposure.
	Experience	• Risk analysis • Back office administration • Risk administration

3.1.3 Regiments Advisory: Key Personnel

Name	Andile Nyhonyha
Current position	Head of Advisory
Years of experience	16 years
Home office	Johannesburg
Professional qualifications	Bjuris, LLB
Country experience	South Africa
Employment history	Andile started his career in 1994 at Standard Merchant Bank (Treasury Division) in the back office, providing support for the dealing room and compliance with the SARB exchange control regulations. In 1995 at the time when SCMB was merging with some divisions of Standard Bank to form Standard Corporate and Merchant Bank, Andile joined the Corporate Finance department where he was responsible for identifying merger and acquisition opportunities and advising and funding Black Economic Empowerment opportunities. He left SCMB in 1999 and joined Legae Securities as the Executive Director responsible for Corporate Finance. When Legae Securities was sold to Wipcapital in 2000, he founded Wip Treasury Solutions, which he ran as the Chief Executive Officer. In November 2001 Andile was appointed Head of Corporate Finance at Wipcapital. Andile left Wipcapital at the beginning of 2003 to establish Regiments Holdings and Regiments Capital. . Andile left Regiments in 2007 to establish Mfanta Investment Holdings. In November 2010 he rejoined Regiments as Head of Advisory.

Name	Tewodros Gebreselasie
Current position	Senior Economic Advisor / Senior Econometrician
Years of experience	14 years
Nationality	Eritrean
Home office	Johannesburg
Qualifications	• MCOM in Economics (Specialization in Trade & Investment) – University of Pretoria (Jan 2005 - Sep 2006) – Cum Laude • MPhil in International Business Management – University of Pretoria (Jan 2002 - Dec 2003) – Cum Laude • BCom (Honours) in Economics – University of Pretoria (Jan 2004 - Dec 2004) • BCom (Honours) in Business Management – University of Pretoria (Feb 2001 -

	Dec 2001) • B.A. in Business Management – Addis Ababa University (Sep 1989 - Jul 1992)
Professional associations	• Economic Society of South Africa (ESSA)
Language skills	English
Country experience	South Africa, Eritrea, Ethiopia
Employment history	• **Employment, Growth and Development Initiative, Human Sciences Research Council of South Africa, Pretoria** (Sep 2006 – May 2008). Tewodros conducted rigorous studies on growth, poverty reduction, and unemployment in South Africa. The studies mainly focused at evidence based scenarios for halving unemployment and poverty as part of South Africa's growth path. He also published peer-reviewed academic journal articles and participated in local and international workshops and conferences and was involved in conceptualizing research projects and writing up project proposals for funding. • **Faculty of Law & Department of Economics, University of Pretoria, South Africa** (Mar 2006 – Sep 2006). Tewodros coordinated the LLM (in Trade and Investment law) and MCOM (Economics in Trade and Investment) Trade Programmes. The Programmes were designed to address the shortage of African experts in trade and investment areas who can represent African interest at multinational foras, principally WTO. He also organized the Annual African Trade Moot Competition. • **Pan-African Investment Pty Ltd, Johannesburg** (Mar 2006 – Sept 2006). External Consultant contracting to do financial modelling. Successfully completed to build a robust financial model for a project that cost R400 million (US$ 57 million). Involved in econometric modelling of the contribution of the Tourism sector of South Africa. • **Medstra Business Administrators, Pretoria** (Jan 2005 – Mar 2006). Compiled statistical information on the profile of new and existing clients of BESTMED Medical scheme and assisted the Finance Section. • **Department of Economics, Pretoria** (Jan 2005 – Mar 2006). Part-time Researcher on modelling South African exports to the rest of the World using panel econometrics technique. The modelling work involved all industries at SIC 3 digit classification. • **Commercial Bank of Eritrea, Asmara** (Nov 1998 – Feb 2001). Undertook quantitative and qualitative analysis of credit information and documentation as the Credit Administration Officer. • **Commercial Bank of Ethiopia, Addis Ababa** (May 1994 – Sep 1998). Tewodros was a Relationship Officer who identified the specific needs for banking products of each corporate account customer, while conducting on-going

	financial evaluation and analysis.
Experience	• Research Specialist on growth, poverty reduction, and unemployment • Economics - Trade & Investment Specialist • Trade Projects Coordinator (LLM / MCOM / Trade Moot) • Financial and Econometric Modelling • Panel econometrics Technique Modelling (SIC 3 digit classification) • Quantitative and Qualitative Credit Analysis

3.1.4 Regiments Property: Key Personnel

Name	Umeiya Majam
Current position	Corporate Finance Specialist
Years of experience	15 years
Home office	Johannesburg
Professional qualifications	CA (SA) H Dip Tax Law
Language skills	English
Country experience	South Africa
Employment history	Umeiya brings a wide range of public and private sector experience to Regiments Capital. After obtaining her primary financial advisory education in Structured Finance at ABSA and Real Africa Durolink, she has been involved in various domestic and foreign debt and equity capital raising initiatives, merger and acquisition transactions and consulting assignments, primarily through Leverage Finance and Kurisa Finance. Highlights of her career include the restructuring of the property portfolio and divisions of Telkom SA, the corporatisation of the municipal-owned entities of City of Johannesburg, the cross-border merger and acquisition of Gateway Telecommunications across four countries, and the disposal of the non-core businesses of Transnet. Umeiya has also managed transfers of employees in respect of disposal transactions with Labour Unions, parliamentary and legislative amendment processes as well as inter-governmental business transfers.

Name	Phia van der Spuy
Current position	Property Specialist
Years of experience	15 years
Home office	Johannesburg
Professional qualifications	M Com (International and Local Taxation); CA(SA); B Com Hons (Industrial

	Psychology)
Country experience	South Africa
Employment history	Phia has experience in domestic and cross-border vanilla and structured property finance, encompassing the financing of existing property, as well as property developments in the commercial, industrial, retail and housing sectors. She also worked for a property developer as part of the implementation team and was responsible for the funding of its asset book, as well development feasibility studies of prospective development opportunities and actual developments undertaken. Her role also included asset management through the optimisation of assets, including reducing funding and operating costs and increasing income from tenants. She headed business development for a private equity housing fund.

3.1.5 Regiments Securities: Key Personnel

Name	Thabo Maseko
Current position	Head Fixed Income Sales Trader
Years of experience	12years
Home office	Johannesburg
Professional qualifications	➢ Bachelor of Commerce (Financial Management) (UP) ➢ ACI Institute Dealing Certificate ➢ JSE Traders Certificate ➢ Financial Engineering (UP) ➢ Junior Certificate IFM (SAFEX) ➢ Ordinary Certificate IFM (SAFEX) ➢ Addressing Corporate Needs With Treasury Instruments ➢ Credit Monitoring And Control (IBF*) ➢ Accounting For Treasury And Derivative Products (IBF*) ➢ Identifying And Managing Credit Risk In Derivatives (IBF*) ➢ Credit Monitoring And Control (IBF*) ➢ Introduction to Trade Financing (IBF*) ➢ Effective Relationship Management (IBF*) *IBF Institute of Finance and Banking (Singapore)
Language skills	➢ English, North Sotho, Zulu, Afrikaans
Country experience	South Africa, Singapore
Employment history	➢ Thabo Maseko started his career at African Merchant Bank of in 1999 as a graduate trainee. He spent his time at the bank trading foreign Exchange Spot, Forwards, Currency futures and Currency options on the Rand. ➢ Trainee at Deutsche Bank Singapore and Asia Pacific Head Office. Areas of training, Trade Finance, In-house Consulting, Capital Markets Sales, Corporate Banking sales and Private Banking. The other area was at the Monetary Authority of Singapore (IBF*). ➢ He then co-founded Sakhumnotho Group of Companies responsible for Investment Advisory Services to Corporate clients and internally for the group. His duties also included deal structuring, Capital Raising, Project evaluation and Valuations. ➢ He then moved to Maude Street Securities as Fixed Income Sales Trader for Institutional Sales. Ran a proprietary Trading book of Bonds and bond Options for the company as well. ➢ Later on Joined Legae Securities as both Fixed Income and Equities Sales Trader. Primarily developing trade Ideas, and Trade Forecasting and Research writing

		and distribution. ➢ He then also ran a co-founded a corporate advisory and business planning consultancy firm. Leruo Corporate Consulting. Was responsible also for Capital Raising for small businesses and NGOs.
	Experience	➢ Interest rate derivatives sales and structuring ➢ Forex Trading ➢ Technical Analysis ➢ Corporate Finance ➢ Capital Raising

3.1.6 Regiments Capital Principal Investments: Key Personnel

Name	Jonathan Loeb
Current position	Senior Corporate Financier
Years of experience	5 years
Home office	Johannesburg
Professional qualifications	➢ ACMA (Chartered Institute of Management Accountants, UK) ➢ B Com Honours (Finance)
Country experience	South Africa
Employment history	➢ Jonathan is currently a key member of the corporate finance team at Regiments Capital. He is responsible for the analysis, structuring (financial and tax) and implementation of deals both within the group and for clients. ➢ Prior to joining Regiments, he spent two years as the CFO of a small renewable energy business focused on the conversion of waste gases into electricity. His key responsibilities included capital raising, accounting, budgeting, etc. ➢ After his studies, Jonathan worked within the Strategic Finance division of Deloitte Consulting. He worked as an analyst on projects for some of the world's largest mining/resource companies.
Experience	➢ Finance ➢ Capital Raising / Project Finance ➢ Private Equity ➢ Mining/Resources ➢ Renewable Energy

3.1.7 Regiments Capital: Key Operations personnel

Name	Kyansambo Vundla
Current position	Chief Financial Officer
Years of experience	12 years
Home office	Johannesburg
Professional qualifications	➢ CA (SA) ➢ BCom Accounting - Rhodes University (2001) – Earned with distinction ▪ Awarded the Rhodes Honours Scholarship for distinguished achievement in undergraduate studies and ▪ Norman Harris Prize for the top taxation student in the Commerce faculty
Language skills	➢ English, French, Zulu
Country experience	10 Yrs (South Africa) and 2 yrs (United Kingdom)
Employment history	➢ Kyansambo competed her period of articles with BDO Spencer Steward (JHB), during which time she attained her CA (SA) designation. ➢ Then moved to London and worked on the Arbitrage desk as a Product Controller for Credit Suisse First Boston. ➢ Consulting for various Investment firms upon her return and spending a brief time at Teba Bank as a Business Performance Analyst, she then moved to Momentum Group Limited and served as CFO for the Employee Benefits Division for over 3 years before joining Regiments Capital.
Experience	➢ Financial Markets, ➢ Pension Funds Insurance, ➢ Enterprise Risk Management, ➢ Financial Management, and ➢ Management Consulting.
Other responsibilities	➢ Served as an Audit committee member for the Bonitas Medical Aid Fund, ➢ Currently a Non-executive director for the Altx listed Workforce Limited.

Name	Reyana Sallie
Current position	Group Legal and Compliance Officer
Years of experience	10 years
Home office	Johannesburg
Qualifications	• Bachelor of Arts (1991) • Bachelor or Laws (1994) • Certificate in Compliance Management (2001) • Advanced Diploma in Banking (2002) • Advanced Company Law (2012)
Language skills	English, Afrikaans
Country experience	South Africa, Middle East
Employment history	• **Regiments Capital** (2011-Present). Reyana was appointed as group legal and compliance officer. • Reyana has been employed in a legal and/or compliance capacity for the last 10 years at a number of reputable international banks including **UBS** (2003-2005), **Barclays Capital** (2005-2006), **ABN AMRO Bank** (2006-2008) and at **Deutsche Bank** (2008-2010) in the Dubai International Financial Centre.
Experience	• Legal and Compliance • Investment Banking

3.2 Regiments Healthcare: Risk Monitor Group and M-Care

Name	Izak J v H Fourie
Gender	Male
Ethnicity	Caucasian
M-Care role	Executive Committee Member: Chairman
Education	• MBChB. Stellenbosch University (1974) • Med (Urology) (cum laude). University of the Orange Free State (1981) • MBA. Graduate School of Business Administration, University of the Witwatersrand (Wits) (1991) • Post Graduate Diploma in Health Management: Economics and Financial Planning (cum laude). University of Cape Town (1995)
Healthcare experience (professional history)	• Urologist in private practice in Durban and Johannesburg (1981 – 1988) • Medical Advisor to the Lesotho Highlands Water Project (1989 – 1992) • Medical Advisor to the Chamber of Mines of South Africa. Responsible for the co-ordination, policy formulation and strategic planning of all healthcare related issues in the mining industry (1990 – 1996) • Extraordinary Professor, Department of Actuarial and Insurance Science, University of Pretoria (1995 – 2003) • Started own healthcare consulting company from which the Risk Monitor Group has evolved (1996 – present)
Additional positions held	• Board Member of the South African Institute for Medical Research (1991 – 1995) • Director of the Rand Mutual Assurance Company Ltd and the Rand Mutual Assurance Life Company Ltd (1994 – 1996) • Member of the Compensation Board (Tripartite advisory body to the Compensation Commissioner and Minister of Labour) (1994 – 1997) • Consultant to the Department of Transport on the Medical Aspects of the proposed new Road Accident Fund Act (1996 – 1999)

Name	Ferdi Preller
Gender	Male
Ethnicity	Caucasian
M-Care role	CEO M-Care ManCo
Education	Accounting, North West University
Professional history	• Lecturer, North West University • Strategic consultant to the petroleum industry
Healthcare experience	• Founder of M-Care • Instrumentally involved in the running of sub-acute facilities over the last 15 years • Founder of iSomi Management Services – provider of administrative services to medical practices • Steering committee member of Board of Healthcare Funders – assisted the BHF in developing standards and criteria for the sub-acute sector • More than 25 years experience in healthcare economics

Name	Sonja Krause
Gender	Female
Ethnicity	Caucasian
M-Care role	Executive Committee Member : Facility Roll-out Project Manager
Education	Bachelor of Business Science (Honours in Marketing, cum laude) – University of Cape Town (2004)
Professional history	TNS Customer Equity Company (2006-2008): Research Executive – Worked as a market researcher, with specific focus on a global brand equity measurement tool – managed projects, compiled reports, provided technical advice and conducted training

	Burlington Consultants (2008-present): Consultant – Worked as a consultant on strategic advisory and implementation projects. Core skills developed include research, analytical skills, communication skills, client relationship management, strategy development, project planning and management
Healthcare experience	Two extensive projects for two healthcare NGOs focused on: • Business plan development • Strategic planning • Operational reviews, including development of organisational structures, processes and associated roles and responsibilities • Implementation planning Strategy development and project planning for the M-Care rollout

3.3 BURLINGTON MANAGEMENT CONSULTANTS: KEY PERSONNEL

Name	James Smith
Date of birth	15 April 1975
Gender	Male
Ethnicity	White
Current position	Director
Education	• Bachelor of Science Engineering (Chemical) (cum laude) – Wits University (1996)
Professional experience	**Burlington Strategy Advisors (2004 –current):** Partner and founding Director of Burlington Strategy Advisors (Pty) Ltd **Bain and Company (1998 – 2003)**: Consultant with Bain and Company, a leading global strategy house, in their Johannesburg and London offices **Palabora Mining Company (1996 – 1998):** Process engineer and production manager for smelter and refinery operations on the Palabora copper mining operations
Summary of relevant experience	• 12 years consulting to CEOs and MDs of small, medium and large organisations • 1 year of running own small retail business • 9 years of training, coaching and mentoring experience
Sector experience	• Agriculture, financial services, government, information technology, manufacturing, non-governmental organisations, resources, retail and wholesale, general services, telecommunications, transportation, FMCG

Name	Andrew Titterton
Date of birth	3 September 1971
Gender	Male
Ethnicity	White
Current position	Director
Education	• Bachelor of Science Engineering (Chemical) (cum Laude) – University of Cape Town
Professional experience	**Burlington Strategy Advisors (2007 –2009):** Company Director **Northroad Consulting (2003 – 2007):** Company founding partner. Responsible for operations and sales within the consulting environment. **Bain and Company (1997 – 2003):** Progressed from Associate Consultant to Manager at international strategy consultancy. **Anglo American (1994 – 1997):** Technical assistant to Managing Director of Anglo American Research Laboratories.
Summary of relevant experience	• 14 years consulting to CEOs and MDs of medium and large organisations • 11 years of training, coaching and mentoring experience
Sector experience	• Agriculture, financial services, FMCG, government, information technology, manufacturing, non-governmental organisations, resources, retail and wholesale, general services, telecommunications, transportation, utilities

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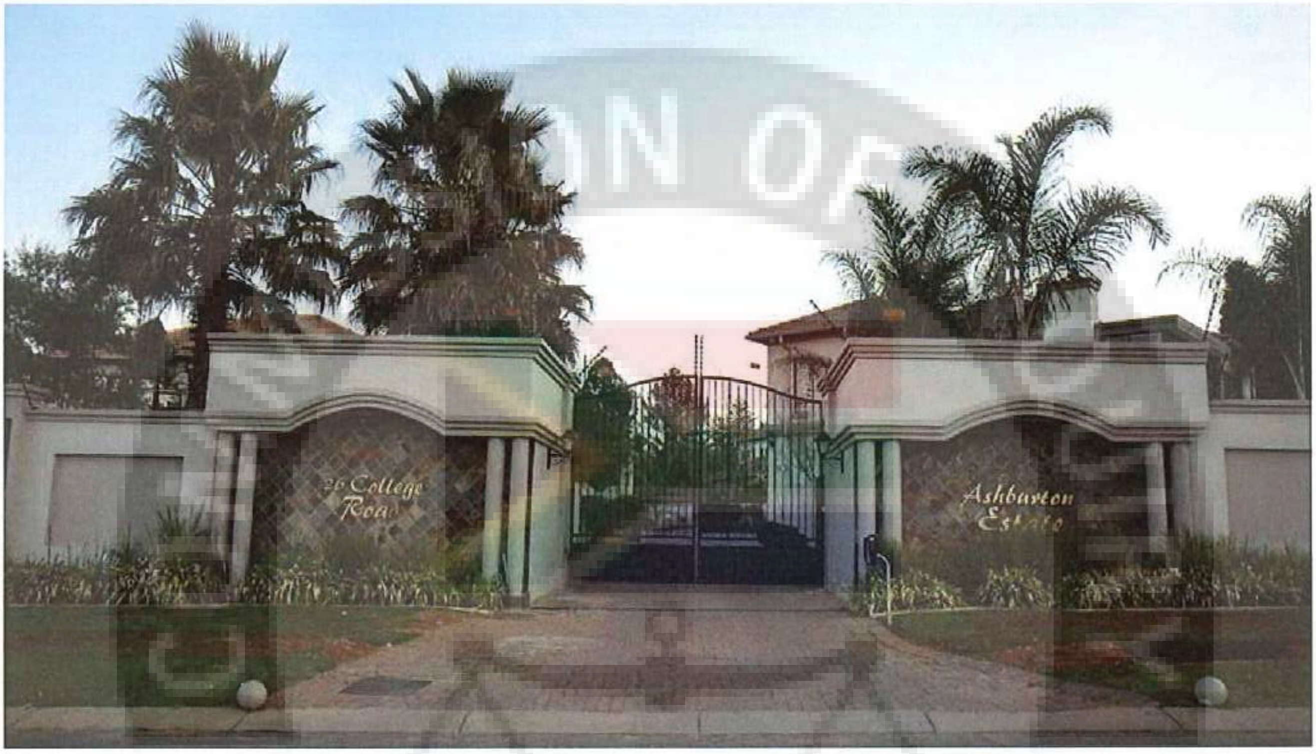
Hlongwa's house of graft and lies

Phillip De Wet (https://mg.co.za/author/phillip-de-wet) 25 Jul 2014 00:00



Court papers state that Brian Hlongwa's Ashburton Estate in Bryanston was paid for – and renovated – by 'beneficiaries'. (Oupa Nkosi, M&G)

(https://mg.co.za/article/2014-07-24-the-house-of-graft-and-lies)

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In April 2009 Brian Hlongwa, then Gauteng health MEC, reacted angrily to suggestions that corruption had funded his purchase of a R7.2-million house in Johannesburg. He was insulted, Hlongwa said, at allegations that his salary could not support such a purchase, or that his long-time friend (and holder of a massive contract with his department) Richard Payne had helped him to purchase the property.

So vehement were his denials – and his assertions that he was flush from legitimate business activity – that he ended up formally apologising to the ANC and the people of Gauteng for flaunting his wealth.

But in court papers that became public this week the Special Investigating Unit and the Hawks meticulously detailed a series of transactions that saw millions of rands flow from people doing business with his department to Hlongwa for the house – people who also paid large sums to see the house in effect demolished and rebuilt.

And those payments, which investigators unequivocally characterise as bribes, were part of the deal right from the start, although the picture painted in documents was this week refuted by one of those implicated.

According to evidence put before the high court in Johannesburg this week, the R700 000 deposit on the house was paid by Niven Pillay, executive director of financial consultancy Regiments Capital, who later also made a R1-million payment to prevent the sale from falling through.

Hlongwa, investigators allege, was instrumental in helping Regiments win a vastly inflated contract.

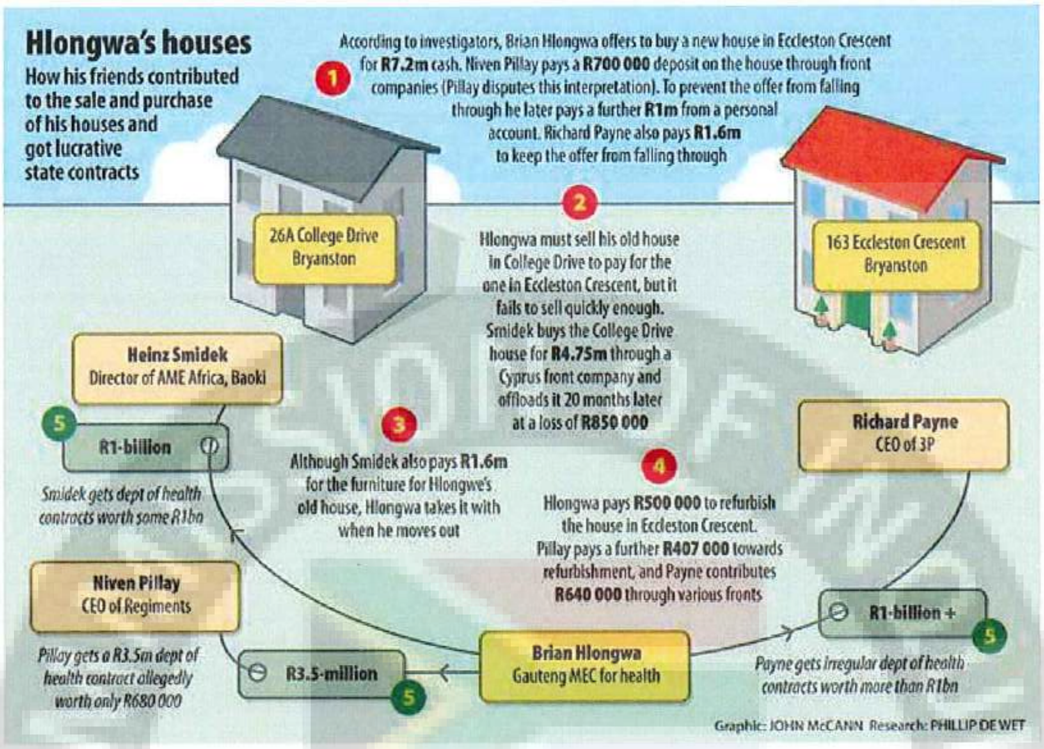
Flat denial

Speaking from Vienna, Pillay on Thursday flatly denied that he had been involved in the purchase of the house. He and Hlongwa had both been party to an unrelated property transaction, Pillay said, and the profits from that deal saw him make payments of R2.5-million to Hlongwa.

"It was an aboveboard property transaction that had five parties that had gone into it, and all parties received their return," he said.

Pillay also dismissed the allegation that Regiments had benefited under Hlongwa's watch, saying the contract investigators characterised as inflated had cost his company a loss.

Payne – the acknowledged but, according to Hlongwa, uninvolved friend – paid R1.6-million towards the purchase of the house, then later paid another R640 000 for its refurbishment, investigators said.



Payne's company 3P was a beneficiary of contracts worth hundreds of millions of rands until they were summarily cancelled soon after Hlongwa left office.

Payne, a citizen of the United Kingdom, is currently believed to be in Mauritius, and could not be reached for comment.
Former associates said he had no intention of returning to South Africa.

Front company
Also implicated in the transaction is Heinz Smidek, an Austrian citizen involved in contracts with a theoretical value of more than R1-billion with the Gauteng health department. Smidek, investigators said, used a front company in Cyprus to buy a house Hlongwa had been unable to sell, with an eventual loss of R850 000 to the Cyprus company.

He also paid Hlongwa R1.6-million for furniture in the house, investigators said, furniture that Hlongwa took with him when he moved out of the house – after living in it without paying the rent of R40 000 a month.

Smidek said he would have to understand the details before responding.

Even with the inflow of such sums of money, investigators said, Hlongwa was unable to keep up payments for massive renovations.

The reason for his financial trouble, the evidence suggests, may be simple to explain: a former financial adviser claims the business interests and companies Hlongwa in 2009 claimed were funding the house purchase were all, in fact, dormant.

Failure to pay

In statements made under section 204 of the Criminal Procedure Act, which offers immunity from prosecution in return for honest testimony, two builders recount a meeting with Hlongwa to discuss his failure to pay them.

Hlongwa told them he had just sold a car and left the room to fetch "a black briefcase with a government department logo on". The briefcase, they said Hlongwa told them, contained R500 000 in cash, but he was slightly mistaken.

"There was R2 000 short on the R500 000 and a couple of counterfeit notes," one builder said.

Hlongwa could not be reached for comment by the time of publication.

Phillip de Wet

Phillip de Wet writes about politics, society, economics, and the areas where these collide. He has never been anything other than a journalist, though he has been involved in starting new newspapers, magazines and websites, a suspiciously large percentage of which are no longer in business. PGP fingerprint: CF74 7B0F F037 ACB9 779C 902B 793C 8781 4548 D165

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DF8

McKinsey&Company

August 7, 2014

BY EMAIL

Attn: Eric Wood
Regiments Capital (Pty) Ltd
91 Central St
Johannesburg 2198, South Africa

Dear Mr. Wood;

In light of recent attention related to Niven Pillay and Regiments Capital and its affiliated and associated entities (collectively, "Regiments") related to Mr. Pillay's relationship with Brian Hlongwa, we provide this letter to reconfirm your statements regarding the matter and to provide additional terms with regard to Regiments' relationships with McKinsey Incorporated and affiliated entities (collectively, "McKinsey").

In an email to Norbert Dorr and Vikas Sagar dated July 28, 2014, you stated the following and hereby reconfirm that to the best of your knowledge:

- Niven Pillay and Brian Hlongwa are personal friends, and this friendship predates the establishment of Regiments Group (Regiments has been going for 10 years). This friendship was established when Mr. Pillay was non-executive chairman of City Power and Mr. Hlongwa was an MMC for the City of Johannesburg.

- Messrs. Pillay and Hlongwa have together invested in a number of residential property developments (including a Hyde Park residential development, and the Singaraja-Benmore development). As we understand some of these investments made money (Hyde Park), but others lost money (Singaraja).

- Any monies paid by Mr. Pillay to Mr. Hlongwa relate solely to these investments and are entirely unrelated to Regiments Group (including Regiments Healthcare).

- Regiments Healthcare was established by Regiments Capital to make proprietary investments in, and perform advisory work for, the South African healthcare sector, both public and private. At the time mentioned in the articles, the CEO of Regiments Healthcare was Dr. Shane Dorfman (a medical doctor with an MBA).

- Regiments Healthcare was appointed by 3P Consulting to examine the feasibility and economic viability of the Pholateng PPP's in the Gauteng Public Hospitals, a small piece of consulting for which Regiments Healthcare was paid R3.2m. A portion of the required work was sub-contracted to KPMG by Regiments Healthcare. In consideration of this consulting work, Regiments submitted a detailed assessment of the Pholateng PPP's to 3P Consulting, and a copy of this detailed report has been submitted to the Special

Investigative Unit, which you indicate reflects significant work done to more than adequately justify the relatively small fee charged by Regiments Healthcare.

- Regiments Healthcare is a respected healthcare advisor and healthcare provider (current CEO is Dr. Izak Fourie), and it has a controlling interest in the Risk Monitor Group (SA's leading group of healthcare actuaries), as well as a controlling interest in M-Care (a private group of Sub-acute hospitals).

- The Regiments Capital group has never been party to any payments to Mr. Hlongwa at any time.

Further, we respectfully request that you review and agree to the below terms associated with any agreement and/or relationship between McKinsey and Regiments:

1) Regiments, including its officers, employees, affiliates, agents, subcontractor and third parties, agrees and commits to abide by all applicable laws and regulations, including, but not limited to, the Prevention and Combating of Corrupt Activities Act, the U.S. Foreign Corrupt Practices Act, and the U.K. Bribery Act, and represents that it has implemented and maintains within its organization appropriate policies and internal controls that prohibit any actions in violation of any such laws by it and its officers, employees, affiliates, agents, subcontractors and third parties. Regiments agrees to cooperate with any review by McKinsey (whether instigated by McKinsey or as part of a review by an investigatory authority or the Client) of an associated concern and shall promptly provide relevant records and information to support McKinsey's review.

2) Mr. Pillay shall be removed with immediate effect from the Executive Committee described in the Consortium Agreement between Regiments and McKinsey dated June 23, 2014, related to and covering the performance of services for Transnet SOC Ltd ("Transnet") with regard to four RFPs, and replaced with a mutually agreed upon substitute Executive Committee member by August 11, 2014.

3) Mr. Pillay shall not perform services related to any agreement and/or relationship with McKinsey, including, but not limited to, the above mentioned Consortium Agreement, nor shall he represent or act on behalf of McKinsey or any McKinsey-Regiments Consortium. This restriction shall be in effect until such time that Mr. Pillay is either cleared by a final court of law of any wrongdoing related to Mr. Hlongwa or the investigation and/or inquiry is deemed closed by the Special Investigating Unit, and McKinsey has agreed that Mr. Pillay may be allowed to perform services related to McKinsey.

4) If determined by Transnet that Regiments must be removed from the Consortium and/or related services, Regiments agrees that it and McKinsey will terminate the Consortium without McKinsey having further obligation, legal or otherwise, to Regiments.

5) Regiments agrees to indemnify and hold McKinsey harmless from and against all loss, liability, damage, cost or expense (including reasonable attorney fees and any related costs of McKinsey's professional time, and Losses asserted by Clients or third parties ("Losses")) relating to Regiments' or Mr. Pillay's improper activities or activities that have adversely affected the good name and reputation of McKinsey.

We hope the above provisions will allow us to continue our relationship with Regiments and provide services to our Clients. If you have further questions, please contact our Associate General Counsel Melissa Milstead at 202-662-3153 or Melissa_Milstead@McKinsey.com.

Regards,

Virginia Molino

Virginia Molino
General Counsel

Agreed to this ___ day of August, 2014
Regiments Capital (Pty) Ltd
By:

____

By: Eric Wood
Title: Executive Director

DF9-CORRECTED

REGIMENTS CAPITAL™

BY EMAIL

Ms V Molino
General Counsel
McKinsey and Company
1200, 19th Street, Northwest
Washington
United States

22 August 2014

Dear Ms Molino

REGIMENTS CAPITAL (PTY) LTD / ASSURANCE LETTER

1. I refer to your letter dated 7 August 2014 and wish to advise that we have now had an opportunity to consider the contents a request made to agree to certain trms. Despite your deadline, thank you for the indulgence of further time extended.

2. We are mindful of the concerns expressed and wish to reassure you of our commitment to maintain and enhance our working relationship

3. The allegations in the media have no doubt created an impression of improper conduct on the part of Niven Pillay ("Niven"), an executive director of Regiments Capital (Pty) Ltd ("**Regiments**") and the Regiments Group. It has equally cast negative aspersions on Regiments.

4. Our law, like that in the United States has a presumption of innocence until proven guilty. Whilst these press allegations have cast aspersions, please be mindful of the fact that these articles had been prepared on information selectively obtained. Attempts by both Regiments as well as Niven to engage directly with the law enforcement authorities are ongoing to address the allegations.

5. Whilst you may not be aware, Regiments has over the last decade worked tirelessly in order to build its business brand and reputation. The press reports are therefore of huge concern to us as a business and to Niven, one of its founding members.

6. Before dealing with your request that we agree to certain terms, I feel that it is necessary to share with you certain information so that you are also aware of the steps being taken by Regiments and Niven.

7. Having conducted an initial internal investigation, both parties remain of the view that the allegations in the press are baseless and ill-conceived. However, to ensure that these allegations are objectively and independently considered, Regiments is in the process of appointing a legal firm and a forensic investigation firm to independently conduct a review in respect of the allegations and advise the Regiments Board accordingly. Such investigation will take into consideration the press reports as well as the Court papers involving the Special Investigations Unit's investigation. This investigation is to commence shortly and we anticipate that it will take 2 – 3 weeks for completion.

8. We further wish to advise that independent of steps being taken by Regiments, that Niven is also seeking independent counsel in order to take steps to exonerate his name and standing which has been impaired as a consequence of the press reporting.

9. In relation to my email exchange with Norbert Dorr and Vikas Sagar dated 28 July 2014 the contents set out therein are self-explanatory and I reconfirm the contents to the extent that your bullet points (1 to 7 on pages 1 and 2) in your abovementioned letter accurately records this.

10. In addition to the above, we also wish to further reassure you and state categorically and unequivocally that no company within the Regiments Group has paid any monies to Mr Hlongwa.

11. In relation to your request (set out in your numbered paragraphs) to accept certain terms as set out on page 2, we set out below our response:

11.1. Regiments already has a framework in place governing the promotion of honest and ethical behavior. In this regard, its corporate governance framework specifically addresses issues such as bribery, corruption, conflict of interest and disclosure of interest. Should you seek to review any of the above, Regiments does not have any objection in this regard. In respect to the US Foreign Corrupt Practices Act as well as the UK Bribery Act, due to the nature and focus of our opportunities locally in South Africa, there has never been a need to incorporate aspects of the above legislation into our corporate governance framework. However, in the light of the escalating collaboration with other international entities, specifically those based in the US, we will be conducting a review of our framework to ensure its incorporation in respect of our standard policies and procedures as well as in relation to our commercial and transaction agreements involving affiliates, agents, sub-contractors and other third parties.

11.2. In recent months Niven has been playing an increasingly minor role in the Consortium and on the Executive Committee following on the writer replacing Niven. In relation to your request, we wish to inform you that in terms of clause 6.3 of the Consortium Agreement, that Niven will step down from the Executive Committee of the Consortium. In relation to the Consortium Agreement, the writer will assume the lead role on the part of Regiments.

11.3. Regiments is unaware of any decision taken by Transnet to remove it from the Consortium. To the contrary, Regiments has very recently been mandated on additional work by the client. Should Transnet take a view that Regiments be removed from the Consortium, we assume that we would be engaged either by Transnet and/or yourself as to the reasons. Should our exit be the outcome after any interaction, we assume that the termination provisions as set out in the Consortium Agreement will take effect. We are cognizant of the fact that should Transnet make such decision, that it would likely result in the termination of the Consortium Agreement and the parties will seek out an amicable separation.

11.4. Regiments cannot acquiesce to your request for an indemnity in the terms set out in your letter for various reasons including that neither Regiments nor Niven have been charged and/or found guilty of any improper conduct. Your so called reference to "*Regiments or Mr Pillay's improper activities*" is with all due respect ill conceived and presumptuous.

12. The steps taken in 11.2 above should in no way be construed as any admission of wrongdoing or impropriety on the part of Nivenor Regiments. For reasons set out above as well as ensuring a constructive relationship, we have considered the above steps to be the most prudent at this stage whilst the legal and investigative processes unfold. Regiments reserves its rights to review its position in relation to Niven' s involvement once this issue has been resolved. In this event, further interaction will take place with McKinsey, should we desire that Niven resumes a role in the Consortium.

13. We trust that you will find the above satisfactory in meeting your concerns. We will also keep you updated both as to our own investigation and the outcome of the interaction with the SIU.

14. Should you have any queries or wish to discuss any aspect further, please do not hesitate to contact me directly.

Yours faithfully

Mr Eric Wood
Executive Director

DF10

http://www.biznews.com/leadership/2016/02/15/named-van-rooyens-two-gupta-advisors-who-almost-hijacked-sa-treasury/

Named: Van Rooyen's two Gupta "advisors" who almost hijacked SA Treasury

The day after the shock of respected Finance Minister Nhlanhla Nene being replaced by an unknown backbencher, David van Rooyen arrived at National Treasury with his two until now unnamed "advisors." In this article republished with its permission, London-based Africa Confidential names the duo as "Gupta allies" Mohamed Bobat and Ian Whitley and explains the context in graphic detail. Their arrival so shook the Treasury that its Director General threatened to resign and his staff immediately dubbed the event "9/12" – a reference to the US's disastrous "9/11" of 2001. Former Finance Minister Trevor Manuel was so incensed that he wrote an open letter that was highly critical of President Jacob Zuma, Van Rooyen and the dark forces manipulating them for publication in City Press. After Zuma's December 9 shock ("9/12") decision, the rand plummeted, financial shares crashed and bond yields surged. After wiping R500bn off the value of South African assets, Zuma was forced into reversing his appointment, replacing him with Pravin Gordhan, the man he had fired a year and a half earlier. Here's the fascinating inside story from Africa Confidential, the subscription-only service which have been covering the continent for more than half a century. – Alec Hogg

From Africa Confidential*

Delivering the State of the Nation address at the opening of what promises to be the South African Parliament's most turbulent year, President Jacob Zuma announced a series of measures to shore up the country's ailing economy, including cutting government expenditure, revamping the management of state-owned enterprises and partnering with the private sector to promote domestic and foreign investment.

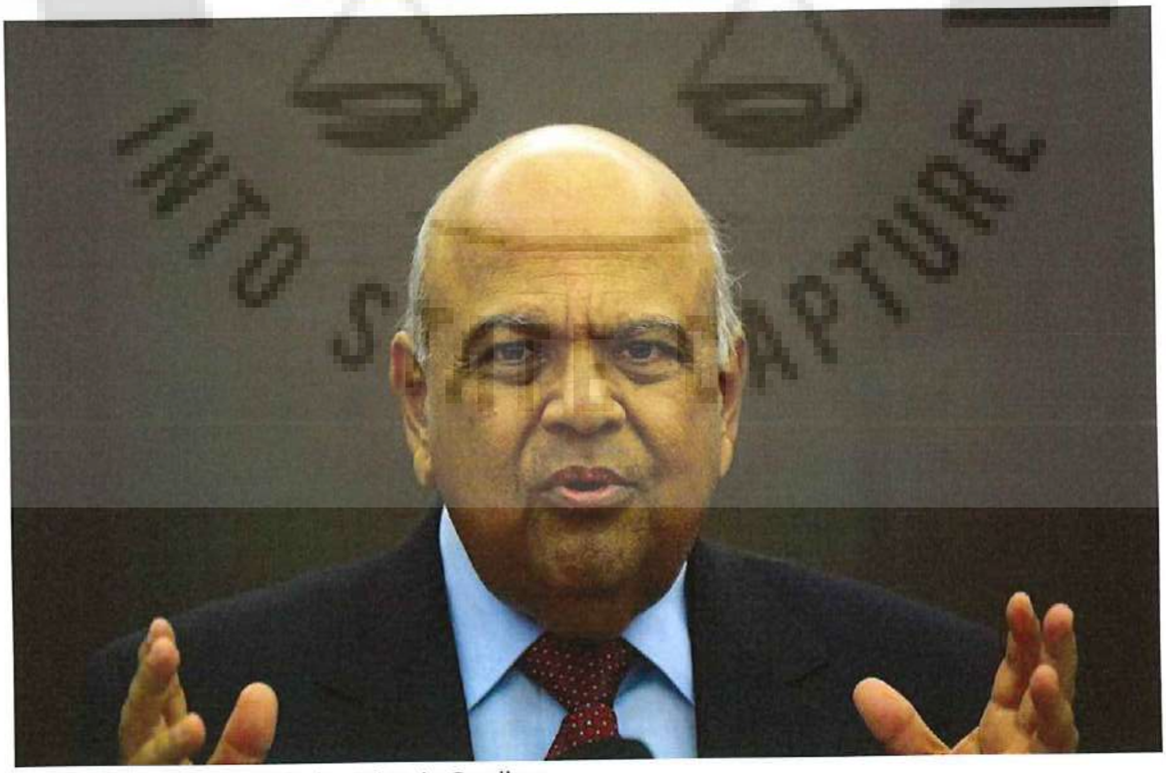
File photo: David van Rooyen, South Africa's then incoming finance minister, pauses during his

Bobat and Whitley, whom he did not name in the letter, nor had it been established that they had the requisite skills for either portfolio.

Following the firing of Nene in December, it was the business leaders acting in concert with moderates in the African National Congress who forced Zuma at political gunpoint to reverse his appointment of a stooge as finance minister and re-instate the highly-respected Pravin Gordhan. Further details have now emerged about the meetings in which Zuma fought tooth and nail not to give in. At one of them Patrice Motsepe, the billionaire benefactor of the governing party, told Zuma to be quiet and listen to the business leaders. Zuma's former wife, Nkosazana Dlamini-Zuma, the main rival of Deputy President Cyril Ramaphosa in the succession stakes, expressed shock that the President could be addressed in such a way.

Intense and high-level meetings between government and business followed in rapid succession at the World Economic Forum in Davos, Switzerland, in January. There was a follow-up meeting between Gordhan and Zuma and 60 captains of industry and finance on 29 January. Zuma met over 100 top business chief executive officers on 10 February in Cape Town on the eve of the State of The Nation speech.

At the 29 January meeting, hosted by Old Mutual/Nedbank and chaired by Gordhan, emergency working groups were set up to report within four days to: promote economic growth, take steps to stimulate foreign and local investment, revamp the management of state-owned enterprises, and take urgent steps to avoid junk status for investment. Gordhan and his officials then processed the recommendations in record time and they were fed in as the core content of Zuma's State of The Nation speech. It was the best coordinated collaboration between government and business in 22 years of democracy, insiders said. The dramatic sequence of events has put Gordhan in the driving seat of government and all but indemnified him against dismissal.



South African Finance Minister Pravin Gordhan

At the Mining Indaba in Cape Town in the days before the State of the Nation speech, Zuma would have felt additional pressure from mining luminaries who shared the views of the CEOs who were directly in touch with the President, such as Simanye's Neal Froneman, Pallinghurst's Brian Gilbertson, Adam Fleming, Clifford Elphick of Gem Diamonds, Africa Invest's Rob Hersov, hedge fund manager Julian Schrager, Lord Robin Renwick of Hannam and Partners and Ivanhoe's Robert Friedland. Global players who also added to the pressure on Zuma included the Indian steel tycoon Lakshmi Mittal, who was contemplating a major investment when news of Nene's dismissal broke.

President Xi Jinping of China is also understood to have delivered a message via diplomatic backchannels to protect China's 20% state in Standard Bank. The country's two richest families – the Oppenheimers (Nicky and his son Jonathan) who recently sold the diamond giant De Beers to the ailing Anglo American, and the Ruperts (Johann) who command a huge international empire – kept a low profile through the affair. The events also revealed that the two more recent plutocratic dynasties – the Motsepes and the Guptas – are increasingly at daggers drawn as they vie for influence over the ANC.

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Julius Malema

On the eve of the opening of Parliament, the two main opposition parties which stand to take votes from the ANC in the coming local government poll – probably on 3 August – brought charges against Zuma in the country's highest court for violations of the constitution. The Democratic Alliance and Julius Malema's EFF joined forces to have the President declared unfit for office over his refusal to abide by the Public Protector's binding ruling that he should reimburse the state for the multi-million upgrades to his retirement compound.

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The formidable potential of civil society has been re-activated in recent weeks and moves are now afoot to launch a major national organisation in March to hold government to account and monitor its progress.

The five-year project will be headed by church leaders by the Anglican Archbishop of Cape Town, the Right Reverend Thabo Makgoba and will include business leaders, academics, professional and community organisations and non-governmental organisations.

DF11

From: Vikas Sagar/JOH/Africa/MCKINSEY
To: eric@tcp.co.za
Cc: David Fine/JOH/Africa/MCKINSEY@MCKINSEY, Benedict Phiri/JOH/Africa/MCKINSEY@MCKINSEY
Date: 2016-02-15 05:44 PM
Subject: Follow up on our call

Hello Eric,

Our conversation earlier today refers; I referenced the article below which you may already seen.

We are concerned from a risk and reputation management perspective and also need to better understand the situation to respond to related questions from our client service staff (many of whom worked with Mo Bobat). To this end it would be helpful to:
+ Get your opinion on the article
+ Have you shed light on Bobat's current relationship with Regiments or Trillian and also at the time to which the article refers
+ Get your input, if any. on the alleged relationship between Bobat and the politically exposed persons referred to in the article. This is a critical issue to address for McKinsey's risk management framework and potentially also to comply with the legislation we are subject to like FCPA

I understand you are taking a couple of days off and appreciate your offer to respond to us within a day.

Thanks

Rgds
Vikas

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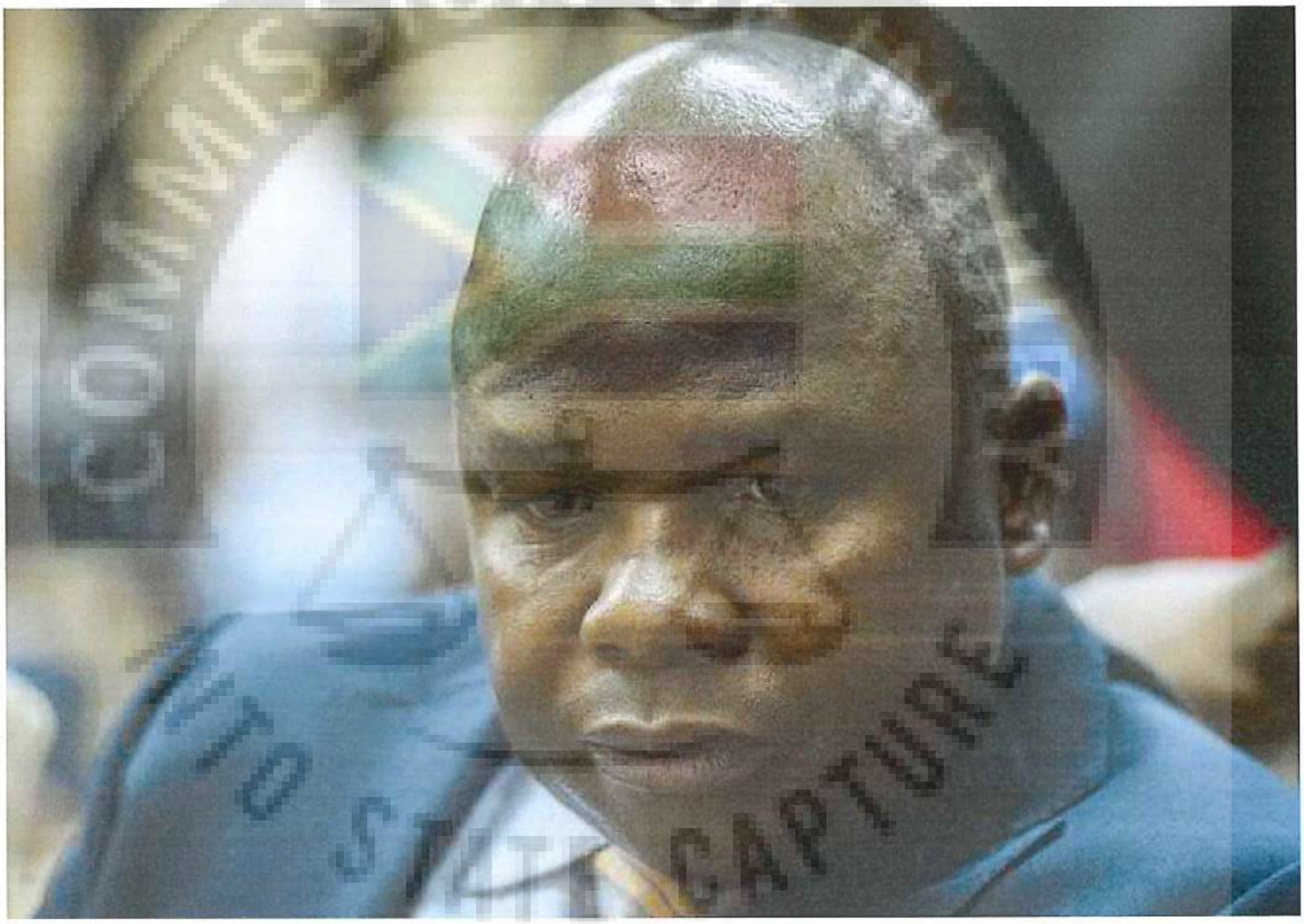
http://www.biznews.com/leadership/2016/02/15/named-van-rooyens-two-gupta-advisors-who-almost-hijacked-sa-treasury/

Named: Van Rooyen's two Gupta "advisors" who almost hijacked SA Treasury

The day after the shock of respected Finance Minister Nhlanhla Nene being replaced by an unknown backbencher, David van Rooyen arrived at National Treasury with his two until now unnamed "advisors." In this article republished with its permission, London-based Africa Confidential names the duo as "Gupta allies" Mohamed Bobat and Ian Whitley and explains the context in graphic detail. Their arrival so shook the Treasury that its Director General threatened to resign and his staff immediately dubbed the event "9/12" – a reference to the US's disastrous "9/11" of 2001. Former Finance Minister Trevor Manuel was so incensed that he wrote an open letter that was highly critical of President Jacob Zuma, Van Rooyen and the dark forces manipulating them for publication in City

Press. After Zuma's December 9 shock ("9/12") decision, the rand plummeted, financial shares crashed and bond yields surged. After wiping R500bn off the value of South African assets, Zuma was forced into reversing his appointment, replacing him with Pravin Gordhan, the man he had fired a year and a half earlier. Here's the fascinating inside story from Africa Confidential, the subscription-only service which have been covering the continent for more than half a century. – Alec Hogg
From Africa Confidential*

Delivering the State of the Nation address at the opening of what promises to be the South African Parliament's most turbulent year, President Jacob Zuma announced a series of measures to shore up the country's ailing economy, including cutting government expenditure, revamping the management of state-owned enterprises and partnering with the private sector to promote domestic and foreign investment.



File photo: David van Rooyen, South Africa's then Incoming finance minister, pauses during his swearing in ceremony at the Union Buildings in Pretoria, South Africa, on Thursday, Dec. 10, 2015. The rand fell for a sixth day in the longest streak of losses since November 2013, stocks slid and bond prices tumbled the most on record after South African President Jacob Zuma fired Finance Minister Nhlanhla Nene and replaced him with a little-known lawmaker. Van Rooyen was then replaced by Pravin Gordhan. Photographer: Waldo Swiegers/Bloomberg

The measures are high on the wish list of a formerly disengaged business community which was shocked into action by Zuma's disastrous sacking of Finance Minister Nhlanhla Nene on 9 December and the crash in share prices and the value of the rand that followed. The dismissal of Nene turned out to be the latest in a series of cabinet appointments made to circumvent resistance to the deal Zuma struck with Russia's President Vladimir Putin last yearto build nuclear power plants in South Africa. Successive Ministers of Finance and of Energy who voiced their opposition to the deal over its enormous cost were removed from office.

The main beneficiaries of the nuclear deal would have included the controversial Gupta family – three Indian brothers who have become massive beneficiaries of Zuma's patronage. The Guptas influenced Zuma to appoint the previously unknown David 'Des' van Rooyen as Finance Minister, it is now generally accepted. Their intention was to secure uranium contracts for the nuclear plants in the same way they have for the coal and arms sector, according to the local press.

Another part of the strategy was to place two Gupta allies, whom Africa Confidential is able to name as Mohamed Bobat and Ian Whitley, as advisors to Van Rooyen at the Treasury. Whitley is a former head of small and medium enterprises at African Bank. When Van Rooyen was replaced at the Treasury, the two men went with him to his new portfolio of Local Government and Traditional Affairs, and appeared with him when he was sworn in on 10 December.

Bobat and Whitley, who have associations with the Guptas and their businesses, visited the Treasury before Van Rooyen's appointment and told officials there that they would be able to sign expenditure and other authorisations on behalf of the new minister but otherwise there would be no changes. Senior Treasury officials led by Director General Lungisa Fuzile were so appalled that they threatened to resign unless Van Rooyen's appointment was reversed.

Then there is the strange case of Van Rooyen's childhood friend, Gaddafi Rabotapi, who, former Finance Minister Trevor Manuel pointed out in an angry open letter to Minister Lindiwe Zulu on 20 December, had known about Van Rooyen's appointment a full month before it was announced by Zuma. Manuel also said that the proper procedures had not been followed in the appointment of Bobat and Whitley, whom he did not name in the letter, nor had it been established that they had the requisite skills for either portfolio.

Following the firing of Nene in December, it was the business leaders acting in concert with moderates in the African National Congress who forced Zuma at political gunpoint to reverse his appointment of a stooge as finance minister and re-instate the highly-respected Pravin Gordhan. Further details have now emerged about the meetings in which Zuma fought tooth and nail not to give in. At one of them Patrice Motsepe, the billionaire benefactor of the governing party, told Zuma to be quiet and listen to the business leaders. Zuma's former wife, Nkosazana Dlamini-Zuma, the main rival of Deputy President Cyril Ramaphosa in the succession stakes, expressed shock that the President could be addressed in such a way.

Intense and high-level meetings between government and business followed in rapid succession at the World Economic Forum in Davos, Switzerland, in January. There was a follow-up meeting between Gordhan and Zuma and 60 captains of industry and finance on 29 January. Zuma met over 100 top business chief executive officers on 10 February in Cape Town on the eve of the State of The Nation speech.

At the 29 January meeting, hosted by Old Mutual/Nedbank and chaired by Gordhan, emergency working groups were set up to report within four days to: promote economic growth, take steps to stimulate foreign and local investment, revamp the management of state-owned enterprises, and take urgent steps to avoid junk status for investment. Gordhan and his officials then processed the recommendations in record time and they were fed in as the core content of Zuma's State of The Nation speech. It was the best coordinated collaboration between government and business in 22 years of democracy, insiders said. The dramatic sequence of events has put Gordhan in the driving seat of government and all but indemnified him against dismissal.

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Fw: Mohamed Bobat

From:
Vikas Sagar <vikas_sagar@mckinsey.com>

DF12

To:
"alastair levy <alastair_levy@mck =?utf-8?q?insey.com>", "_alexander_weiss_<ale?= =?utf-8?q?xander=5fweiss@mckinsey.com>", "_bene?= dict phiri <benedict_phiri@mckins =?utf-8?q?ey.com>", "_christine_wu_<christine?= =?utf-8?q?=5fwu@mckinsey.com>", "_david_fine_<d?= =?utf-8?q?avid=5ffine@mckinsey.com>", "_georges?= desvaux <georges_desvaux@mckinse =?utf-8?q?y.com>", "_john_mccarthy_<john=5fmcca?= =?utf-8?q?rthy@mckinsey.com>", "_lorenz_j=c3=bcngl?= ing <lorenz_jungling@mckinsey.co =?utf-8?q?m>", "_michael_phillips_<michael=5fphi?= =?utf-8?q?llips@mckinsey.com>", _Peter_Safar?= =?utf-8?Q?ik_ <peter=5fsafarik@mckinsey.com>, ?= Safroadu Yeboah-Amankwah <safroadu_yeboah-amankwah@mckinsey.com>

Date:
Fri, 26 Feb 2016 11:34:22 -0400

Attachments:
Trillian Management Consulting response to McKinsey re Mohamed Bobat 26 Feb 2016.pdf (72.83 kB)

Hello all

A second note received from Trillian on the M. Bobat issue.

Rgds

Vikas

Vikas Sagar | Director

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----- Forwarded by Vikas Sagar/JOH/Africa/MCKINSEY on 2016/02/26 05:30 PM -----

From: Marc Chipkin <marc@tcp.co.za>

To: <vikas_sagar@mckinsey.com>, <david_fine@mckinsey.com>, <Benedict_Phiri@mckinsey.com>

Cc: Bianca Smith <bianca@tcp.co.za>

Date: 2016/02/26 04:23 PM

Subject: Mohamed Bobat

Gentleman

I attach the following letter in response to your email dated 15 February 2016.

Regards

Bianca Smith

(See attached file: Trillian Management Consulting response to McKinsey re Mohamed Bobat 26 Feb 2016.pdf)

TRILLIAN
Management Consulting

Att: Mr Vikas Sagar
McKinsey&Company
88 Stella Street
Sandown
2196
cc: Mr David Fine, Mr Benedict Phiri

26 February 2016

Dear Sir

RE: MOHAMED BOBAT

In response to your e-mail dated 15 February 2016, I can confirm that Mohamed Bobat was an employee at Regiments Capital until he resigned in December 2015. At the time of his resignation, Bobat was a Principal within the management consultancy division at Regiments.

Bobat has no relationship with Trillian nor has he had any relationship with Trillian. I am unable to comment on Bobat's alleged relationship with the politically exposed persons referred to in the article to which you make reference as he independently pursued the advisory role in his own personal capacity.

I am also not in a position to comment on the remaining allegations made in the article to which you refer, but I can confirm that Bobat is a previous employee of Regiments Capital as stated in the article. That relationship was terminated subsequent to his resignation. Regiments Capital had no prior knowledge of his appointment as a special advisor to the minister and our first knowledge of the appointment was when it became public knowledge.

Yours sincerely

BIANCA SMITH

CEO

FOF-07-537 VV7-DRF-349

DF13

McKinsey&Company

Mr Garry Pita
Group Chief Financial Officer
Transnet SOC Ltd.
Carlton Centre
150 Commissioner Street
Johannesburg
2001

23 February 2016

Dear Garry,

Thank you for our meeting this week and the opportunity to reflect on the progress of our partnership with Transnet. We value our relationship with Transnet who we see as a critical enabler of the South African economy and its success will enable economic growth and improve competitiveness of South African companies. Our Partner group is committed to and passionate about this relationship. We believe we have had impact in supporting Transnet through its growth phase and now through a perfect storm of external macroeconomic factors.

We also took this opportunity to share some of our concerns around our relationship with the contracted Supplier Development partner, Regiments Capital.

Since our discussion, our Partner group has resolved to end the current relationship with Regiments Capital as soon as possible and to put greater effort into ensuring that our improved diligence process for SD partners, including Trillian Capital Partners is fully adhered to. This is informed by a number of factors including, concerns around underperformance by Regiments Capital and elements of our risk management policy.

Our risk management policy designed to maintain our hard earned reputation which we believe our clients also value. This policy takes a very conservative approach to working with persons that are politically exposed or potentially politically exposed. The recent media articles concerning Mr. Mahommed Bobat, who was, until very recently employed by Regiments Capital, were a trigger for an internal review led by our global risk and legal teams. The review underscored the risk in the current situation involving Regiments Capital and Mr. Bobat as a potentially politically exposed person as too high and resulted in the decision to end the relationship. The fact that this was the second situation in which the issue of reputational risk has arisen was a contributing factor. The previous incident involved the allegations against Mr. Niven Pillay; which resulted in him not being allowed to work on any assignments involving McKinsey.

Our risk management practices have evolved significantly in line with the accelerating changes in best-practice risk management. As part of this, our diligence processes for partnering and sub-contracting in general have been tightened to ensure, amongst others, that we are fully apprised of the composition of our partners including with respect to:

- Shareholding of holding companies
- Ultimate beneficial shareholders
- Related parties and group companies (e.g., significant lenders)
- Executive management team and other "key man" dependencies for both the company and group companies

This is to provide assurance that, among other things, we do not have exposure to politically exposed persons.

In the case of supplier development relationships in South Africa, we are required to ensure that partner/sub-contractor meets three additional criteria:

- Majority Black ownership
- Majority Black management and staff or a clear and committed plan to deliver this outcome
- Capability and capacity to execute work and deliver benefits that are commensurate with the share of fees earned

We have been informed that Regiments Capital's management advisory business is transitioning ownership to Trillian Capital Partners. They will be subject to the ownership composition, management and staff composition and capability criteria above. We are not able to commence a relationship with Trillian, or any other partner/sub-contractor until these criteria have been met and approved by our global risk and legal teams.

We have met Mr. Eric Wood to discuss Regiment Capital's underperformance in the ongoing GFB and cost optimization project and our broader concerns on the scale and pace of transformation at Regiments. Specifically:

- The resourcing supplied by Regiments for the delivery of the GFB and cost optimization was well below the numbers contracted for the fee split agreed. In many instances the resources staffed on Regiments' teams were unsuitable to deliver the work. We have shared the feedback on number and quality of resources and their performance on an ongoing basis with Regiments. In addition, we have submitted an invoice of R19m, with detailed backup, to Regiments to compensate McKinsey for the additional resources we have had to deploy to fill the gaps created by under-resourcing. We have done this to ensure Transnet's success took precedence over contractual concerns
- Transformation expected at a management and technical level has not occurred at the rate that we believe is possible at Regiments. We believe this is an important obligation for a SD partner to meet

We, however, remain committed to supplier development and have worked hard to meet our SD commitments to Transnet in letter and spirit. There are numerous examples, including with Regiments, where we have been successful in building new capabilities e.g., coal line. Our experience and knowledge for creating high-quality supplier development is available to Transnet to ensure achievement of its SD objectives. Given the pace of scale of Transnet's SD objectives, you may wish to reflect on whether one SD partner alone is sufficient to deliver the desired impact. The evidence in the GFB optimization project, which required a significant and fast scale-up of resources, would argue for multiple partners. In addition to being urgent, the SD partner transition on the GFB also presents an opportunity to reassess the SD approach. We would welcome the opportunity to be a thought-partner with you on this.

Once again, we are deeply committed to the long-term success of Transnet. We look forward to the opportunity to discuss this further and its implications on current contractual commitments.

Yours sincerely

David Fine
Director

Vikas Sagar
Director

cc: Mr. Siyabonga Gama, Acting Group Chief Executive, Transnet SOC

McKinsey&Company

DF14

March 18, 2016

CONFIDENTIAL

Litha Nyhonyha
Niven Pillay
Regiments Capital
1st Floor
35 Ferguson Road
Illovo

Via Email:
LithaN@regiments.co.za,
Nivenp@regiments.co.za

Dear Mr. Nyhonyha and Mr. Pillay,

MUTUAL TERMINATION OF MCKINSEY'S RELATIONSHIP WITH REGIMENTS

We refer to our discussion on March 17, 2016. We confirm the mutual agreement reached between us at the meeting to the effect that McKinsey's relationship with Regiments will be terminated with immediate effect. This follows our communication to Transnet on 23 February 2016 (which we shared with Mr. Eric Wood) that we were intending to put an end to our relationship.

We express our gratitude and thanks for a productive relationship which has delivered on its intent in spirit and in letter. In concrete terms, Regiments's advisory practice has grown to 30+ consultants and, on the GFB work, Regiments was the lead contractor which is a testament to Transnet's confidence in you to deliver such important work. Our relationship in itself, has delivered sustainable impact to Transnet. As discussed, our relationship has run its natural course due to the fact that (amongst others): (i) Regiments will no longer have an advisory business given its transfer to Trillian; (ii) all Transnet contracts were scheduled to be completed by September 2016; and (iii) we were no longer actively pursuing any contracts jointly.

As agreed, we will formally communicate our final formal proposals concerning the process for the winding down of the GFB, Iron-Ore and SwatII programmes (which remain uncompleted) to you, following joint discussions between McKinsey, Regiments, Trillian and Transnet.

We appreciate your commitment to ensuring that the impact to Transnet of our mutual termination will be minimal and thank you for your constructive and client focused approach in this respect.

Yours sincerely,

David Fine
Director

Vikas Sagar
Director

DF15

Summary of discussion with National Treasury on 31st May 2016

In attendance:

- National Treasury (NT) : Lungisa Fuzile (Director-General); Schalk Human (Chief Director: SCM)
- McKinsey & Company (McK): David Fine, Georges Devaux and Nomfanelo Magwentshu
- There was no agenda from NT. The DG stated that they had been asked by the Minister to meet with us and that they were there to listen to us

Overall a very cordial and open discussion. No discussion on clients. Strong and confident articulation from McKinsey to NT and clear messages to us using examples and allegory.

DF relayed the key messages messages from McKinsey:

1. We aim to serve South Africa on its most important issues, particularly effective logistics and energy supply
2. We are very proud of our impact, including for one parastatal helping to deliver R49b in sustainable capex savings and over R4b of sustainable EBITDA benefits. Given poor macroeconomic environment and potential sovereign downgrade, we believe we have helped the National Treasury avoid a massive sovereign debt obligation that would have been triggered without the benefits we helped our clients achieve
3. We are a team that is highkly committed to SA inc.'s success
4. Deep commitment to transformation in SA. Currently BB-BEE 2 status, under the new codes. We make a significant contribution to the country and to our local community. We have worked with many enterprise development partners and take our commitments seriously. For example, with Letsema, we helped build a black-owned consulting firm that could ultimately compete and win against us
5. Regiments:
   - We first worked with Regiments in December 2012. An enterprise development partner was unable to support us and our client suggested we might consider working with Regiments. We were not forced to work with them
   - Regiments was always paid separately.
   - Era 1 from 2012 to Mid 2015: Very typical supplier development journey. There are areas where Regiments did well and where issues arose we gave feedback which was accepted and acted upon. Following media coverage about Niven Pillay in July 2014, we separated him from any work with us and sought, and received written assurance from Regiments that the company was in full compliance with bribery and corruption regulations. The charges against Niven were ultimately dropped
   - Era 2 from Mid 2015 to 23rd February 2016: Underperformance and we needed to add resources in order to meet our client obligations. Sudden appointment of Mohammed Bobat to a role in National Treasury with Minister van Rooyen and subsequent press coverage that he was connected to the Guptas. McKinsey Partners raised growing concerns about their capabilities, B-BBEE status, and their ultimate beneficial ownership
   - We decided to end our relationship with Regiments, for reasons including: the split-out of the professional services part of Regiments meant that they would not have the capabilities to work with us, and issues raised in the media which meant that we were working with

potentially Politically Exposed People. We communicated this to our client and agreed with Regiments to end our relationship

- We have conducted an external review of our relationship with Regiments and the basis on which we were awarded work
- Question from NT: Do we have any evidence of a connection between Regiments and the Gupta's? Answer: No

6. Trillian:
   - Trillian were never a supplier development partner to McKinsey.
   - Despite numerous requests Trillian did not provide their corporate information and ownership structure.
   - Our global risk committee met to review the proposed partnership with Trillian, based on their continued failure to provide corporate information and other concerns amongst our Partners and external due-diligence
   - We informed Trillian and our clients that we would not work with Trillian
   - Question: Do you know if the Regiments contracts have been ceded to Trillian? Answer: Speak to our clients
7. National treasury should raise its concerns directly with McKinsey. We have heard some concerns being raised in social settings about McKinsey, Trillian and the R800m and we would prefer this would not happen

Messages from National Treasury

Direct questions asked by NT:

1. Were we forced to work with Regiments? Answer No
2. Are we still working at Transnet? Answer No
3. Did we establish that Regiments is linked to the Guptas? Answer No
4. Do we know if the Regiments contracts with Transnet were ceded to Trillian? Answer: No, speak to our clients

Acknowledgement of the contribution McKinsey is making to solving the countries problems. Based on the story told above, the DG clearly stated he had no view of the findings of the contract reviews but would offer the following free advice:

1. Sole-sourced arrangements are provided for by public procurement rules. However, SOC's sometimes stretch the rules to suite them, eg SAA. McKinsey should always be concerned with such a pattern. McKinsey should always get written assurance from clients that they are compliant with the PFMA and own internal governance approvals when such arrangements are entered into. Open tenders are preferred to ensure competition and that big brands such as Mck are not tainted.
2. There is no requirement for any SOC to force a service provider such as McKinsey to *have* to work with a BEE partner at a client. The SOC could suggest that as a requirement for its own transformation objectives. If they do so, they cannot use the proposed 30% set-aside as this is not promulgated in law yet. A SOC cannot choose a partner. He referred to the Bidvest/SAA case as an example. When you have a running contract, no changes can be made to accommodate a small entity/black provider.
3. If we have any issues and concerns around governance and procurement we should bring it to the attention of National Treasury proactively. Under such circumstances they will help us. If however, we bring issues after the fact, they will not help us. 'If you cooperate with thieves, you

are also a thief'. The DG indicated that despite his strong relationship with certain individuals at McKinsey, which he would retain, he would be disappointed if we were cooperating in bad practices,

4. South Africa is a country that is subject to the rule of law. Recently however, the strength of compliance to laws is being tested. Big companies, like McKinsey should help South Africa by ensuring that we support and comply with the laws of the country
5. NT is reviewing its procurement guidelines and we should engage with them to understand them and give inputs. In the meeting we were offered the opportunity to meet with Schalk Human as these revisions would be concluded by the end of June

It was implied that McKinsey may have been naïve and should implement stringent compliance and vetting processes for work with state entities (including SOE's) and BEE partners.

We acknowledged that this has been a learning journey for us and were grateful of for the time made available to us

DF16

Type in name TRILLIAN SEARCH

Please note that this search only retrieves the first 200 results. Be more specific with your search criterion to return a sm of results.

Enterprise Name	Enterprise / Tracking Number	Status
TRILLIAN FINANCIAL ADVISORY	111303152	RESERVED
TRILLIAN SHARED SERVICES	111300485	RESERVED
TRILLIAN SOLUTIONS	932296356	RESERVED
TRILLIAN	2002/027272/23	REGISTERED
TRILLIAN ASSET MANAGEMENT	2008/023108/07	REGISTERED
TRILLIAN CAPITAL PARTNERS	2015/111759/07	REGISTERED
TRILLIAN FINANCIAL ADVISORY	2014/122082/07	REGISTERED
TRILLIAN HOLDINGS	2015/168302/07	REGISTERED
TRILLIAN MANAGEMENT CONSULTING	2015/111709/07	REGISTERED
TRILLIAN SECURITIES	2015/152852/07	REGISTERED
TRILLIAN SHARED SERVICES	2015/111747/07	REGISTERED
TRILLIAN SOLUTIONS	2016/110777/07	REGISTERED

Enterprise Number

2015 * 168302 * 07 *

VALIDATE

Enterprise Details

Enterprise Number	2015 / 168302 / 07
Enterprise Name	TRILLIAN HOLDINGS
Enterprise Type	Private Company
Enterprise Status	In Business
Registration Date	2015/05/25

PHYSICAL ADDRESS:
21-7TH AVENUE
PARKTOWN NORTH
JOHANNESBURG
GAUTENG
2193

POSTAL ADDRESS:
PO BOX 464
PARKLANDS
JOHANNESBURG
GAUTENG
2121

Registered Directors / Members

ID / Passport Number	Name(s)	Surname	Type	Status
780115 XXXX 08 X	SALIM AZIZ	ESSA	Director	Active

Enterprise Enquiry

Enterprise Number

2015 * 111709 * 07 *

VALIDATE

Enterprise Details

Enterprise Number	2015 / 111709 / 07
Enterprise Name	TRILLIAN MANAGEMENT CONSULTING
Enterprise Type	Private Company
Enterprise Status	In Business
Registration Date	2015/04/13

PHYSICAL ADDRESS:
21-7TH AVENUE
PARKTOWN
JOHANNESBURG
GAUTENG
2193

POSTAL ADDRESS:
PO BOX 464
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JOHANENSBURG
GAUTENG
2121

Registered Directors / Members

ID / Passport Number	Name(s)	Surname	Type	Status
800613 XXXX 08 X	TEBOGO	LEBALLO	Director	Active
630522 XXXX 08 X	ERIC ANTHONY	WOOD	Director	Active
720908 XXXX 08 X	BENJAMIN JUDE	BURNAND	Director	Active

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Vodacom
7:12 PM
Salim Essa
Salim Essa
Add Friend
Message
More
Posts
About
Photos
Friends
Photos
Friends
LIFE WAS MUCH EASIER WHEN Apple AND BLACKBERRY WERE JUST FRUITS
Rafael Nottaro
Ray Scarpa
Shaheen Kalla
Menzi Mbatha
Pramod Mohanlal
Mohamed Max Jo...
News Feed
Requests
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Notifications
More

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65%
Max Joosub
Mngmnt Accountant at Super Group
mark mcveigh • 3rd
acc exec at Young & Rubicam
Louis Weinstein • 3rd
--
Aubrey Friedman • 3rd
President at H4H Construction Inc.
Vikas Sagar • 1st
Director at McKinsey & Company; Marketing & Sales; Banking; Logistics
Mark Nottage
Mechanical Engineer at Price Building Services
Matthew Bonner • 3rd
Chief Operating Officer at EAS Advisors, LLC
Deon Smit • 3rd
Owner - Deo Water Services
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Messaging
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FOF-07-550 VV7-DRF-362

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McKinsey&Company

March 15, 2016

CONFIDENTIAL

Eric Wood
Trillian Management Consulting
eric@tcp.co.za

Dear Mr. Wood

TERMINATION OF INTERACTIONS BETWEEN MCKINSEY AND THE TRILLIAN GROUP IN RESPECT OF THE TOP CONSULTANTS PROGRAMME AT ESKOM

We refer to our letters to you dated February 25 and March 10, 2016 and to which we have not received any formal responses. In particular, we did not receive your responses to the following requests:

1. Detailed group profile of the Trillian Group including ultimate beneficial shareholders, related parties and executive management;
2. Detailed account of the form and legal status of Trillian's relationship with Hubei Hongyuan;
3. Detailed account of the form and legal status of Trillian's relationship with E Gateway Global Consultants FCZ;
4. Confirmation that Trillian, its employees, or any of its subcontractors or affiliates have no other interests which may conflict with their respective roles as advisor to Eskom;
5. Confirmation that, pending your detailed response to this letter and with immediate effect, no Trillian personnel, subcontractor personnel, or personnel of any affiliate undertaking will conduct or undertake any activities on any element of the Top Consultants Programme which may lend themselves to a conflict of interest whether real or perceived;
6. Confirmation that Trillian indemnifies, defends and holds McKinsey harmless from any and all claims brought against McKinsey in respect of and relating to Trillian's relationship with Hubei Hongyuan and any services performed by Trillian and/or any of its subcontractors or their affiliates for Eskom.

As we mentioned to you, our global risk committee has reviewed and discussed the proposal to work with Trillian, as our BBBEE partner, on our engagement with Eskom. As a result of this discussion, we have decided not to proceed with this proposal.

McKinsey&Company

Whilst we are aware that this will be a disappointment to you, we hope that you will understand that, for a programme of this scale and importance, we require more clarity on our partner firm than you have been able to provide us to date. We may consider any additional information that you may furnish subsequent hereto.

We will inform Eskom of the recent developments and trust that you will be willing for our team to discuss with you and with Eskom how to transition arrangements in a way that best supports Eskom's plans.

We will also communicate any advices from the client in this regard.

Yours sincerely,

Georges Desvaux
Managing Partner, Africa

Jean-Christophe Mieszala
Chair, Client Service Risk Committee
Europe, Middle East & Africa

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McKinsey&Company

30 March, 2016

CONFIDENTIAL

Mr. Anoj Singh
Group CFO
Eskom Holding SOC Ltd
Megawatt Park
Sunninghill, Sandton
Johannesburg
South Africa

Dear Mr. Singh

TOP CONSULTANTS PROGRAMME

We refer to your letter to us dated February 19, 2016 and our response thereto dated February 25, 2016. This letter serves as an update on further developments since our last letter to you on February 25, 2016. In particular, you may recall, that we confirmed to you that we will not be in a position to commence a relationship with Trillian, or any other partner/sub-contractor until the criteria below have been met and approved by our global risk and legal teams:

- Shareholding of holding companies
- Ultimate beneficial shareholders
- Related parties and group companies (e.g., significant lenders)
- Executive management team and other "key man" dependencies for both the company and group companies
- Majority Black ownership
- Majority Black management and staff or a clear and committed plan to deliver this outcome

We have requested the above, and other additional relevant information, from Trillian on separate occasions including via letters to them dated 25 February 2016 and 10 March 2016. We have, to date, not received any formal responses to each of the letters despite the respective deadlines of 25 February 2016 and 11 March 2016.

We have also had separate discussions with Mr. Eric Wood on a number of occasions. During these meetings, Mr. Wood orally provided partial information

McKinsey and Company Africa Proprietary Limited
Sandown Mews East 88 Stella Street Sandown Sandton 2196 PO Box 652767 Benmore 2010 South Africa

Incorporated and Registered in South Africa No 2013/091251/07
Directors: LJH Arwidi (Swedish) B Wu P Parbhoo VN Magwentshu T Legoete (Independent)

McKinsey&Company

concerning Trillian's potential shareholders and directors but expressed that the information was neither complete nor final. The information received served as input into McKinsey's risk management process and review of the proposed contracting arrangement which has been ongoing.

All information received to date concerning our requests to Trillian, as set forth above, was presented and evaluated during a periodic McKinsey global risk committee meeting. The committee came to the following conclusions:

- McKinsey does not know enough about Trillian, its ownership and governance to be comfortable going ahead on a programme of this scale
- Trillian's speed and clarity of response to McKinsey's questions has not been satisfactory
- McKinsey is uncomfortable about Trillian's transparency on conflict issues
- McKinsey has material concerns around reputational risk to the Firm given the above.

As a result, McKinsey's interactions with Trillian have now been terminated with confirmation having been sent to Trillian.

We acknowledge that the draft of the Services Level Agreement between Eskom and McKinsey entails the requirement of outsourcing a percentage of the total consulting fee to a Supplier Development partner. We are fully committed to giving effect to this obligation despite the termination. In light of the previously envisaged sub-contracting relationship with Trillian which, under the current conditions, will not be possible, we would appreciate an opportunity to develop options with Eskom to ensure that we meet our supplier development obligations.

We are very much committed to support Eskom on this going forward. Please take it as our sign of commitment that we so far continued our teams to push for impact

Yours sincerely,

Dr. Dr. Alexander Weiss
Director

Georges Desvaux
Managing Partner, Africa

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DF21

RESPONSE TO GSM/12/05/0447: FOR THE APPOINTMENT OF ADVISORY SERVICES RELATED TO THE ACQUISITION OF THE 1064 LOCOMOTIVES TENDER

McKinsey&Company

LETSEMA CONSULTING

NEDBANK | CAPITAL

edward nathan sonnenbergs

KOIKANYANG INC

UTHO

PROPOSAL

7 June, 2012

TRANSNET

Contents

CONFIDENTIAL

Memorandum to
THE SECRETARY
TRANSNET ACQUISITION COUNCIL
CARLTON CENTRE
TENDER BOX
OFFICE BLOCK FOYER
150 COMMISSIONER STREET
JOHANNESBURG 2001

RESPONSE TO GSM/12/05/0447: FOR THE APPOINTMENT OF ADVISORY SERVICES RELATED TO THE ACQUISITION OF THE 1064 LOCOMOTIVES TENDER

McKinsey and its sub-contractors (called "Solution Team"), including Letsema Consulting, Edward Nathan Sonnenbergs, Koikanyang, Advanced Rail Technologies, Utho Capital and Nedbank Capital, are pleased to submit this proposal in response to Transnet's solicitation regarding the Appointment of Advisory Services Related to the Acquisition of the 1064 Locomotives Tender (RFP # GSM/12/05/0447). We would welcome the opportunity to support Transnet on such a critical programmatic procurement event in light of the South African government's national development vision and the recently adopted Infrastructure Plan. We see a great potential to help transform South Africa through the socio-economic benefits this programme can bring, e.g., volume expansions, job creation and localisation.

This proposal should be viewed as two main bidders who offer you the option of an end-to-end solution to the acquisition process. We are structured internally so that you have the option of selecting the entire Solution Team or individual bidders for specific work packages should you choose to:

- McKinsey (all returnable documents submitted): Main transactional advisor focusing on the business case validation, overall integration and value engineering. Additional expertise will be drawn in from the following sub-contractors:

- Advanced Rail Technologies (ART): providing expertise for the technical specification of locos, input on business case revision, identify technical levers and support value engineering
- Nedbank Capital and Utho Capital: providing financial advisory related to funding options and structuring
- Edward Nathan Sonnenbergs: providing legal advice related to RFP preparation and contracting, working as one team with their main local partner Koikanyang.

■ Letsema Consulting (all returnable documents submitted): Main advisor on supplier development, procurement strategy, RFP process, supplier evaluation and contracting.

We have compiled and are submitting two documents; a main proposal document and one supporting appendix. Together they encompass an overview and detailed background of each of the Solution Team members, our relevant qualifications and expertise, our proposed approach deliver impact, and all RFP returnable documents.

Executive Summary

The Solution Team comprising McKinsey & Company and its sub-contractors (Letsema Consulting, Nedbank Capital, Utho Capital, Advanced Rail Technologies and Edward Nathan Sonnenbergs) are very excited to be afforded the opportunity to propose on how we can support Transnet in its acquisition of 1064 locomotives in support of MDS. We recognise that the future growth and prosperity of Transnet and South Africa are closely linked and that a successful outcome in the acquisition of the locomotives is of national importance.

In order to ensure a smooth and efficient process to secure the required locomotive fleet a robust business case(s) are required which link the locomotives to overall business outcomes (increased volumes as predicated by MDS, or the replacement of locomotives to be retired). Furthermore, there must be confidence that the suppliers chosen can deliver the best balance of an appropriate technical solution, cost and local supplier/industry development. These three objectives are interlinked and pose complex tradeoffs that must be thoroughly evaluated before supplier(s) are committed.

The value at stake is substantial. A 10% saving on the capital cost of the locomotives would amount to ~R4bn. Additionally, ensuring delivery of the more than half a million jobs that should be created directly and indirectly by MDS is critical to South Africa's future prospects. This substantial value at stake completely justifies a thorough effort in the early stages of the programme to ensure that it stands the greatest chance of success.

We have developed a compact and efficient process comprising three streams which will run in parallel. Using this parallel approach will allow us to meet the objectives and deliverables as described in the RFP in a more time efficient manner than if the Solution Team members operated independently or in sequence. We aim to award, contract and allow Transnet to issue first down payment by end of February 2013.

To ensure that we deliver the best solution to Transnet we have assembled a high performance team. Each member of the team brings unique strengths to bear on this complex problem. McKinsey brings a distinctive global rail experience, understanding of Transnet MDS, business case validation and value engineering skills from multiple engagements across asset classes. Letsema brings a unique experience in supplier development, most recently in PRASA's rolling stock program. Advanced Rail Technologies with David Potter, who has experience in developing and operating passenger and freight railways in more than 20 countries around the world, for a wide range of public and private sector clients, from project inception to operation. Nedbank Capital, one of South Africa's leading project finance transaction funder in the last 36 months, will work with and the build the skills of Utho Capital to provide financial advisory services throughout the project. ENS, Africa's largest law firm with a dedicated project finance team, will work in collaboration with Koikanyang and bring first class legal advice to Transnet.

As you will see detailed in the proposal that follows, our cross-functional team exceeds all the requirements presented in the RFP.

* * *

Growth in freight capacity is crucial to the growth of the South African economy. We recognise the critical role that Transnet plays in delivering this growth, as well as the importance and urgency of securing the required locomotives to support this growth. We feel privileged and would be honoured to support Transnet to ensure a balanced and sound outcome for this programme.

Solution Team

Vikas Sagar	Hilton Amsel
Principal	Director
McKinsey & Company	Letsema Consulting

Our understanding of the situation

Transnet is embarking on a substantial ramp-up of capacity in line with its MDS approach announced in April 2012. This strategy aspires to growth in capacity on the back of a R300 billion capital investment programme to upgrade or expand rail infrastructure, rolling stock, ports and pipelines.

More than two thirds of the funding for this capital expansion programme will come from operational cash flows and the remainder through increased gearing.

In addition to providing increased freight volumes, the programme will create more than half a million direct and indirect jobs, for example through programmatic sourcing and localisation of rolling stock manufacture.

One such programme is the procurement of 1064 locomotives to support volume growth as well as the phase out of older locomotives. The business case for the purchase of these locomotives should now be reviewed to ensure the appropriate business outcomes can be achieved and ensure that the appropriate supplier development elements are reflected.

TERMS OF REFERENCE

This proposal responds to the specific objectives and deliverables outlined in Transnet RFP GSM/12/05/0447. Specifically, the objectives are listed as:

- Developing and augmenting the business case for the approval of the locomotives by the Transnet Board of Directors and Department of Public Enterprises;
- End to end requirements of the overall General Freight programme (locomotives, wagons, infrastructure etc based on validated volume expectations) ;
- Identifying value optimisation potential and technical optimisation options ;
- Setting up the tender process in line with all requirements applicable to State - owned-companies (SOCs);
- Developing a shortlist of potential suppliers ;
- Developing the contracts for the tender ; and
- Developing finance and funding options

And specific deliverables include:

- Updated and improved business case and relevant documentation for submission to the Transnet Board of Directors and Department of Public Enterprises;
- 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);
- List of technical value optimisation levers and estimated value;
- Design of an optimisation approach for joint value optimisation between Transnet and the selected supplier(s);
- Overall tendering process design for the locomotives;
- Request for Information / Quotation documentation;

We understand that delivering a successful outcome to these objectives is important not only to the future success of Transnet, but that this is integral to South Africa's economic development.

We believe that we have assembled a world-class team that will be able to address these objectives and deliver these end products in an integrated, end-to-end way, following an efficient and effective process.

Solution Team value proposition

INTRODUCTION TO OUR SOLUTION TEAM

We have put together a team that can deliver an affordable and impactful solution for South Africa, develop business case and value engineering skills at Transnet, and convene key stakeholders required to make this project successful. Our Solution Team exceeds the criteria set out in your RFP, and brings you world-class supplier development, business case development skills, value and rail engineering experts, legal, financial, and socio-economic experts who also have a deep understanding of the South African context.

The members of our Solution Team are:

- **McKinsey & Company** (McKinsey). A leading global management consultancy that brings deep local and international experience in development and delivery of large infrastructure projects, supply chain and logistics, procurement strategy and value engineering, rail operations, port and port terminal operations, and macroeconomics. With continuous presence in South Africa since 1995, 160 consultants based locally, over 7 years of client service to Transnet and USD 100bn of large capital projects optimised and delivered annually, McKinsey is ideally placed to play the integrator role in the Solution Team. McKinsey has demonstrated, through measurable investments, that it is committed to the socio-economic success of South Africa and to B-BBEEE.
- **Letsema Consulting** (Letsema). Letsema is a proudly locally owned strategy and implementation consulting firm. Incorporated in 1989, Letsema has serviced clients in the private and public sector on issues of strategy, transformation, procurement, operational effectiveness, change management and business process optimisation. Letsema has 60 local consultants have deep functional expertise and experience in the Transport sector, having served on more than 60 projects for numerous railway operators in Southern Africa (including Transnet and PRASA). Being currently involved in the programmatic rolling stock procurement process, for PRASA, we have a clear understanding of the local requirements to execute an efficient and effective complex capital procurement transaction. Letsema is committed to extensive public and private sector experience as well as access to a global network of professionals and specialists. We are committed to the transformation of our country and are a level 3 B-BBEE contributor with 51% black ownership.

- **Advanced Rail Technologies** (ART). ART is a UK-registered company with deep expertise and knowledge in international railway projects. ART has extensive experience in devising solutions that optimise the desired outputs of train service capacity, journey time, reliability and safety against the capital cost and ongoing maintenance liability. The skills offered through ART and its individuals include: railway engineering, railway operations, strategic policy and guidance, finance and legal structure, revenue and markets, railway economics and demand analysis, and rolling stock procurement.
- **Nedbank Capital.** Nedbank Capital aims to provide each client with holistic solutions that add value to their business through a full range of investment banking products combined with a focused sector specialisation, seamless integration into a full-service offering, and full national and international reach. This is backed by the capital, resources and reputation of one of South Africa's largest banking groups and is supported by experience at the forefront of BEE initiatives in the financial services sector.
- **Edward Nathan Sonnenbergs** (ENS). ENS is Africa's largest law firm, with over 450 professionals, and advises clients across all areas of business relating to law, tax, forensics and IP, including specialised niche areas and throughout Africa. ENS has extensive pan-African experience in financing structures and legal frameworks related to rail, port and infrastructure development. ENS is one of the few law firms of the continent with a dedicated Projects and Project Finance Department with extensive integrated rail and port expertise and as well as extensive experience in relation to large infrastructure projects, PPPs, road and rail concessions, track access structures, wagon ownership schemes and hybrids of the foregoing.
- **Koikanyang Incorporated** (Koikanyang). Koikanyang provides sophisticated legal services to business entities of all types, including State Owned Enterprises having done significant work for Eskom. The firm's Commercial Practice is international and national in scope and involves representation of some of the largest corporations, state institutions and firms. The practice ranges from small, traditional transactions to large, highly complex transactions and provides a full range of corporate, finance, and transactional legal services to its clients. Koikanyang will work closely with ENS across all of the legal aspects.
- **Utho Capital** (Utho). Utho is a specialist infrastructure advisory firm that has been in operation for over twelve years, providing creative financial solutions to both private and public sector clients in South Africa and across the African continent. Utho is a corporate and project finance advisory and

consulting firm, wholly owned and managed by a team of professionals with over 80 years combined hands on experience. The firm provides innovative, practical solutions and world class execution flavoured with a local touch that adds value to clients.

A complete overview of our members' experience, and detailed client references can be found in Appendix 1.

DISTINCTIVE VALUE PROPOSITION

Transnet solution: The acquisition of the 1064 locomotives is a complex project. A distinctive, yet Transnet-specific, solution that enables MDS volume ramp up, at the right time, at the right capital cost, and lowering the overall cost of business in South Africa while creating local jobs is critical to its success. We bring a unique blend of local insight and global expertise to develop this distinctive solution and flawlessly execute a process to bring in high-quality suppliers and investors. This is based on:

- McKinsey has seven years of experience serving every part of Transnet business including supporting MDS, developing Transnet's capital organisation and delivery principles, optimising the Natcor rail corridor, optimising the Manganese rail line through train configuration, improving asset productivity at DCT and optimising mega capital projects.
- Letsema has worked closely with Transnet on a range of topics over the past seven years. Letsema has developed an intimate familiarity with some of the organisations processes, people and policies. In particular, some of the previous experience includes, but is not limited to:
  - Supporting Transnet's procurement organisation to extract value from key commodities (in 2006/2007).
  - Supporting the design and implementation of the initial ISCM operating model (in 2009/2010).
  - The initiation of Supplier Development within Transnet procurement.
  - Developing procurement's response to fulfill the requirements of the MDS programme (i.e., debottlenecking and deployment of procurement SWAT teams).
  - Supporting the redesign of the ISCM operating model (in 2012).
  - Operational experience across a number of Transnet corridors, most recently the Maputo Corridor.

Having completed more than 60 projects in Freight sector combined with some 25 projects in the Supply Chain area.

- ENS's is Africa's leading legal firm in infrastructure advisory and brings a deep understanding of Transnet and the SOE legal environment, this is an unrivalled level of rail and port transaction legal expertise.
- Nedbank Capital is the leading Southern African Lender to infrastructure project finance transactions, currently holding approximately 22% of all SA infrastructure project finance debt, and have extensive experience from both advising and financing large deals.
- Utho Capital is a leading PPP and infrastructure development advisory firm in Africa, with an experienced management team that has accumulated years of advisory, structuring and financing experience in South Africa, Africa and in the global markets.

Unrivalled credibility: The acquisition of the 1064 locomotives is a priority for Transnet and South Africa backed by an investment that constitutes 10-15% of the entire MDS capital portfolio. This project required not only world-class skills and deep local knowledge; it will undoubtedly receive much public scrutiny over the coming years. Our Solution Team offers the experience, the credibility and a sterling reputation not only to deliver but also to pass the test of the citizenry. We have:

- In excess of 1,600 client engagements in the rail/port value chain, 180 of those in rail cargo across all geographies.
- Served majority of the world's largest rail operators with their strategic procurement and capital programmes with savings opportunities of 2-30%.
- Since 2007 we have conducted close to 500 capital productivity and optimisation projects, optimising over USD 80 billion of capex in 2010.

Global network and reputation to attract investors: Transnet will likely have to seek external funding solution (at least partly) for the acquisition of locomotives. A combination of the Solution Team's network, experience and reputation will ensure high-quality pool of bidders for the locomotive opportunities.

- McKinsey serve 60% of the largest financial institutions in the world, and 80% of the largest local capital funds.
- Nedbank Capital is the leading South African Arranger of project finance transactions over the past 36 months.

Catalyst for Transnet's socio-economic development mandate: Transnet is deeply committed to both socio-economic development and enterprise development. As a Solution Team we have helped Transnet develop its localization initiatives and delivered them successfully for other SOEs. In addition, we're further demonstrating this commitment by creating development opportunities for Black owned consulting firms:

- McKinsey has an eight year relationship with Letsema Consulting and have helped them grow from a small to a medium enterprise through capability building and enterprise building.
- We will further BEE- enterprise development more than any other Solution Team, by developing the skills of Koikanyang and Utho Capital.
- We have helped PRASA setup and run the R100 billion rolling stock build programme with a big focus on localisation and local supplier development, directly with over 600 employees trained and developed.

Committed to South Africa and Transnet:

- Serving Transnet since 2005 on a number of strategic and tactical initiatives; building leadership and transferring skill has been a central theme of all our work at Transnet.
- Our commitment to the overall development of the South African society is reflected in our innovative initiatives and support to development programmes, like the McKinsey Leadership Programme aimed at the development of exceptional black South African leaders through a distinctive curriculum and unrivalled learning environment.
- McKinsey provides both active and financial support to the Ikageng Itireleng AIDS Ministry, an organisation dedicated to the needs of children orphaned by HIV/AIDS.
- McKinsey advises Gauteng Department of Education on establishing and developing teacher coaches to support teacher practice.
- Our support goes beyond the significant financial contribution on a monthly basis and includes time and energy from consultants, support staff, and their families.

EXCEEDING THE TECHNICAL REQUIREMENTS

McKinsey and its sub-contractors collectively meet all evaluation criteria stated in the RFP:

Evaluation criteria	McKinsey	Letsema	ART	ENS/Koi kanyang	Nedbank/Ut ho Capital
1. Updated and improved business case and relevant documentation for submission to the Transnet Board of Directors and Department of Public Enterprises	✓	✓	✓		
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)	✓	✓	✓		
3. List of technical value optimisation levers and estimated value	✓	✓	✓		
4. Design of an optimisation approach for joint value optimisation between Transnet and the selected supplier(s)	✓	✓	✓		
5. Overall tendering process design for the locomotives		✓		✓	
6. Request for Information/ Quotation documentation		✓		✓	
7. Short list of potential suppliers	✓	✓			
8. Template contract for awarding of the tender				✓	
9. Documentation for the final selection of preferred supplier(s)	✓	✓		✓	
10. Proven ability in project deal structuring, financing and funding				✓	✓
11. A sound methodology for developing robust business cases, including financial and non-financial elements (e.g local procurement, job creation, etc)	✓	✓	✓		
12. A proven approach to technical optimisation of capital equipment, prior experience with locomotives will be favoured	✓		✓		
13. A proven approach for developing and providing support to large capital project tender processes including assistance in developing RFIs, RFQs, shortlisting and final selection	✓	✓		✓	

Evaluation criteria	McKinsey	Letsema	ART	ENS/Koikanyang	Nedbank/Utho Capital
14. The approach must demonstrate how the service provider would set up the project and work jointly with Transnet and potential suppliers to meet the required timeline, including key milestones and resources required	✓	✓			
15. Proven ability in project deal structuring, financing and funding				✓	✓
16. Experience with development of contracting strategies for large projects (e.g. programmatic procurement) and the ability to extract value and savings (contracting approach between state owned companies and suppliers would be preferred)	✓	✓			
17. A thorough understanding and experience with the socio-economic issues (SD, Broad based Black Economic Empowerment, industrialisation and localisation, environmental issues etc.)	✓	✓			
18. Thorough understanding of the PFMA, PPPFA, IPAPII, NGP etc, requirements	✓	✓			
19. Capital project optimisation experience (rail and capital equipment preferable). This should include: Design to Value Design to Cost Minimum Technical Solution development	✓		✓		
20. Working with other railways – consultant should demonstrate that it understands the rail business model and has worked with other railways	✓	✓	✓	✓	
21. Business case development and evaluation for mega project	✓		✓		
22. Contracting strategy development for large projects	✓	✓			
23. Contract development for large projects		✓		✓	

Evaluation criteria	McKinsey	Letsema	ART	ENS/Koi kanyang	Nedbank/Utho Capital
24. Deal structuring and financing for large capital investment projects					✓
25. Procurement and Supply Chain experience (rail experience preferable)	✓	✓	✓		
26. Experience with the socio-economic issues (SD, B-BBEE, industrialisation, environmental issues)	✓	✓		✓	
27. Extensive experience in South Africa	✓	✓	✓	✓	✓
28. The proposal should include a list of key personnel who will be involved in the project as well as experts who will be called upon to provide support. Short CVs of core team members and experts must be provided	✓	✓	✓	✓	✓
29. Additionally, working knowledge of Transnet systems and process would be beneficial, but is not required	✓	✓	✓	✓	
30. Approach The service provider must demonstrate a clear and practical approach to this project to cover the requirements and deliverables as well as the set up, governance model and resource model clearly indicating the resources required from Transnet	✓	✓			

1. Updated and improved business case and relevant documentation for submission to the Transnet Board and the DPE

The three principal objectives of the 'Acquisition of the 1064 locomotives tender project' are to:

- Meet the proposed deadlines of tender award. In the best case these are as set out in the business case- December 2012 for diesel locomotives and February 2013 for electric locomotives- and in the worst case award for both types of locomotives by February 2013, which will enable the down payment for suppliers to be processed within the 2012/13 financial year.

- Minimise the total lifecycle cost (purchase price+ operating cost + maintenance cost) of these locomotives by ensuring a 'fit for purpose' specifications and sophisticated commercial negotiations.
- Mitigate the risks posed by this procurement event to Transnet. The key risks that still need to be addressed by the business case as it stands are:
  - **Financial, in particular hedging risk**: Given the potential materiality and adverse impact (technical insolvency) created by rapid Rand devaluation, this is a risk that absolutely needs to be buttoned down.
  - **Cash flow/ EBITDA at risk**: GFB growth is the driver of MDS for TFR-it consumes 75% of the capital outlay and delivers 65% of the volume growth. The loco business case works on the assumption that all the customer volumes will be available as planned and the infrastructure, rolling stock and people will be delivered exactly as per plan. *Past experience has shown that this is a rare occurrence.* It is therefore critical to understand cash flow at risk and the impact on gearing and CIC under different scenarios so that this can be mitigated through contract structure/stage gates etc. To answer these questions, the business case needs to:
    - Outline the underlying commodity business cases taking into account the full capital allocated to the business and outlining the risks inherent in this business case, specifically volume volatility, pricing risk, integrated capital delivery and operational efficiencies.
    - Detail a fleet plan taking into account the volumes and risks from the business cases.
    - Build an integrating financial model that simulates the cash flow at risk (CFAR) and identifies impact on Group financial metrics. In addition, proposes appropriate breakpoints and triggers to mitigate the CFAR.
  - **Localization/ industrialization non-delivery risk**: The business case does not yet specify targets and proposed process to achieve localization and industrialization.
  - **High lifecycle cost risk (and a lost opportunity to reduce capital outlay)**: The purchase price of a locomotive is typically ~15% of the lifecycle cost. And even on the purchase price, 10-15% (R4-6bn) can be reduced through specifications. The business case does not yet show what how TFR will minimize lifecycle cost and the extent to which the purchase price will be reduced through negotiations and with what levers.
  - **Operational readiness risk**: The business case does not yet detail: its human capital plan to prepare for this ramp up; changes in maintenance regime and how it will prepare for this; the TRE plan to absorb and gear up

for the maintenance (including management of spares) on new classes of locomotives and a much larger fleet.

The submission of an updated and improved business case to the Board is a critical step in achieving the above objectives. However, as laid out in our response, it is it is only one among the many other steps required to ensure Transnet achieves its commitments as enshrined in he Shareholder Compact- capital spending, volume growth, localisation and job creation.

That said, a successful and high quality submission to the Board requires: a clear understanding of what constitutes a 'platinum standard' business case (the key elements and the evaluation criteria) vs. where the business case stands today; an appreciation of the nuances of the Board's dynamics (which elements of the business case are likely to receive more attention than others); and technical mastery of the each of the areas of improvement within the business case. By virtue of the advisory and execution support our consortium has provided Transnet over the last 7 years, we are uniquely positioned to *credibly* deliver on the above requirements for a high quality submission to the Board in the *shortest* space of time:

- We are currently working with Transnet to establish the 'platinum standard' for capital projects including business cases. In establishing this 'platinum standard' we are actually already working on creating optimised business cases, bringing to bear, what is arguably, the largest experience base in capital project and business case optimisation experience (for rail and more broadly) of any consultancy globally. The '1064 locomotives business case' as defined is not a business case as it stands and would not meet the criteria for a FEL3 business case as defined in Transnet's PLP. It is rather a procurement event that needs to be converted to an integrated business case (composed of underlying business cases for GFB commodities). Based on our work with Transnet, we know what these underlying business cases need to look like and how to get them developed quickly to as close to 'platinum standard' as the available time will allow. The development of these business cases to a 'platinum standard is not about showing up with a set of manuals that lay out on paper what an optimal business case should look like- these manuals can now be downloaded off the internet- but rather about the pragmatic experience of pragmatically applying this in a Transnet environment. We are uniquely positioned in this regard.

  Additionally, as demonstrated above, we understand the 1064 locomotives business case as it stands today. We have worked with Transnet on operational and commercial aspects of every underlying commodity and do not need time to ramp up on this. We will hit the road running- not just on locomotives but on the entire GFB business end-to-end.

- We deeply understand the working of the Transnet Board and have more credibility with them on the topic of capital spend and business cases than any other consultant. This is critical to ensure quick decision making and a positive outcome at the BADC and the Board. Our understanding and credibility have been developed by supporting Transnet on:
  - Supporting the process of approving MDS with a particular focus on Board approvals.
  - Redeveloping and rewriting the Board reporting approach including the outlines of the Board 'packs'.
  - Developing the BADC reporting templates for both procurement and capital.
  - Most importantly, developing and delivering a Capital Optimisation and Execution training for the BADC. This is an 8 session series, which has received very positive reviews from the members of the sub-committee and established our credibility.

We have unbeatable experience and expertise that has been demonstrated at Transnet, in every element that is required to deliver an updated and improved business case. We would like to underscore that the expertise that we will bring to bear does not just exist on paper, but has been tested and delivered successfully in the Transnet environment. A large part of this document is dedicated to outlining this experience and expertise in rail operations specifically in GFB, business case development, transaction advisory and execution including legal and financial structuring expertise, locomotive technical optimisation, and supplier development and localisation.

2. The business case should include end-to-end requirements for the overall General Freight programme

The 1064 locomotives business case is comprised of 11 underlying commodity business cases: domestic coal, containers & automotive, manganese & ferro-manganese, domestic iron ore and steel, cement, grain (including maize, wheat and foodstuffs), chrome ore and ferrochrome, rock phosphate, magnetite, timber and petroleum and liquid bulk products. Each of these commodities has a specific demand profile and volatility, commercial circumstances, operational and planning complexity and nuance and maintenance interface issues. An understanding of every element of this end-to-end value chain is essential to develop the commodity business cases that underpin the locomotive business case. We have supported with Transnet Freight Rail with tens of thousands of person-hours in growing and optimising these commercial, operational and maintenance aspects of these commodities. We have worked across the value chain - from the NCC to the yards to customer sidings and from Boardrooms in Inyanda House to customer Boardrooms. Our Solution Team has more experience and expertise in the GFB business of TFR than any other external advisor - as it would take any other grouping months to understand the business at a level of detail that is necessary for developing robust business cases.

Our end-to-end GFB experience stems from:

- Developing key account plans for all GFB commodities together with the TFR commercial team and supporting price negotiations on all commodities over a 3 year period. In our consortium we have the largest repository of knowledge, experience and expertise on GFB demand and commercial issues that exists outside of TFR. All the work, for example key account plans, price umbrellas based on DORC, will be drawn upon to accelerate the validation of business cases. This is of the essence and we do not think it is possible to complete business case validation in the required timeframe without this knowledge base and experience.
- Optimising GFB operations over a 5 year period to maintain/grow volumes, in the face of declining traction power, on the Natcor, Richard Baycor, Golela corridor, CapeCor and the Maputo corridor. These interventions were conducted on the ground and in the yards and the sidings- not from the Board room. This experience has given us an instinctive feel for what is operationally possible- and essential ingredient in developing the commodity business cases. Through our work we have optimised 70%+ of GFB volume and understand it deeply.
- Developing the planning and scheduling approach and working deep within NCC processes. We have developed schedules for the Natcor and the Richards Baycor (with a focus on export coal) and have a thorough understanding of service designs, weekly and daily planning, scheduling and deviation management.
- Enhancing the loco and wagon maintenance regimes for TRE over a 2 year period on the Natcor and the Richards Baycor. We understand the maintenance regimes, the actual performance that underlies the KPIs used and where improvement opportunities still exist.

3. List of technical value optimisation levers and estimated value

McKinsey and ART have rich experience in optimising technical specs with suppliers. Key to implement those successfully will be to build credibility and trust with the Transnet engineering team, with the aim to agree on basic spec requirements that are as close to standard specs as possible.

One typical technical optimisation lever is the cab layout – which through simplification and optimisation can yield up to 2-3% savings of the total locomotive purchasing cost. This has been for instance tested on the '43' locomotives, and similarly applied to passenger rail locomotives in Europe.

We would draw on our experience and collaboratively problem solve with the Transnet engineers in order to generate a list of technical optimisation levers, quantify and prioritise, in preparation for the in-depth value engineering process with the shortlisted suppliers.

4. Design of an optimisation approach for joint value creation between Transnet and the selected supplier(s)

McKinsey and ART have a long and deep experience in creating joint value for clients and suppliers. By taking a TCO perspective, combined with a design-to-value approach, we seek to help the client create trust based relationships with the potential suppliers upfront.

McKinsey has done this more than 1,400 times globally and 113 times for transport multi-modal/urban transit organisations.

Joint value creation can be a broad effort – and whilst the immediate focus on this acquisition should be on value engineering (design to value), there are other levers we might want to engage with the potential suppliers to understand what they can bring to Transnet:

- Suppliers can help on fleet planning and maintenance: reducing the time that vehicles spend undergoing planned and unplanned maintenance, increasing the useable life of the assets through better preventive maintenance and TCO approach, and redistributing fleet to better meet passenger demand.
- Design to value: in our experience working with rail operators on every continent, most companies ***save 25% of the budgeted Capex*** on those items where they have performed a robust design to value exercise. Relationships can be structured so that savings are shared between Transnet and the suppliers.

- Value from reducing joint procurement costs.

In this case we would use the following approach to design joint value optimisation:

- Engage with potential suppliers upfront, e.g., visits, market engagement, etc. to understand their concerns and ideas, and prepare them on the process.
- Send out EOIs/'RFIs+' for Diesel and Electric (basic specification of performance) to allow the suppliers to react formally and start preparing for the RFP.
- During the commercial RFP we would continue to answer questions, and request a compliance statement with a target cost for the basic spec.
- Once shortlisted, we would engage with the select suppliers in a competitive dialogue to generate value engineering opportunities and reduce specs to agreed minimum requirements. This is an iterative process over 8 weeks, where the outcome will be comparable specs for each loco type, at comparable costs.

To stimulate ideas during the design to value process, McKinsey typically uses two sources of inspiration:

- *Comparison with the design specifications of peer agencies.* Many other agencies and operators have been, or are going through, similar design to value exercises and hence are a fertile source of ideas. We have relationships with many of the leading rail companies globally and can draw on these relationships to understand the changes they have implemented in their rolling stock
- *A library of design improvements developed with other clients.* Our own extensive experience working with agencies and operators on this topic has given us a substantial library of examples that we will, of course, draw on for Transnet. For example, an idea developed with Deutsche Bahn, the German rail operator, was to redesign the brake shoe to reduce the amount of steel plate required while retaining structural rigidity. This idea alone saved 20% of annual spend on that item.

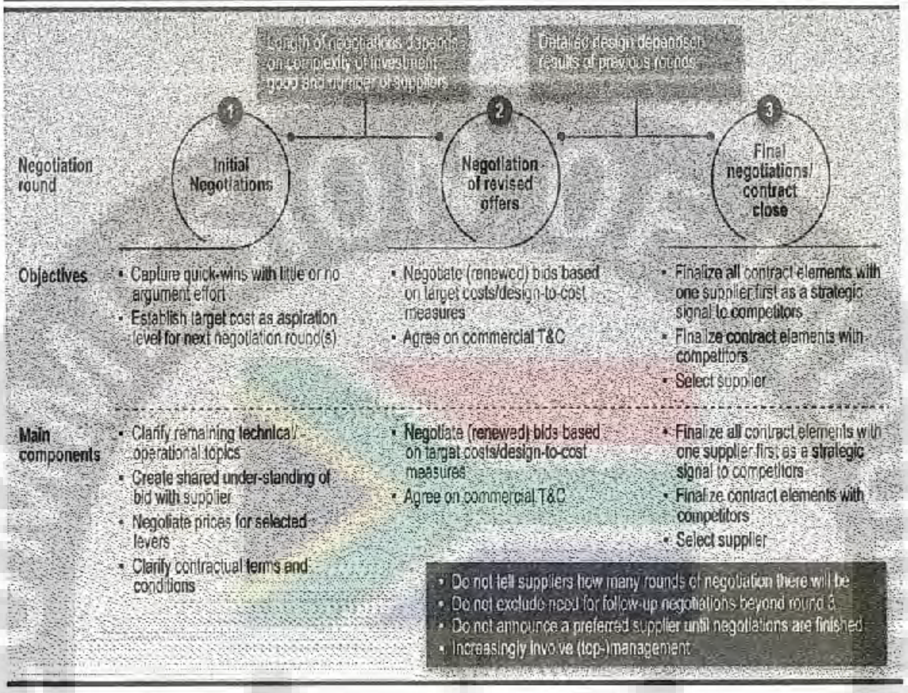
In parallel, with all these approaches to reduce cost and improve TCO, we usually work with clients to develop a robust procurement and negotiation processes. In our experience, the best prices are captured when the suppliers do not know who else is bidding, how many rounds of negotiation there will be, or how well they are performing. Running a rigorous process that meets these precepts requires real discipline and focus.

EXHIBIT 1: MCKINSEY'S VALUE PROPOSITION

Why McKinsey's value proposition and strategy is distinctive:

- We have done this 1,482 times in general and 1[illegible] times for transportation/multi-modal urban transit organizations
- We have helped reduced the capital cost of standard buses, articulating buses and rail cars
- We use a TCO and DTV approach combined with a proven methodology
- We have deep expertise working with most of the suppliers of input elements to the rolling stock (e.g., steel, electronics, plastics, etc.)
- We have experience improving the efficiency and effectiveness of rolling stock maintenance operations and understand the connection between maintenance and optimizing TCO in rolling stock
- We have proprietary databases to help benchmarks, have tear down centers and a low-cost country sourcing center in China, Lat[illegible] and Eastern Europe

EXHIBIT 2: PROCUREMENT AND NEGOTIATION PROCESSES TO IMPROVE TCO



5. Overall tendering process design

In order to meet the aggressive deadline required for this transaction, we have developed an optimised procurement process that meets the timeline requirements whilst adhering to compliance. The proposed process takes into consideration Letsema's experience on the PRASA programmatic rolling stock transaction together with international experiences of McKinsey and ART working on numerous other transactions of this nature.

EXHIBIT 3: OUR OPTIMISED TENDERING PROCESS

Letsema's optimised tendering process

Develop business case	Develop procurement strategy & plan	Prepare & issue RFI	Prepare & issue RFP	Go to market	Evaluate	Negotiate	Award	Contract & financial close
	• Develop sourcing strategy • Develop the supplier development strategy (local content, B-BBEE, skills transfer etc) • Determine the requirements for any pre-RFP market engagements • Obtain approval for strategy	• Prepare minimum specification for RFI • Conduct RFI process • Consolidate findings from the RFI process & incorporate into the RFP	• Prepare for & conduct market engagements • Finalise qualification & evaluation criteria & scoring methodology • Develop RFP clarification process • Compile contracting agreements with necessary penalty & termination mechanism for non-compliance • Obtain approval	• Advertise & issue RFP • Conduct briefing session • Support clarification question process • Prepare the negotiation strategy & value engineering levers pack	• Mobilise evaluation teams • Conduct initial evaluation • Shortlist suppliers & conduct discussions	• Determine & communicate the requirem-ents for the BAFO process • Conduct negotiation based on key value engineering levers: demand, technical, commercial & supplier development	• Obtain approval for award • Prepare & issue award letters	• Finalise contract with approved bidder • Complete final sign off of contract

2

We have constructed an eight step process consisting of the following key steps to execute on this transaction:

Development of the procurement strategy and plan;

Preparation and issue of an RFI;

Preparation and issue of an RFP;

'Go-to-market' process;

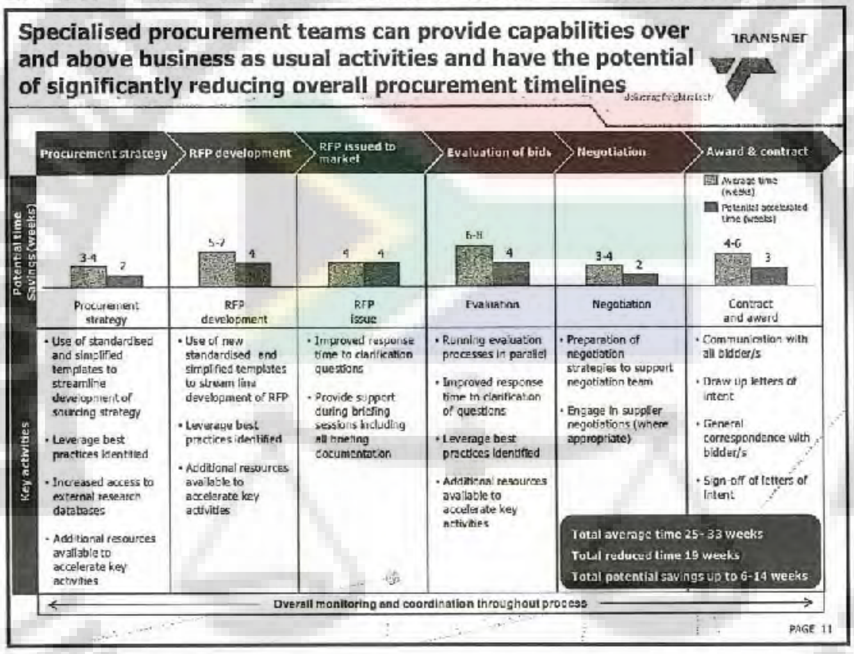
Evaluation;

Negotiation; and,

Award and contract (financial close).

Through Letsema's recent work with Transnet, on the Market Demand Strategy (and specifically the procurement debottlenecking initiative) we have shown that the creation of specialised procurement transactions teams can have a profound impact in the reduction of transaction processing time. We would plan on incorporating the learning's from these experiences into this particular transaction to allow for delivery in time whilst ensuring compliance to governance protocols. Letsema has also supported more than 20 transactions within the Transnet procurement organisation over the past four years. We are intimately familiar with the Transnet procurement processes and the Procurement Procedure Manual (PPM) which will allow for quicker and seamless execution of this important transaction.

EXHIBIT 4: PROCUREMENT TEAMS PROVIDE SPECIALISED CAPABILITIES



Letsema has also been involved intimately in the PRASA rolling stock transaction (as one of the Transaction Advisors) and we would also seek to utilise some of the tools, documents and templates developed which could assist in streamlining the process. Key lessons learned from the PRASA experience will be shared with the Transnet team.

6. Request for Information / Quotation documentation

As part of the proposed tender process, we would suggest that an RFI be issued to the market during the initial stages of the procurement process. In accordance with the Transnet Procurement Procedure Manual and general procurement best practice, an RFI process is specifically utilised for spend over R 2m which is repetitive or once off and takes place in a competitive or unknown market.

Given the unique nature of the procurement (being one of significantly high value) a two stage tendering process is well suited for this particular transaction.

A RFI can therefore be an important tool to gauge market response towards initial Transnet thinking around technical specifications and supplier development. We believe that running and RFI in this process will have the following benefits to the process:

- Gauge market approach towards Supplier Development goals of the transaction.
- Provide clarity on the standard technical solutions within the market place.
- Allow for the narrowing down of technical solutions provided
- Assist in the development of the RFP

EXHIBIT 5: DESIGN STAGES FOR OPTIMAL PROCUREMENT MECHANISM

1 WHAT IS THE VALUE OF THE GOODS/SERVICES I REQUIRE?	+	2 HOW OFTEN DO I REQUIRE THESE GOODS/SERVICES?	+	3 WHAT IS THE NATURE OF THE MARKET?	=	APPROPRIATE PROCUREMENT MECHANISM
Value <R2m	+	Once-off transaction	+	Known market*	=	Quotation system
Any value	+	Repetitive transaction	+	Limited market**	=	Approved list process
Normally value > R2m	+	Repetitive / Once-off transaction	+	Competitive market***	=	Open tender process (local / national)
Normally value > R2m	+	Repetitive / Once-off transaction	+	Competitive market***/Unknown market****	=	Two stage tendering process

* Known market - suppliers are listed on the vendatabase
** Limited market - only a restricted number of slieps exist eg. Original Equipment Manufacturcrsiled suppliers or a sole supplier
*** Competitive market - many suppliers exist in imarket
**** Unknown market - there is no clear specificatiol requirements and/or the availability of thegds/services is unknown

Besides the benefits of providing Transnet with crucial market intelligence, the RFI will also be a valuable market engagement tool. Whilst there has been some effort already made by Transnet in communicating its ambitions around this particular locomotive transaction to the media, the RFI process will also allow potential bidders to engage more with the initial details of this particular transaction. We would also suggest that a market engagement takes place prior to the issue of an RFI. This will ensure that a better response to the RFI is provided by prospective suppliers.

Due to the differing markets for both Diesels and Electrics, we would suggest issuing two RFI's to the market (i.e., one for Diesel and one for Electric). This will ensure that maximisation of market intelligence is gathered during the process.

Letsema has extensive experience in working with Transnet on a range of transactions over the past four years. We are intimately familiar with Transnet's procurement processes, tools and templates and we will easily be able to work individually or together with the Transnet procurement team to rapidly initiate an RFI to the market.

7. Shortlisting of potential suppliers

Letsema has deep knowledge and experience in supporting the evaluation and short listing procurement process in numerous supply chain organisations. Most recently, we have spent significant time during the MDS procurement debottlenecking initiative (working with Transnet) on the acceleration of the evaluation process for various procurement transactions. From this experience, we have learnt that running various evaluation processes in parallel (ie Technical, Financial and Supplier Development) can greatly reduce the processing time of the transaction.

Letsema is well versed with Transnet's governance policies and procedures and have worked side by side in numerous cases with Transnet's evaluation teams, in the support of various transactions. We are also intimately familiar with the Transnet Procurement Procedure Manual (PPM) which provides guidance on evaluation criteria, required processes and governance needs.

Typical evaluation processes generally comprise of the following phases which we are well aware of:

Test for administrative responsiveness;

Preparation for evaluation;

Test for substantive responsiveness;

Evaluation of the bid against criteria;

Final evaluation; and,

Recommendation.

EXHIBIT 6: SUPPLIER SHORT-LISTING PROCESS

Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
Test for administrative responsiveness	**Preparation for evaluation**	**Test for substantive responsiveness**	**Evaluation of the bid against criteria**	**Final evaluation**	**Recommendation**
• Test for administrative responsiveness • Highlight non-responsive bids for consideration • Evaluation committee endorsement	• Constitute an evaluation committee • Sign Declaration of interest / Confidentiality agreements • Set ground rules for evaluation committee	• Confirm results of initial administrative test for responsiveness • Conduct test for substantive responsiveness	• Compare responses to the RFP • Bid clarification • Use the appropriate evaluation method • Score bids	• Eliminate bidders who did not make the required threshold • Populate scorecard • Determine final ranking of bidders	• Prepare recommendation report • Record minutes

During these experiences, we have found that a well-coordinated and planned process is critical to mitigate against the risk of delays. To this effect, we have seen that an overarching procurement team, which is focussed on the overall execution of the transaction, is paramount to ensure that plans are created and adhered to in this critical transaction.

Our Solution Team will be well placed to provide input into the short listing of suppliers whilst importantly, oversee the process.

See evaluation criteria 9- Documentation for the final selection of preferred suppliers.

8. Template contract for the awarding of the tender

Develop business case	Develop procurement strategy & plan	Prepare & issue RFI	Prepare & issue RFP	Go to market	Evaluate	Negotiate	Award	Contract & financial close

Once all procurement agreements have been negotiated and are in the agreed form, financial close is the process of ensuring that those agreements become unconditional. Typically, various suspensive conditions (such as exchange control approval from the South African Reserve Bank, if the winning bidder is a foreign entity) and/or conditions precedent to the performance of specified obligations are inserted into the agreements. These are generally included in the agreement for the benefit of and to protect the purchaser.

All conditions (be they suspensive conditions or conditions precedent) would need to be fulfilled to the satisfaction of Transnet before Transnet would become obliged to pay deposits and perform its various obligations. Typical conditions precedent would include regulatory approvals (such as PFMA approval), board and/or shareholder approval and the execution and delivery of all the transaction documents. The transaction documents would include all supporting documentation relating to credit support for the manufacturer in the form of bank guarantees, advance payment guarantees, performance bonds, parent company guarantees and the like.

Our experience in negotiations such as these confirms that due to the strict deadlines often imposed for contract negotiations, execution of the transaction documentation occurs prior to finalisation of certain schedules and supporting documents to the main manufacturing and supply agreements. These schedules and documents typically include, the CSDP Plan, IP and escrow arrangements, final testing schedules, maintenance programmes etc.

Given the above it is critically important that, as far as possible, both the legal negotiations and the technical negotiations run in parallel with one another. This will ensure that the delay between contract signature and financial close is minimised as much as possible.

9. Documentation for the final selection of preferred supplier(s)

Establishing the most suitable evaluation criteria

For a large transaction such as the procurement of 1064 Transnet locomotives, a well thought through and constructed 'end goal' is required. Considering the importance of this transaction for both Transnet and the South African economy, it is paramount that clear outcomes from a technical, financial and supplier development perspective are created and communicated clearly to the market. These requirements would have typically been developed during the creation of the procurement and supplier development strategy during the initial phases of engagement.

The structure of the evaluation criteria for the sourcing strategy will however need to be developed around the outcomes of PPPFA exemption. In the absence of PPPFA exemption, a local content scorecard will be created upfront and minimum criteria will be developed based on the definition of local content as defined in the PPPFA. Considerations for functionality will include a breakdown of the product offering against the various requirements in the technical specifications, as well as planned management team, suppliers, local production plans and processes, quality control program, technical support etc. Commercial factors will include costs, financing terms and payment requirements and schedules. Thereafter the bid will be evaluated on price and the B-BBEE scorecard.

If exemption from the PPPFA process is extended a review will take place on the appropriate minimum criteria and structuring of the various components. The following categories will be carefully considered

- Technical;
- Price;
- Commercial;
- Composition of the consortium;
- Financial considerations;
- Socio-economic (including localisation/ B-BBEE); and,
- Legal.

The weighting of each category and criteria will be informed by both the Transnet Procurement Procedure Manual (PPM) and market research gained from collaboration with PRASA. Our team will also meet various stakeholders in this process to ensure learning's and inputs are incorporated. This information will be consolidated into a set of weighted criteria and sub-criteria that will be submitted for final review and approval in the procurement strategy before incorporation into the tender documents. Care will be exercised to assure that the tender documents request the type of information needed to address these criteria reviews.

Integration of evaluation criteria and selection of preferred bidders

Once clear evaluation criteria have been established and inserted into the RFP, an evaluation committee will be constructed consisting of various representatives from technical, financial, supplier development, internal audit etc. Clear guidelines will need to be developed to outline the process towards bid evaluation. This should include the planned organisational structure and make-up of the evaluation team, itemize and describe each major activity to be conducted, reference the evaluation criteria and the proposal submittal requirements that will be considered for each criterion, and provide guidelines with regard to how to apply the criteria. It will also include all of the necessary schedules, checklists and forms to guide the process and record the results, as well as any documents, such as conflict of interest affidavits and non-disclosure agreements, to protect the integrity of the process.

The evaluation team structure may consist of a number of committees, distinguished as technical and commercial, and isolated from each other to enable them to conduct their respective evaluations without influence of issues outside their focus. Since the evaluation criteria will cover a broad range of specialized topics, non-scoring advisors to these committees may need to be identified. They will be subject to all of the same checks and controls as made on committee members.

The bid evaluation process will also address the likelihood that it may require multiple iterations of proposal submittals and reviews to reach a clear path to contract recommendation and award.

The evaluation process will be executed by four teams working together through a cross functional team. The teams will include:

- Transaction Advisor (TA); The TA will assist in formulating the evaluation committees and ensure that there is a clear mandate defining roles and responsibilities for each committee. In addition it is important that the appropriate communication channels are established between the committees to ensure effective and controlled interaction.
- Technical Evaluation Team (TET); The key aim for the Technical Evaluation Team (TET) team is to evaluate the tender responses for completeness, compliance to the RFP and scoring the various elements of the bid submissions. Once the team has separated the compliant bids through the course of the evaluation gate, the detailed evaluation will be undertaken in the following streams if the exemption from the PPPFA is obtained.

- Technical;
- Localisation and B-BBEE;
- Price;
- Legal; and
- Commercial.

- Evaluation Co-ordination Committee (ECC); to coordinate the communication with bidders, technical evaluation, the overall integrated scoring and the compilation of the recommended preferred and reserves bidders.
- Project Evaluation Committee. To score the final bids based on the recommendation and select the preferred and reserved bidders.

BAFO decision preparation and evaluation

The BAFO process needs to be administered in such a way to ensure that subsequent submissions will extract greater benefits out of the bids through placing competitive pressure on the bidders. A BAFO may just be used as a mechanism to confirm price or other key bid areas. The BAFO process that will be followed is outlined below:

- Inform bidders to allow for adequate preparation
- Prepare revised RfBAFO: Generally follows same format as RFP but allowance needs to be made for separate areas of clarifications for each bidder
- Obtain approval for RfBAFO before submitting to bidders
- Circulate RfBAFO to participants
- Provide further clarification: They may submit questions to the institution in a one-on-one meeting or in writing. Meetings may also be held jointly between the institution and both bidders, for areas such as legal, financial, localisation, B-BBEE and technical.
- Bidders respond and will be evaluated based on their new proposals on the original RFP evaluation criteria
- Prepare final value and economic assessment report
- Final approval before notifying preferred bidder

Selection of preferred bidders

The preferred bidder and reserved bidder cannot be notified without obtaining approval. Once approved the preferred bidder needs to be notified to allow for negotiation preparations. Both the preferred and the reserve bidders should be required to accept the appointment and extend their bid bonds as a commitment to the process. The bonds are released when the fleet agreement has been successfully closed. The reserve bidder is crucial. The institution may require the preferred bidder to be replaced if the bidder withdraws or if negotiations compromise value and economic assessment report upon which the approval was obtained.

10. Proven ability in project deal structuring, funding and financing

Nedbank is South Africa's fourth largest banking group measured by assets, with a strong deposit franchise and the second largest retail deposit base. The group provides a wide range of wholesale and retail banking services and a growing insurance, asset management and wealth management offering through five main business clusters, namely Nedbank Capital, Nedbank Corporate, Nedbank Business Banking, Nedbank Retail and Nedbank Wealth.

Nedbank has been the leading South African Arranger of project finance transactions over the past 36 months, with projects exceeding R14bn brought to financial close over past 36 months. Nedbank is currently the mandated lead arranger on projects totaling ZAR 38 billion in Southern Africa. The bank is also the leading Southern African Lender to infrastructure project finance transactions, currently hold approximately 22% of all SA infrastructure project finance debt. Nedbank has invested in a significant proportion of total South African infrastructure debt across all sectors, leading in road, rail and telecommunications sectors. It has the largest demonstrated underwriting capacity in the SA market for infrastructure deals over past three years and has underwritten deals exceeding R6 bn ranging from R 750m to R 2bn single ticket. Nedbank Capital has both the balance sheet and credit appetite to underwrite and/ or finance significant funding requirements, with a high appetite for PPP and Government Infrastructure projects, leveraging off previous successful financings.

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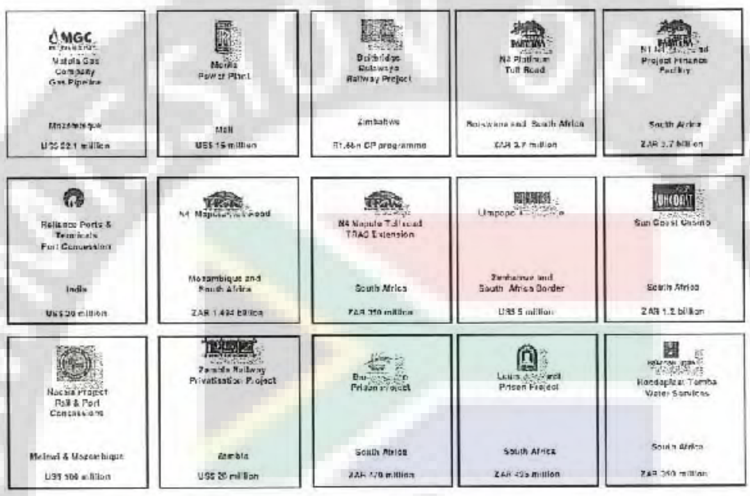
EXHIBIT 7 SELECT CREDENTIALS OF PROJECT DEAL STRUCTURING, FUNDING AND FINANCING

Nedbank: Selected credentials of Infrastructure, Energy and Telecommunications Finance



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11. Sound methodology for developing robust business cases

See evaluation criteria 21 - Business case development and evaluation for mega projects.

12. A proven approach to technical optimisation of capital equipment, prior experience with locomotives will be favoured

See evaluation criteria 19 – Capital project optimisation experience (rail and capital equipment preferable), including design to cost.

13. A proven approach for developing and providing support to large capital project tender processes including assistance in developing RFIs, RFQs, shortlisting and final selection

See evaluation criteria 5,6,7 and 9 (above).

14. The approach must demonstrate how the service provider would set up the project and work jointly with Transnet and potential suppliers to meet the required timeline

See evaluation criteria 4 – design of an optimisation approach for joint value optimisation between Transnet and the selected suppliers(s).

See section Analytical approach and workplan – how we would work with Transnet. Our work with clients follows a set of professional standards and principles:

McKinsey has built its reputation on its adherence to managing to the highest levels of performance, ethical and professional standards. Our management approach enables us to provide the highest quality products and services, to achieve tasks in a timely and satisfactory manner, and to deliver impact for our clients. We want to state our broad philosophy from the outset that we do not work for you but rather with you to build skills in your organisation to make the savings sustainable over time and expandable into other categories. It should also be noted that McKinsey will not negotiate on your behalf. With that as a foundation the following work practices characterize a client's experience working with McKinsey:

1. Integration with our clients and across teams

McKinsey teams approach their work with a focus on integration with our clients and across our teams. To this end, we regularly engage at all levels of the organisation, from the frontline to the senior-most executives, both in one-on-one meetings and informal conversations as well as in formal working sessions.

We develop and follow unified work plans that create multiple touch points between teams and allow time for joint problem-solving, and we share common experts across all teams. This shoulder-to-shoulder experience enables us to identify the highest-priority and highest impact opportunities across the organisation and to ensure sustainable impact throughout and beyond implementation.

2. Collaborative problem solving methods

The hallmark of McKinsey's work with clients is our emphasis on collaborative problem-solving. McKinsey consultants work closely (and on-site) with client colleagues to involve the organisation in brainstorming, analysis, and hypothesis generation and evaluation. This approach is the most effective way of delivering to client personnel the knowledge, training, and project management disciplines that we bring to our engagements. We build capabilities in our clients. We do not replace you; we work side-by-side with you to deliver now and equip you to do so in the future. As part of this problem solving approach we use a hypothesis-driven approach and rely on facts and analyses to help clients make decisions.

QUALITY CONTROL WITH CLIENTS

Consistent with our business philosophy, we have developed an approach to managing our engagements in the public sector to promote high-quality deliverables and to minimize the risks to the public sector clients we serve.

There are key elements to McKinsey's quality control methods that we follow in our work across all sectors worldwide to ensure quality control. We would include these same elements in our work for Transnet to provide high-quality products and services.

- **Heavy leadership involvement in our teams.** A hallmark of our consulting approach is the intense involvement of our partners on our engagement teams. The partner to consultant ratio in our firm is 1:6. In contrast, the industry norm is 1:20. As a result, our partners can – and do – take responsibility for reviewing the quality of all deliverables we produce on an engagement. Our partners have deep experience and expertise in the engagements they lead, which gives them the ability to structure the problem solving appropriately, to spot anomalies in any results, and to help the client and team how various solutions will likely work in practice. We firmly believe that our clients get the most value out of significant exposure to the experience of our senior people and we design our teams and work plan to ensure that happens.
- **Close collaboration with our clients – in project design and during project execution.** We work hand-in-hand with our clients. Our consulting model requires substantial interactions between our clients and our personnel. In most cases, we work with our clients day-to-day, in their offices, in addition to having more senior-level progress reviews at regular intervals (e.g., once a month). We also have weekly/bi-weekly process meetings with the entire working team where we quickly review progress and obstacles to overcome. At the outset of projects, we invest considerable time working with our clients on the design of projects to ensure that they are structured to achieve the client's objectives. Throughout each project, we maintain a high level of collaboration so we remain focused on our client's actual situation and constraints. As a result, we do not experience the problem of developing a "solution," only to find that it does not match our client's circumstances.

- **Straight talk with client management, and within our teams.** We are completely honest with senior management about our findings, including when our analysis shows that management falls short in skills or performance. We will take this approach with Transnet and, indeed, you have already experienced this frankness in other engagements. Given the seriousness of this engagement, you would be poorly served by anything other than total honesty. We take the same approach in our own internal discussions and evaluations of performance.
- **Continuous improvement mindset and approach**. Through daily feedback with our clients and teams plus formal performance reviews at regular intervals (typically once every 3 months during a program of this nature), we drive continuous improvement and innovation into our people and our consulting process.

TIMING AND STRUCTURE OF COMMUNICATIONS

We believe that it is critical to have stakeholder input and participation at all stages of the engagement. This allows us to gain greater organisational acceptance and buy-in for the recommendations, make decisions regarding the engagement at a fast pace, ensure client satisfaction with the quality and pace of the deliverables and transfer capability and change mindsets over the course of the interactions. However, we are also very conscious of busy schedules and therefore try to manage the interaction in a manner that is minimally invasive while still allowing clients the opportunity to participate in the problem solving and provide inputs that shapes the direction and outcomes.

In a typical engagement, we have the following formal client communications:

- **Preparation for engagement kick off:** Prior to the engagement start, we organise a 1-day session with a small subset of the stakeholders to confirm scope and deliverables, finalize McKinsey and client resources, define the calendar and milestones, share the project plan, understand any client specific working "norms," identify initial set of client and/or external interviews, and get started on scheduling the interviews and launching the high-level data requests.
- **Engagement kick off:** We organise a 2- to 3- hour kick off meeting on the first day of the engagement. Key participants are Steering Committee members (defined as all key executives who will have decision making authority on engagement recommendations), all project team members and key managers at Transnet and agencies who need to be aware of and provide input into the engagement.

- **Bi-weekly reviews with Project Sponsor:** We organise bi-weekly reviews with the project sponsor(s) at Transnet. These discussions typically last an hour and focus on progress against the deliverables, key insights and findings, problem-solving refinements to the approach (as needed), and highlighting and resolving issues and roadblocks faced by the team.
- **Monthly Steering Committee meetings:** We organise Steering Committee meetings typically every month. These are focused on key insights / findings and seeking approval on decisions. The meeting content is discussed with the relevant line organisation in advance and always developed jointly with the day-to-day client team.
- **Targeted discussions with Senior Executives:** Finally we hold working sessions with other senior executives (both within and outside of purchasing). These sessions share findings, highlight potential issues and get stakeholder participation and alignment on direction.
- **Quarterly reviews of progress:** We will hold detailed high level reviews of progress against defined savings impact on a quarterly basis or as requested to ensure we are on track and meeting your expectations in terms of impact, approach and interactions.

15. Proven ability in project deal structuring, financing and funding

See evaluation criteria 10 – Proven ability in project deal structuring, financing and funding.

16. Experience with development of contracting strategies for large projects (e.g., programmatic procurement) and the ability to extract savings

Letsema has worked extensively with Transnet on a number of areas relating to locomotive / rolling stock. This, coupled with our recent experience in working with PRASA, has allowed us to develop a unique understanding and approach towards balancing supplier development and savings objectives.

McKinsey also has extensive experience in extracting value and savings in large projects across asset classes, and in large rail projects specifically by working with the suppliers during and after the contracting phase. **See evaluation criteria 22 – Contracting strategy development for large projects -** for more detail on our experience and methodology to contracting strategy development

EXHIBIT 8: MCKINSEY APPROACHES TO CONTRACTING RESULT IN CLIENT SAVINGS

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Using this approach, we have delivered significant time and cost improvement on Mega Projects of similar size and complexity as Transnet's

Situation	Cost reduction	Time compression
Building an onshore oil processing terminal and the world's longest heated and insulated pipeline	13%	24% (terminal) 25% (pipeline)
Building a $2 bn inland greenfield refinery and associated pipelines and terminals	10%	29% (for construction)
Large infrastructure developer involved in expansion of a major airport	25%	18%
Building a super critical power plant for the first time with a capital budget of US$ 4.0 billion	16%	10%
Completing construction of 40 000 telecom towers at a capex of $2 bn at best of class cost and time	~20%	35-45%

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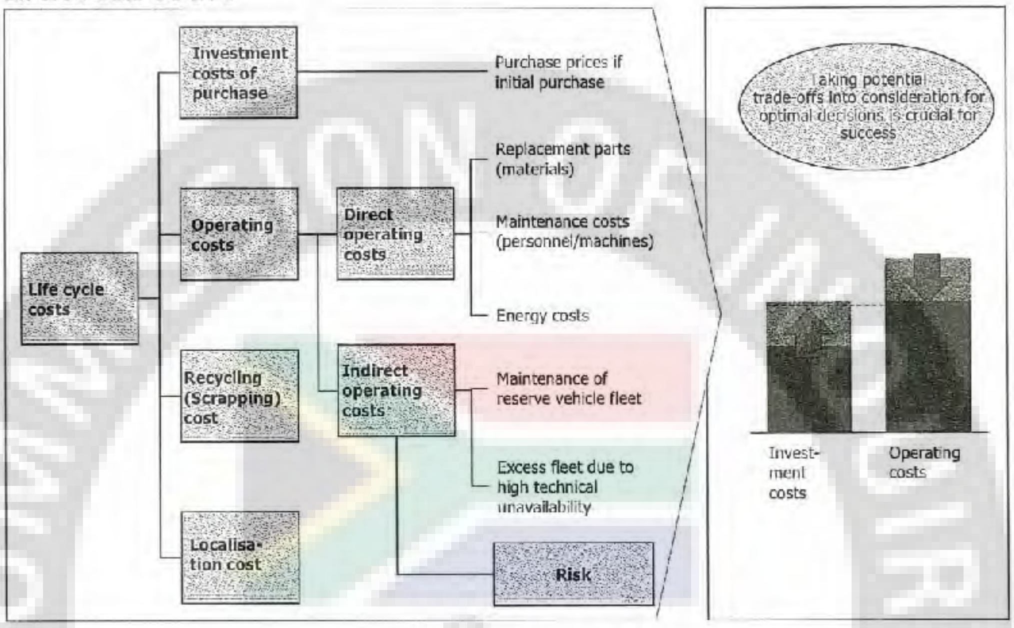
Whilst the objective of any large scale transaction will be to optimise savings (value), this will need to be balanced against supplier development outcomes required. We would therefore consider the localisation costs as a function of the overall lifecycle cost to ensure that a holistic approach is adopted towards value extraction.

EXHIBIT 9: LOCALISATION COSTS WILL BE FACTORED INTO OVERALL LIFECYCLE COSTS



Ensuring that proposed supplier development and value targets created are inserted into supplier contracts is of paramount importance to ensuring that envisaged value is delivered. Having formed part of supplier development commodity strategies in the past, we have vast experience with the approaches used to drive both pre and post contracting compliance.

17. A thorough understanding and experience with the socio-economic issues (SD, B-BBEE, industrialisation and localisation, environmental issues etc.)

Our understanding and experience with socio-economic issues

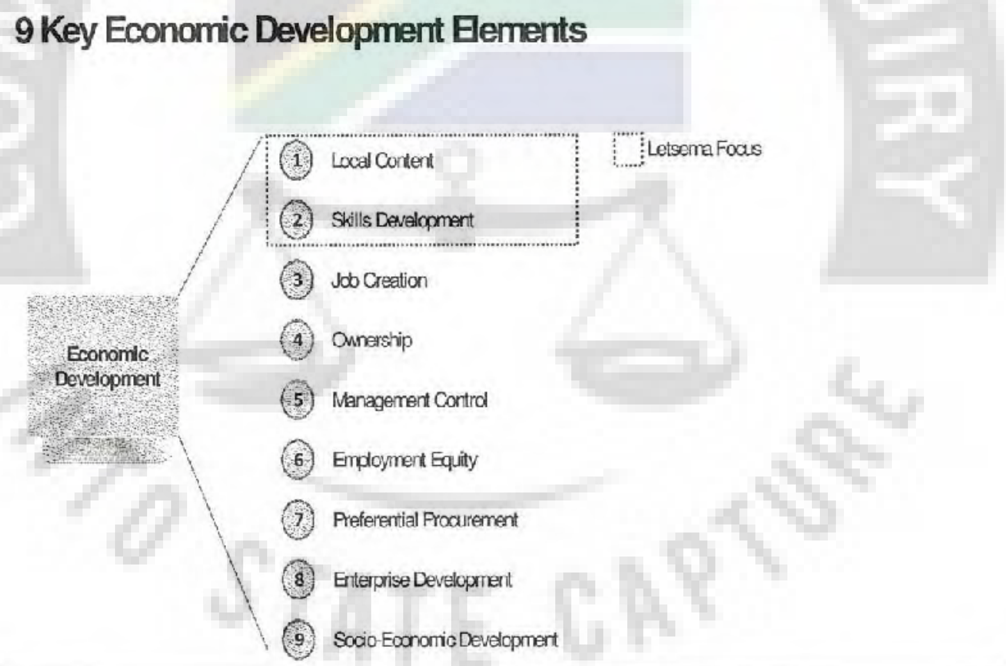
Letsema has recently worked closely with the DPE to develop the programmatic procurement process in which the PFMA process has been integrated and expanded to ensure further rigor is introduced into the procurement of complex capital goods over long procurement periods. The programmatic process introduces "economic development" gateways into the procurement process to ensure that the socio-economic opportunities are fully leveraged from large scale transactions.

Moreover, Letsema have vast experience in developing Economic Development strategy for state owned companies. Over the past three years we have been engaged to develop the supplier development and localisation strategies for both Transnet and Eskom.

For Transnet and Eskom, Letsema has developed the Supplier Development Strategy, Supplier Development Plans and has supported the economic development aspects of numerous complex capital procurements for example, ship to shore cranes, rubber tired gantries, ship loaders, locomotives, transformers, boilers, turbines.

Furthermore, our team is currently advising PRASA on the Localisation and Skills development aspects of the PRASA rolling stock renewal programme. The diagram below illustrates the areas that Letsema has focused on.

EXHIBIT 10: KEY ELEMENTS OF ECONOMIC DEVELOPMENT



Letsema has assisted a number of independent power producers in completing the economic development plans for their bid submissions to the Department of Energy. The figure below provides insight into the areas that we have provided support on. We have served 17 projects in window 1 and 2 of the DOE IPP bid process in 2012.

EXHIBIT 11: TARGETED IPP PROCUREMENT PROCESS

The IPP Procurement process targets economic develpment across 7 key areas, and has an overall weighting of 30 points

- Economic Development is a key component of the ovall bid evaluation
- It is considered a gate-keeper with several minimm threshold levels that need to be achieved

Of all the qualifying and evaluation criteria, the Economic Development aspect has a 30% weighting	
Legal Land acquisition Environmental Financial Technical	Qualification criteria
Price	70 points
Economic Development	30 points

	Economic Development Elements	Weighting
1	Job creation	25%
2	Local content	25%
3	Ownership	15%
4	Management Control	5%
5	Preferential Procurement	10%
6	Enterprise Development	5%
7	Socio-Economic Development	15%
	Total	100%
	Total points	30 points

Letsema consulting has recently (May 2012) assisted the South African sugar industry to develop its ministerial determination. The aim of this work was to determine the economic development impact of the sugar industry should the sugar industry apply for Independent Power Producer licences. This determination focused on the following aspects of economic development: Local content, Job Creation, Ownership, Management Control, Preferential procurement, enterprise development and Socio-Economic Development.

Our understanding and experience with B-BBEE

Localisation opportunities inherent in the successful implementation of a long term programmatic fleet procurement can result in a significant number of black firms being afforded the opportunity to participate in the newly revived locomotive supplier industry. This opportunity lends itself to a number of opportunities to structure new B-BBEE partnerships in the supplier industry. The transformation of an industry that is typically dominated by white owned enterprises is fertile soil for B-BBEE transformation and deal structuring. Furthermore, given the potential financial requirement for the combined procurement of the rolling stock and depot maintenance facilities, this transaction provides an opportunity for the formation of new B-BBEE led Private Public Partnerships (PPP). Our Solution Team has had significant experience in advising on new B-BBEE structures and PPP consortiums.

The DTI's overarching vision is to develop a world-class rail industry that will grow in size, stimulate the economic growth and development, facilitate trade and comply with safety standards agreed with the Railway Safety Regulator act. The DTI's intentions go further to deliver an efficient and quality service to customers, whilst achieving a significant increase in participation of black persons in the ownership, management and employment in companies throughout the industry value chain. Furthermore, stakeholders will pursue a growth strategy that prioritises the retention and creation of jobs.

To this end the DTI developed the rail sub-sector code which is applicable to the entire rail industry value chain. Key participants are the state-owned operators and infrastructure companies.

Transnet, as a state-owned rail industry operator is obliged to participate in this sub-sector charter. There is a significant opportunity for value of this procurement to leverage and drive transformation of the entire rail industry value chain. Our team has extensive knowledge on the mechanics of the codes of good practice including the rail sub-sector codes.

The Codes of Good Practice require that all entities operating in the South African economy make a contribution towards the objectives of Broad-Based Black Economic Empowerment (B-BBEE). It is, however, acknowledged that there may be multinationals that have global practices preventing them from complying with the ownership element of B-BBEE through the traditional sale of shares to black South Africans. In this instance, and provided that it can be proven that such entities do not enter into any ownership partnership arrangements in other countries globally, the codes have made provision for the recognition of contributions in lieu of such sale of equity. Such contributions are referred to as Equity Equivalent (EE) contributions. Such EE contributions towards the ownership element of B-BBEE, made by multinationals, will be measurable against 25% of the value of their operations in South Africa.

An EE Programme would entail a public programme/scheme and/or private programme/scheme designed to fulfil the requirements of B-BBEE ownership. Such a programme needs to be approved by the Minister of Trade and Industry in order to qualify for ownership points on the scorecard.

Our understanding and experience with environmental considerations

South Africa's Green Economy Accord was launched at the COP17 in Durban in Nov 2011. This spelt out government's intentions and plans to work towards a green economy. Within this transaction, it will be important to include environmental considerations in working towards the spirit and objectives of government policy. Ensuring that environmental criteria are included in the overall approach for supplier development can be used to create a holistic approach for the transaction. Creating a clear view of the potential environmental risks, their severity and impact can be helpful to identify and quantify the total potential environmental impact. This can also be a useful way to define environmental constraints and targets which can be included in the transaction. Whilst there is inherent environmental implications for transactions of this nature, the environmental implications may differ for various variables (e.g., technical specifications for Diesel vs. Electric will yield different environmental impacts). Our team will incorporate the relevant 'Green economy' aspects, in line with both Government and Transnet's policies, into the tender process.

18. Thorough understanding of PFMA, PPPFA, IPAPII, NGP, etc. requirements

Policy environment that governs the Transnet procurement environment is characterised by compliance and growth policy. The PFMA and PPPFA policies drive compliance whilst IPAPIII and the New Growth Path (NGP) drive growth.

An understanding of the socio-economic issues (SD, B-BBEE, localisation etc.) is closely linked to the understanding of the growth policy aspects (see section above).

Our understanding Compliance Policy: PPPFA

As a schedule 3B company, Transnet is required to comply with the Preferential Procurement Policy Framework Act 2000 (PPPFA) and the Regulations of 2011, which govern the preferential procurement processes of public entities.

The PPPFA outlines certain criteria that must be adhered to during the evaluation of bids and in particular Section 2(1) of the PPPFA, which provides that an organ of state must determine its preferential procurement policy and implement it within the preference point system prescribed. In terms of the regulations and applicability for this procurement, a two-stage evaluation process must be followed, with the first stage containing functional thresholds and the second stage containing an evaluation of price and B-BBEE (contributor status level) with 90 points allocated for price and 10 points for B-BBEE.

On 8 June 2011 the Minister of Finance issued a notice in terms of which the Act and its Regulations apply to all public entities listed in Schedule 2 of the PFMA. This notice and new Regulations issued in terms of the Act became effective as from 7 December 2011. PPPFA is prescriptive – does not allow for any discretion on empowerment initiatives. Preference is awarded for B-BBEE status levels and thresholds are set for local production & content. No provision for SD related goals i.e. job creation / preservation, skills development, industrialisation, technology transfer, rural development, small business promotion, etc

Transnet and other major SOCs requested exemption as the PPPFA was misaligned to NGP and does not facilitate a robust approach to empowerment and enable SOCs to fulfil their developmental mandate. On 7 December 2011 the Minister issued a notice exempting Schedule 2 entities from applying most of the PPPFA regulations for a period of 12 months.

The only regulations that apply to Transnet are those dealing with Local Content and Tax Clearance i.e. regulations 9, 11(10) and 14

Transnet is not obliged to strictly apply the preference point system as per the PPPFA (i.e., Transnet may apply more points for preference). Transnet has increased the threshold for 20 points > R1m and award "bonus" points for Further Recognition Criteria. Transnet has also established a minimum B-BBEE level as qualification criteria whilst providing points for SD.

A concern still remains that the exemption lapses as of 7 December 2012. For this Transaction the necessary advisory guidance will be provided on how to consider further exemptions.

Our understanding Compliance Policy: Public Finance Management Act (PFMA)

The aim of the PFMA is to regulate financial management in the national government and provincial governments; to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with financial management in those governments; and to provide for matters connected therewith.

Transnet as a state owned entity is obliged to comply with the PFMA and due to the scale of this transaction Transnet will need to obtain the necessary PFMA approvals a the relevant process gateways during this procurement.

Supplier development related activities increase the risk to the buyer and particularly to SOEs which need to comply with the Public Finance Management

Act (PFMA) in terms of Section 51 a (ii) which requires "a public entity to have and maintain an appropriate procurement and provisional system which is fair, equitable, transparent, competitive and cost effective".

Our proposed procurement process takes into consideration the various PFMA approval gateways.

Our understanding of the Growth Policies IPAPIII and NGP etc

Our understanding Growth Policy: New Growth Path (NGP)

The NGP makes calls for an intense focus on broad based elements of the B-BBEE regulations - ownership by communities and workers, increased skills development and career paths for all working people - and a new emphasis on procurement from local producers in order to support employment creation.

The job drivers identified by the NGP include the following, which are relevant to the IPP Procurement Programme:

- Substantial public investment in infrastructure both to create employment directly in construction, operation and maintenance;
- Targeting more labour-absorbing activities across the main economic sectors, which include manufacturing and services; and
- Taking advantage of new opportunities in the knowledge and green economies.

The NGP states that creating more and better jobs must lie at the heart of the strategy to fight poverty, reduce inequalities and address rural underdevelopment.

The NGP also states that basic and secondary education play a critical role in long-run equality, access to employment and competitiveness.

Our understanding Growth Policy: National Industrial Policy Framework (NIPF)

The NIPF aims to provide strategic direction to the economy in respect of industrial development. This is to be done by providing greater clarity and certainty to the private sector and social partners about investment decisions leading up to 2014 and beyond, and by providing a reference point for substantial improvements in intra-governmental coordination of the numerous set of policies and projects that will form part of the NIPF.

The objectives of the NIPF include the promotion of a broader-based industrialization path characterized by greater participation at all levels by historically disadvantaged citizens and marginalized regions in the mainstream of the industrial economy.

Our understanding Growth Policy: IPAP III

The aim of IPAP is to identify existing economic growth constraints (within the existing legislative and policy framework) and provide solutions thereto, as well as opportunities that Government could capitalize upon.

The objectives of IPAP include increased local manufacture, skills development and employment creation.

IPAPIII has included the designation of certain industry for focused growth; rolling stock has been designated as focus growth industry under IPAP III.

Our understanding Growth Policy: Local procurement accord

The objective of the Local Procurement Accord is to accelerate the creation of 5 million new jobs by 2020 as well as achieve the goals of IPAP. The Local Procurement Accord commits the social partners to achieving 75% localisation in the procurement of goods and services by both the public and private sectors.

Growth Policy in the Transnet context

At the end of 2007, the Department of Public Enterprises (DPE) established the Competitive Supplier Development Programme (CSDP), a policy for its State Owned Companies (SOC's) with the main aim being to increase the competitiveness, capacity and capability of the local supply base, while furthering the long-term commercial interests of the SOC's.

Participants in the CSDP needed to develop and submit annual Supplier Development Plans (SDP's), which would identify procurements from which the local supply base could be expanded, developed or improved. In addition the SDP is required to set targets in this regard. Transnet signed up to the CSDP in late 2007 and produced its inaugural SDP in February 2008. At the time, the CSDP was formed under the Accelerated and Shared Growth Initiative for South Africa (ASGI-SA). The goals of the CSDP were to contribute to ASGI-SA's aims of:

- Increasing economic growth, employment creation, skills development and B-BBEE.
- Developing local industries to supply participating SOC's with high quality, globally-competitive goods and services.

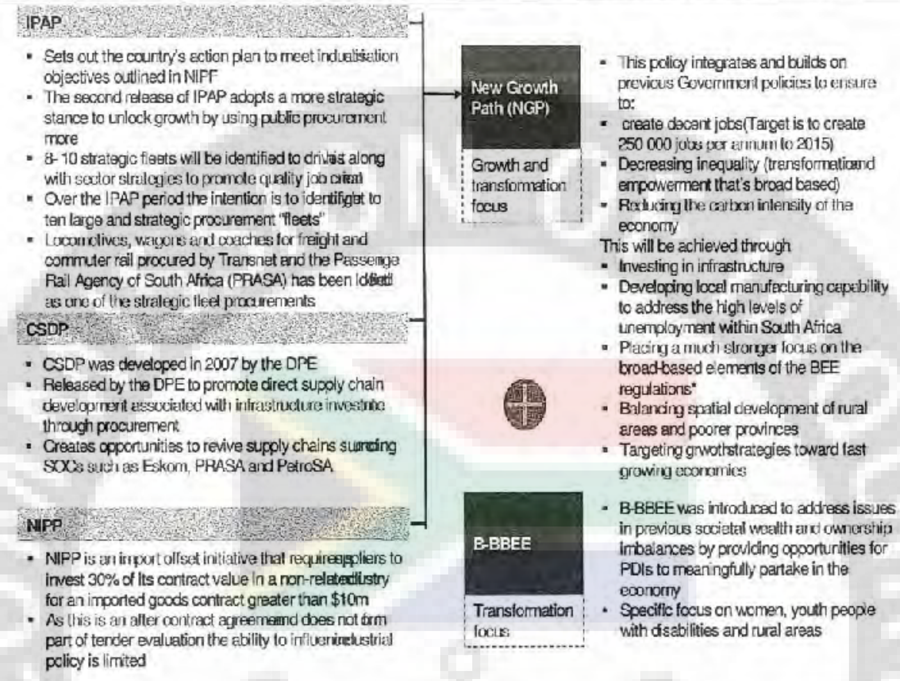
- Improving the quality, efficiency and cost-effectiveness of the services provided by the SOC's as a result of their obtaining more competitive goods and services from local suppliers; and
- Improving the competitiveness of the SOC's as a result of procurement savings from engaging innovative, responsive and more competitive suppliers.

The SDP was aimed at explaining the CSDP approach that the SOC would follow, identifying existing opportunities and demonstrating the SOC's involvement in local industry development, both internally and in the broader market. At the time, Transnet realised that the CSDP could not exist in isolation and needed to be integrated into existing sourcing processes. As such, the main focus of Transnet's first SDP emphasised the requirement for the development of procurement capabilities and capacity within Transnet.

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 SD, incorporating changes to the policy environment, lessons learned from previous SD initiatives, Transnet's development of a holistic Supply Chain Policy and Framework, as well as its new corporate strategy, the Market Demand Strategy (MDS).

The magnitude of the programme will provide the opportunity to leverage procurement as to establish a localised rail and rolling stock industry in South Africa. To this end the Government has introduced various legislations and policies including New Growth Path (NGP), Industrial Policy Action Plan (IPAP III), National Industry Participation Programme (NIPP) and the Competitive Supplier Development Programme (CSDP) in addition to B-BBEE to ensure that the large spend on infrastructure projects results in achievement of transformation and industrialisation targets.

EXHIBIT 12: THE GROWTH AND COMPLIANCE POLICY ENVIRONMENT



The leveraging of the locomotive/wagons/coaches for freight and commuter rail fleet will therefore need to incentivise local production and B-BBEE on routine purchases, while ensuring value-for-money for the state through allowing local industry to ramp up in time to participate in the procurement. This will be achieved through planning sequential increases in local sourcing and supplier development with appropriate support measures to manage price premiums that frequently accompanies procurements that require development of local industry. As a result, one of the key aspects and differentiators of this procurement process will be leveraging the magnitude and time period of the procurement to achieve a local content target of 65% of the transaction value.

Appropriate planning and structuring of the procurement process will lead to the development of manufacturing and maintenance facilities which can produce rolling stock, related components and provide services through providing experience, expertise and capacity to the local economy. These skills and facilities can be used to enhance South Africa's rail capabilities and also use this position to develop a wider rail network into Africa. In so doing an internationally competitive industry will be established which can bring in much needed foreign exchange and reduces our reliance on imports. This focused and phased approach allows government to meet its target of creating 5 million jobs by 2020 which is supported through the IPAP framework of creating an estimated 826,000 direct decent new jobs or a total of 2,477,000 direct and direct decent new jobs over a period of 10 years.

19. Capital project optimisation experience (rail and capital equipment)

Since 2007 we have conducted close to 500 capital productivity and optimisation projects, optimising over USD 80 billion of capex in 2010. This includes design to cost, design to value and minimum technical cost solutions across large equipment classes (see Appendix 1 for more details).

EXHIBIT 13: DISTINCTIVE WORK ACROSS THE CAPEX VALUE CHAIN

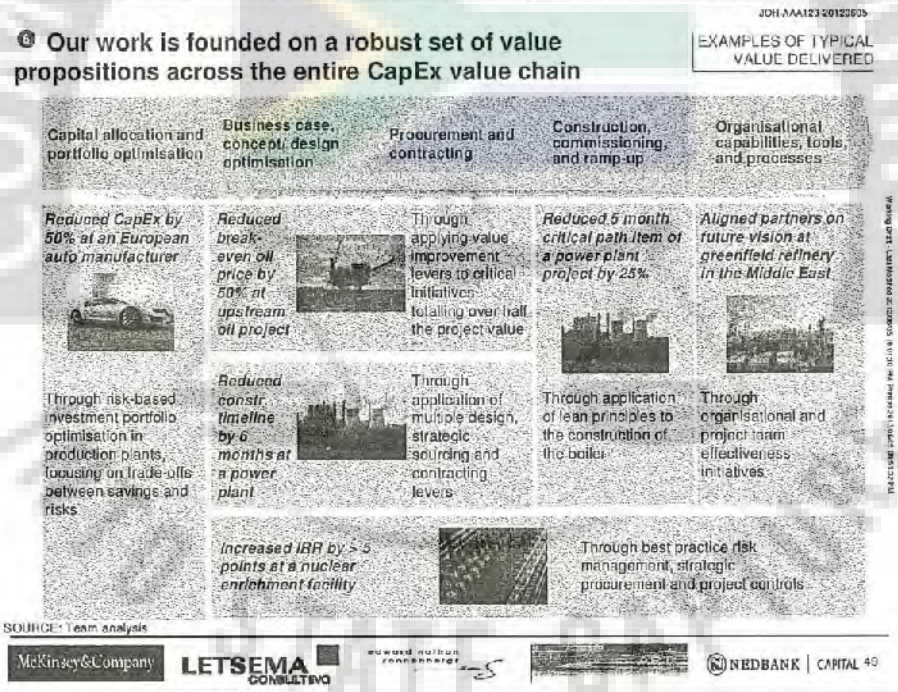
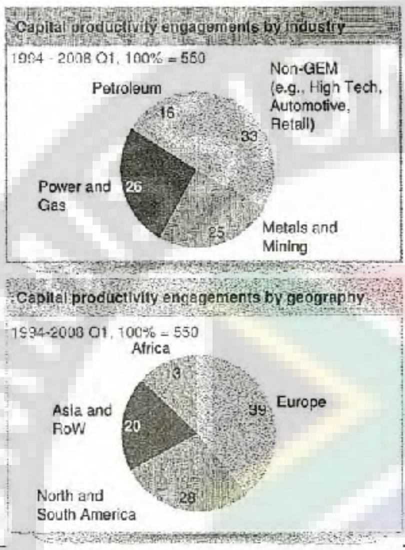


EXHIBIT 13: MCKINSEY'S TRACK RECORD OF VALUE CREATION

We have done more than 500 capital productivity projects with a proven track record of value creation



Proven track record on value creation

Percent

Sectors	CAPEX Savings	Structure of savings: Technical levers	Structure of savings: Commercial levers
Energy	~ 15 - 20	~ 55	~ 45
High Tech	~ 20 - 25	~ 35	~ 65
Chemicals	~ 20 - 30	~ 65	~ 35
Infrastructure	~ 20	~ 45	~ 55
Crude Oil	~ 15 - 20	~ 50	~ 50

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EXHIBIT 15: MCKINSEY'S PROPRIETARY TOOLS AND METHODOLOGIES

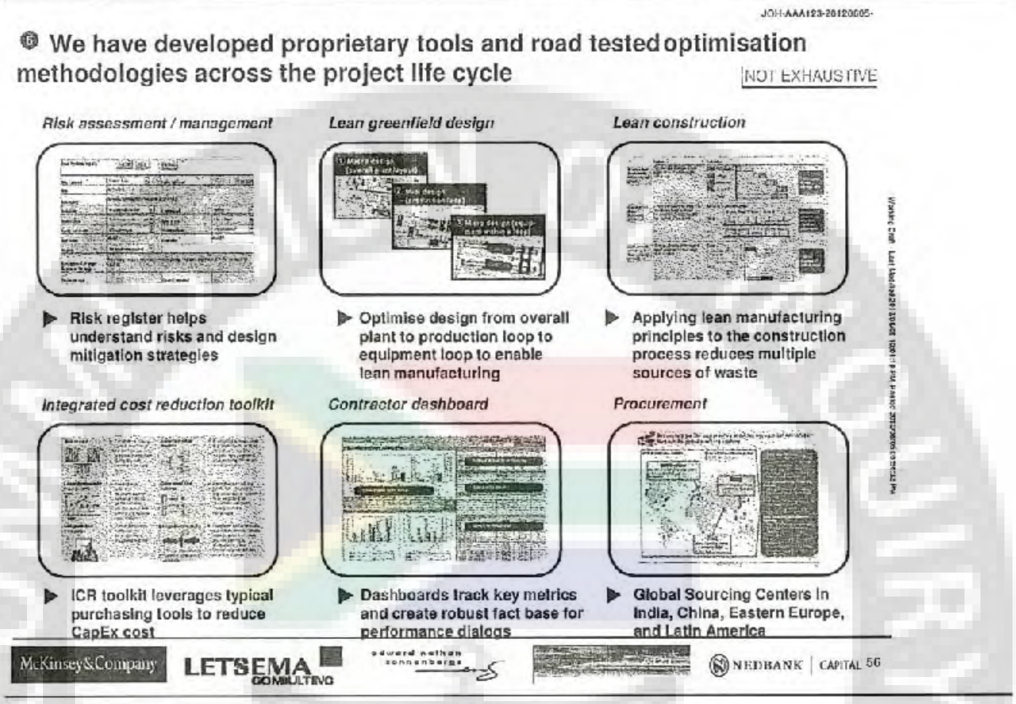
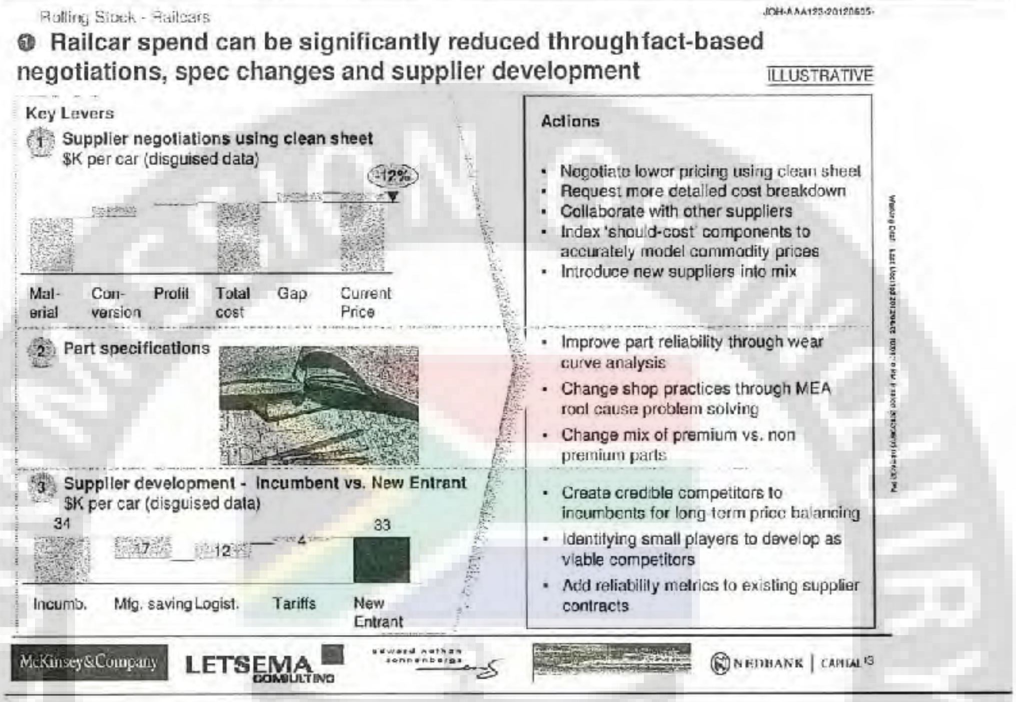


EXHIBIT 16: MCKINSEY EXPERIENCE IN REDUCING RAILCAR SPEND



When purchasing an item of major equipment like a rail car, McKinsey advises clients to use a design to value approach. This technique disaggregates the rail car into a series of components, and then asks how each component can be better specified so as to reduce total cost of ownership and increase value to the customer. This approach builds on traditional design to cost approaches – and offers greater savings – because it clarifies the few features that the customer really cares about and frees the operator to explore TCO reducing design modifications in all other areas.

In our experience working with rail operators on every continent, most companies ***save 25% of the budgeted CapEx*** on those items where they have performed a robust design to value exercise.

Four elements are critical when conducting a design to value exercise. Using a passenger rail car example: first, it is critical to understand clearly what attributes of the asset the customer values. McKinsey typically does this through conjoint analysis, which forces passengers to make real-life trade-offs. Second, the team needs to adopt an aggressive clean sheet approach when disaggregating or "tearing down" the asset into its constituent parts. The purpose of this clean sheet approach is to seek fundamentally new ways to build an asset that meets customers' needs but at a lower total cost of ownership. Third, it is essential to involve colleagues who will use the asset across its lifecycle (i.e., drivers and maintenance staff as well as procurement experts). Fourth, our team supports creative idea generation with a rigorous process that records insights and quantifies the impact.

In the Transnet context, we would focus on competitive dialogue between shortlisted suppliers, to jointly work towards the target cost. In the end, this will enable us to compare two very similar specs (accustomed to what we need) in order to compare cost.

EXHIBIT 17: FOUR KEY ELEMENTS OF A DESIGN TO VALUE EXERCISE

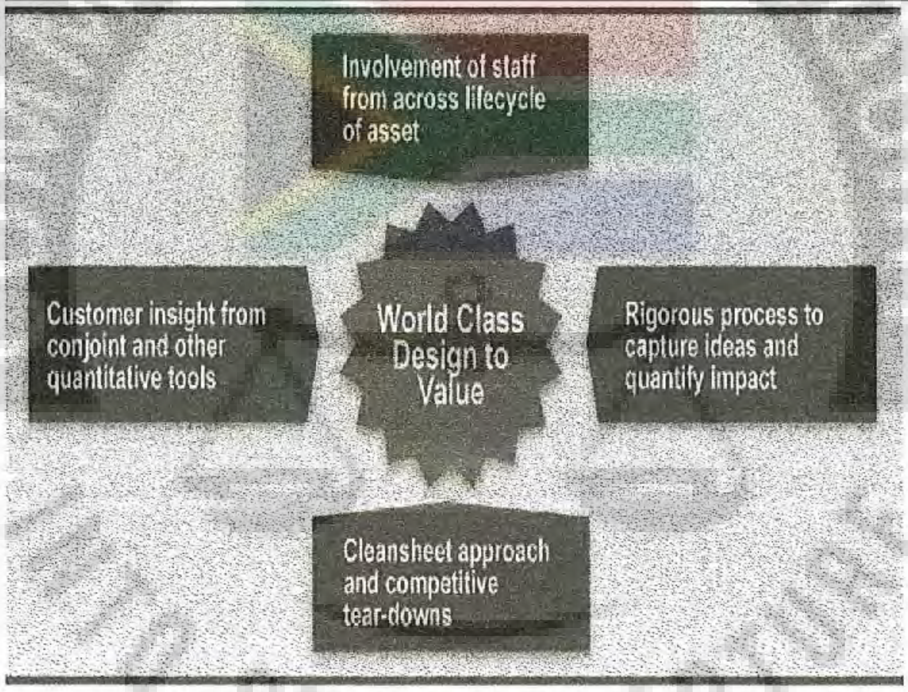


EXHIBIT 18: DESIGN TO VALUE ENGAGEMENTS HAVE RESULTED IN 40% COST SAVINGS

We have performed Design to Value for three major railway companies in Africa, Australia and Europe, and one of the world's leading rail manufacturer, and two major bus companies. Examples of this work include:

Largest subway in Japan: Capital expenditure optimization program. As a result of declining demand, high debt, and pressure to privatize and improve performance, this client retained McKinsey to optimise costs through applying Design to Value and Design to Cost tools as well as strategic sourcing approaches. Extensive capability building was provided through cross functional teams responsible for driving execution of each of the cost initiatives. Average cost reduction was 22% ($130 million) across three categories of cost: renewal maintenance, OPEX, and new line construction. As a result of benchmarking against comparable companies, this metro system was able to reduce cost by as much as 40% on certain specifications.

20. Working with other railways

Our collective experience in rail and how it integrates with broader government objectives is unrivalled. Between ART, Letsema and McKinsey we have served the largest and most complex freight and passenger rail systems in the world, across multiple disciplines such as strategy, corporate finance, rolling stock procurement, other procurement (operated equipment, repair services, rails, derailment services), capital optimisation of mega infrastructure projects (e.g., business case scrubbing of rail/port systems, timeline compression in execution phase), operational efficiency and intermodal systems (including ports, roads).

McKinsey alone carried out +350 different engagements in rail industry between 2006-2010 all continents – and more importantly serving Transnet since 2005.

EXHIBIT 19: MCKINSEY HAS EXTENSIVE GLOBAL EXPERIENCE IN RAILROADS

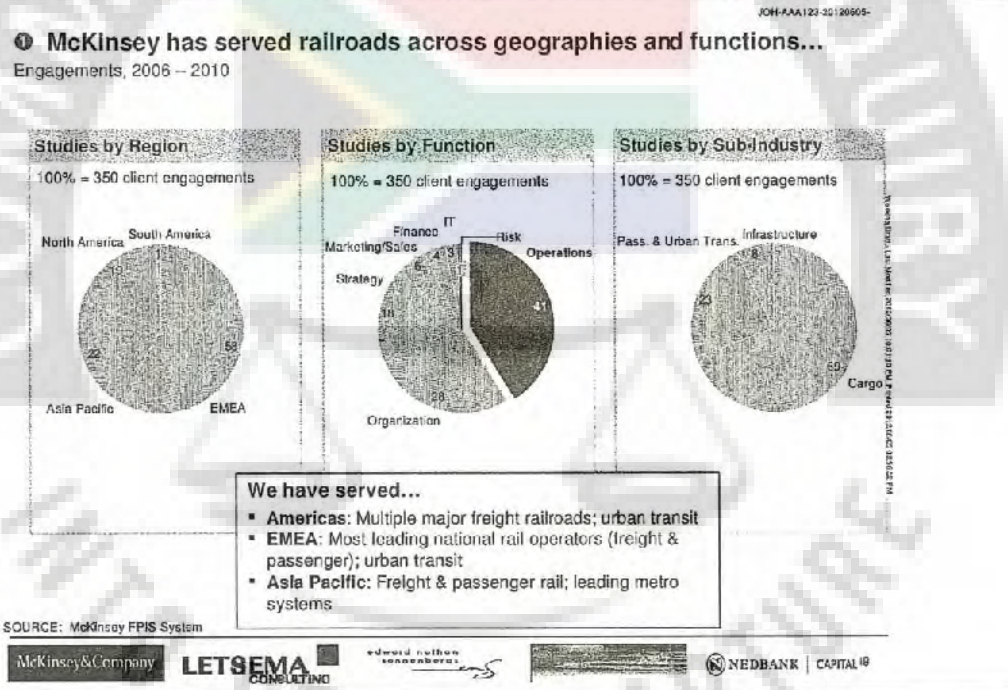


EXHIBIT 20: CLIENT CASE STUDY IN LOGISTICS AND INFRASTRUCTURE

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Logistics & Infrastructure Strategy for Panama

Client situation/objectives

- Client: Government of Panama
- Need to reach new levels of growth in economic value add and GDP/capita whilst maintaining Panama's unique environment
- Required an analytical and cross-sector approach to enable investment in the right infrastructure, skills and policy changes

McKinsey approach

- Review of all major sectors of Panamanian economy we selected logistics priority sector based upon GDP upside, job creation potential and the ability of the Government to have impact
- We highlighted two areas to unlock logistics growth
  - Logos comparative route analysis revealed potential for increased Canal usage
  - Value added logistics model revealed VAS opportunity trough displacement of value either happening up or downstream
- We identified enablers to unlock the potential in value added logistics
  - Infrastructure investment in roads, airports, ports & free zones
  - Clarify policy changes to support growth in logistics, specifically around labour, trucking control, zoning and education
  - Creation of an organisation to promote and support VAS investment
- Establishing a detailed delivery roadmap

End products/client impact

- Alignment of government on priority of identified opportunity in VAS and investments and changes needed to get there
- Prioritisation of greatest impact initiatives in a government with limited resources that lacks ability to focus and prioritise actions
- Affirmations of delivery timelines in workshop setting to establish peer accountability
- Public awareness creation campaign to mobilise support from voters and other stakeholders

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EXHIBIT 21: VALUE REALIZATION THROUGH SUPPLY CHAIN TRANSFORMATION

JOH-AAA123-20120505-

❶ Many railroads have already realized significant value through procurement and supply chain transformations

Long Island Rail Road	"We're buying smart, and by exploring off-site storage and common parts lists, we're managing resources intelligently." (after Long Island Rail Road and Metro North Rail Road announced a joint procurement agreement - the largest of its type ever executed by both railroads. This is expected to save the railroads $5–7 M over five years)
BNSF RAILWAY	"We're making the best buying decisions we've ever made, and have enjoyed an average of 6% savings across all our sourcing initiatives – around $200 million in total thus far"
UNION PACIFIC	"Union Pacific's Fuel Masters program saved more than 16 million gallons of diesel fuel and $30 million for the railroad..."
Crossrail	"Crossrail will change its rolling stock procurement process and introduce rolling stock to the rail network over a shorter period of time, thus saving tens of millions (GBP)"
NetworkRail	"Simplicity and inter-operability must be the key to value for money in train procurement. The design and procurement of the next generations of trains is an area where we can demonstrate big savings." (after the UK rail industry launched the Rail Delivery Group to drive greater efficiencies in rail procurement)

SOURCE: Press clippings

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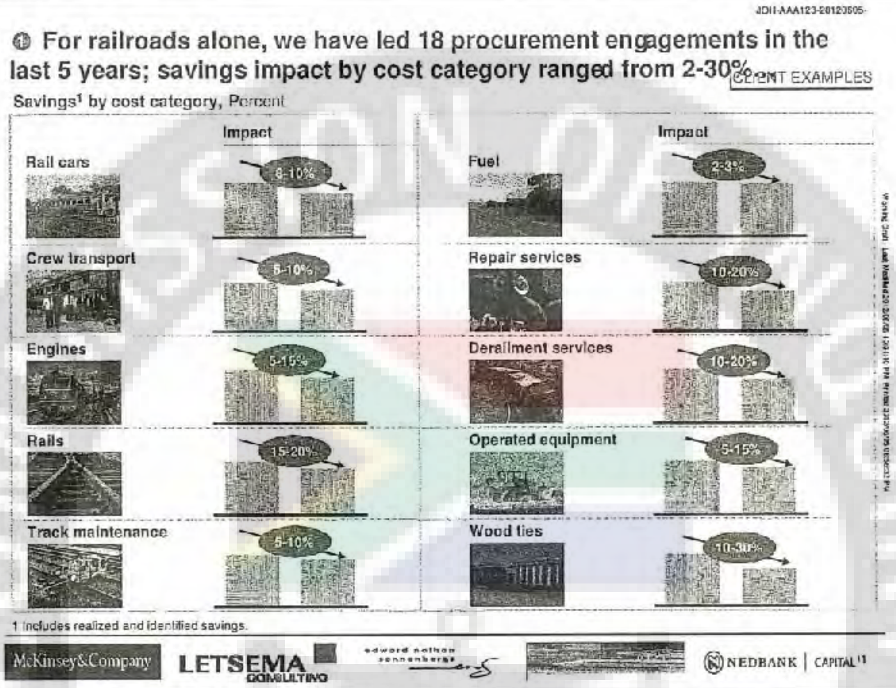
EXHIBIT 22: MCKINSEY RAILROAD CLIENTS HAVE SAVED 2-30% ACROSS CATEGORIES



21. Business case development and evaluation for mega projects

Business case development for mega projects should follow a disciplined gate review process, such as Transnet's PLP process. The shortfalls of business case quality often stem from two root causes:

- Undersized owners team, e.g., insufficient capacity and capabilities to identify and validate options upfront (e.g., FEL1/2). This leads to narrowed down solutions very early in the process, hence a lot of value left on the table
- Insufficient rigour in quality checking business cases at gates, e.g., often check-lists exist in every organisation, the issue with check-lists is that they depend on the quality and time dedicated to the review

We often advise our clients to institute an assurance role, which sole purpose is to scrub, improve and support the project team in preparing a quality business case. In addition, we have seen SWAT teams ensure capital project business cases and procurement events receive the focus they need to accelerate timelines and improve quality.

Over the years, McKinsey has advised and helped clients set up their business case approval process, build cases from scratch collaboratively with our clients and optimising for value (across petrochemical, power, rail, ports, real estate etc). As a recent example, we highlight an ongoing engagement with on the Transnet Manganese project where we collaboratively with the project team were able to optimise capex costs, operational costs and revise key assumptions to take out uncertainty and risk.

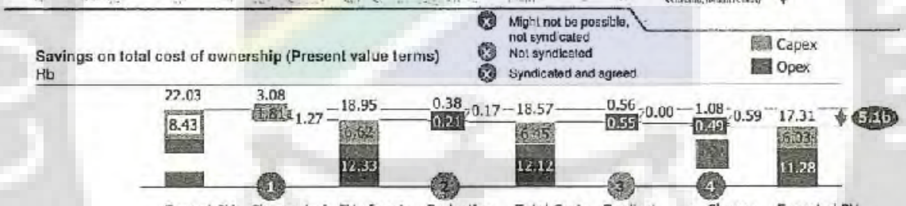
EXHIBIT 23: ONGOING TRANSNET PROJECTS HAVE SIGNIFICANT SAVINGS POTENTIAL

There is potential to save R5.1b if the manganese project is optimised

SUBJECT TO CHANGE IN OPEX AND SUS. CAPEX

TRANSNET

Savings on total cost of ownership (Present value terms)
Rb



	Current PV of costs	Change train configuration to 6 x 104 wagon / 26 tal	PV of costs with 6 x 104/ 26tal	Reduction of TAT	Total Cost	Gradient easing • Shift from 1:80 to 1:100	• Change protocol of adhesion required	Expected PV of costs
TAT	64	64		60		60	60	60
Loco #s	109	90		84		68	51	51
Loco type	20E	19E		19E		19E	19E	19E
Train length	204	104		104		104	104	104
Adhesion	31%	31%		31%		31%	36%	36%
Gradient	1:80	1:80		1:80		1:100	1:100	1:100
Locos/consist	9	5		5		4	3	3
Axle Load	20 tal	26 tal		26 tal		26 tal	26 tal	26 tal
Trains/week	4	6		6		6	6	6
Wagons	2990	2184		2184		2184	2184	2184

SOURCE: Hatch Heavy Haul Engineering Report

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22. Contracting strategy development for large projects

McKinsey has extensive experience from contracting strategy development – this is a core capability in any capital productivity work we do for our clients. We have experience from designing strategies (as well as help owners manage contractors once awarded) for Multiple Lot, EPC and EPCM contracting. Examples of asset classes include rail, urban transit, oil & gas, utilities, residential etc.

We recently presented our approach to TCP at Transnet in conjunction with a brief review of Transnet's contracting strategy practices. We found the following:

- Transnet has a tendency to apply a "one size fits all" approach to contracting strategy, contributing to cost and schedule inflation.
- Projects should be evaluated on their individual characteristics, and the delivery model, approval process and contracting terms should be designed based on the project specific requirements. This improves risk sharing and efficiency.
- Transnet should analyse its project portfolio in a systematic way to design the optimal contracting strategy for each project archetype.
- Transnet should evaluate the skills and capability requirements for each project, a delivery model could be designed based on an assessment of Transnet's skills as well as the available contractors.
- The award process is dependent on the complexity and resource constraints for each project.
- Contracting terms shouls be designed to control the risk between owner and contractor

EXHIBIT 24: A TAILORED APPROACH TO CONTRACTING HAS POTENTIAL TO INCREASE SAVINGS

Transnet applies a one-size fits all approach to contracting which leads to cost and schedule inflation

	Common mistakes	Observed in Transnet
1	**Lack clear understanding of project risks** mitigation steps and implications for project delivery strateg	✓
2	**Owners predominantly choose one delivery model (e.g. EPC, EPCm) for all projects** without optimizing around project-specific risks impacting model effectiveness	✓
3	**Bid projects to the same set of contractors (or do not bid at all)** regardless of specific risks and performance requirements of the project	✓
4	**Generic sets of criteria are used to allocate project risks and responsibilities between owner and contractor**	✓
5	**Standard contract terms are used for all projects,** which do not take specific project characteristics into account	✓
6	**Owners conduct contract management with the same organisational structure and tools for all projects,** this is not optimised for specific project requirements	✓

These common mistakes drive substantial cost & schedule inflation

Source: McKinsey's capital productivity practice

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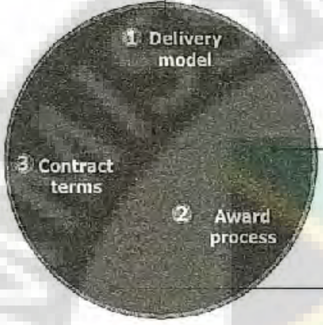
EXHIBIT 25: CONTRACTING STRATEGIES MUCH TOUCH ON THREE DIMENSIONS

A contracting strategy should be considered across three inter-related parts

Key dimensions of contracting strategy



Key questions to be considered

Delivery model
- Which project value chain steps should be done internally and which ones by contractor(s)?
- Into how many contracts should the project scope be split?
- What is the optimal split of scope between the contractors?

Award process
- What is the most appropriate tender concept?
- How many and which suppliers/contractors should be invited?
- How do we get them interested?
- What is the optimal level of partnership?
- What is the best supplier interaction mode before the tender process?

Contract terms
- What are the key project cost, performance, and schedule risks?
- Who is the natural owner of the risks?
- What mechanisms exist to transfer or share risk?
- How can objectives be aligned between owner and contractor to ensure an efficient execution through compensation elements such as incentives, penalties, warranties, etc.?

Source: McKinsey's capital productivity initiative

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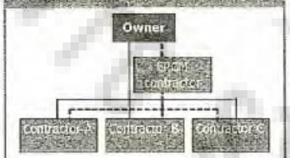
EXHIBIT 26: RISK WILL VARY BETWEEN DELIVERY MODEL ARCHETYPES

① **The risk and contracting terms vary between the 3 delivery model archetypes**

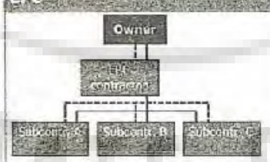
Contractual relationship
Managerial relationship

EPCm



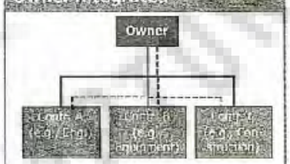
- Owner has heavy commercial department, manages more contracts
- Owner takes risk for
- Slightly more flexible, allows for later changes

EPC



- Same responsibilities, commercially lighter
- FEL is important
- Sign at end feasibility, before detailed design
- Has to be well-defined, since not flexible (penalties for changes)
- Inflated cost compared to EPCm model
- Schedule typically quicker than EPCm
- Quality improvement depending on skill level of EPCm

Owner integrated



- Manages all subcontractors
- Commercially and operationally heavy for owner
- Requires highest level of owner skill and manpower
- Cost, schedule and quality of delivery model depends on the skills and resources available to the owner

Source: McKinsey's capital productivity initiative

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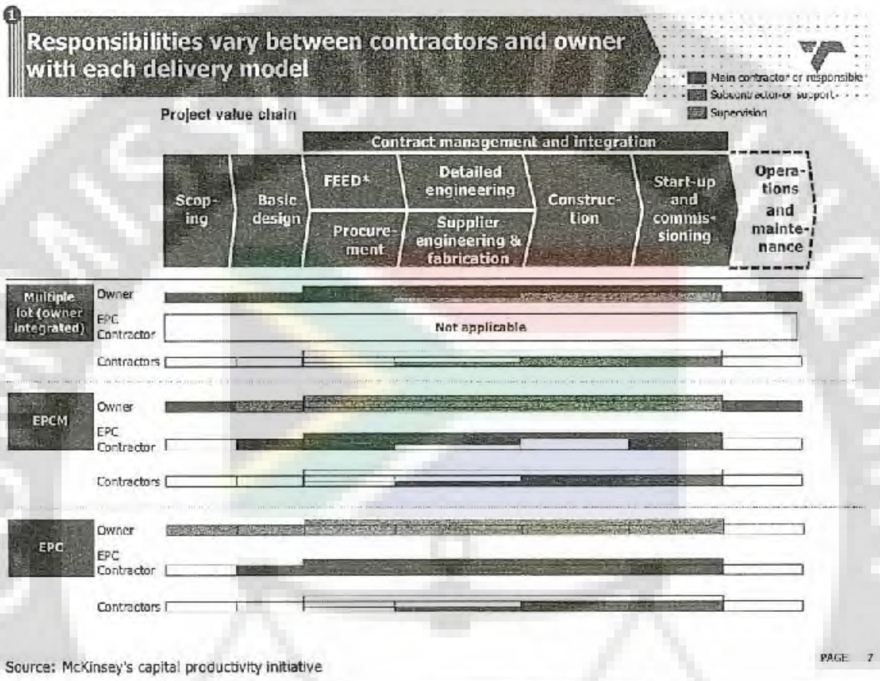
EXHIBIT 27: CONTRACTOR AND OWN RESPONSIBILITIES VARY WITH THE DELIVERY MODEL



23. Contract development for large projects

The contracts for large projects should detail all the contractor obligations and provide a robust mechanism for dealing with breach and termination due to contractor non-performance. It is essential for the contracts maintain a reasonable balance between setting onerous consequences for poor or non-performance and providing the contractor the opportunity for rectification and avoiding a contract termination. Once the contract has been agreed and signed the effective monitoring and management of the contract becomes important.

To ensure that the contractual obligations of the suppliers are met and that commercial and socio economic value is captured a dedicated Contract Management Office (CMO) should be established to ensure contract compliance by the OEM.

The Service Level Agreements (SLA) and their supporting Key Performance Indicators (KPIs) would be finalised during the negotiation phase of the procurement process and the key role of the CMO is to ensure compliance of the suppliers with their contractual obligations.

Effective contracting ensures that the following objectives are met:

- Realising the Purchasing Strategy:
  - This will include such factors as the Value For Money (VFM), socio economic and environmental benefits are achieved through the life of the contract.
- Service Delivery Management:
  - Measuring vendor performance against their contractual obligations and SLA's.
  - Measuring the delivery performance against required time frames.
  - Measuring the products and services provided against the required quality standards.
  - Measurement of the socio economic benefits accrued through the rolling stock renewal programme.
  - Ensuring committed to industrialisation / localisation obligations as set out in the contract are met and any required amendments negotiated and captured in the contract.
  - Ensuring that PRASA / Government enabling factors are delivered to enable industrialisation / localisation obligations by the supplier(s).
- Contract Administration:
  - To ensure that all the supporting functions/process required to administer the contract are put in place.
  - Relationship Management.
  - A neutral focal point to ensure that the relationship between the vendor and the business is managed with the aim of keeping all communication open and tension free.
- Managing Change:
  - Non-compliance with the contractual obligations and the implementation of penalties.
  - Non-performance against the SLA's.
  - Warranty and Guarantee resolution.

- Force Majeure.
- Mutually agreed changes to the contract or SLA.
- Dispute resolution mechanisms.
- Variation on price (due to scope/product changes).

Letsema has had experience supporting the development of the contracts in the PRASA Fleet Renewal Programme, in particular the penalty and termination mechanism for not meeting the economic development obligations. Our team will work closely with the legal advisory team to ensure all aspects of the contract for this large project is met.

24. Deal structuring and financing for large capital investment projects

See evaluation criteria 10 – Proven ability in project deal structuring, financing and funding.

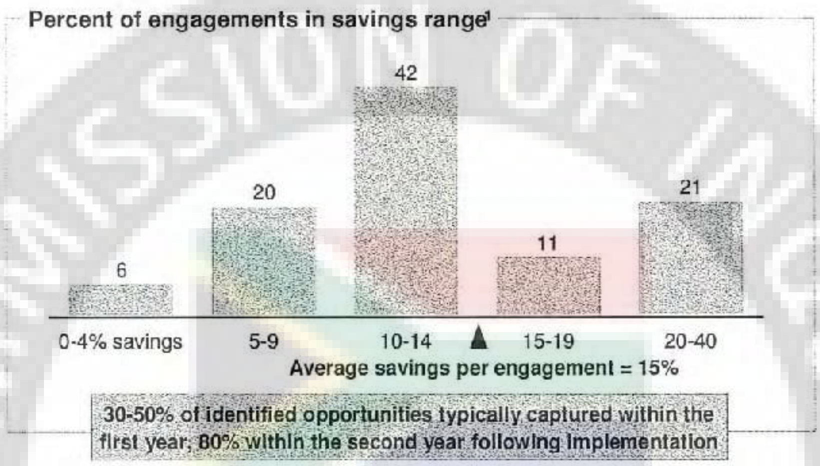
25. Procurement and supply chain experience

McKinsey's Purchasing and Supply Chain Management Practice is best positioned to deliver significant and sustainable impact. We have a proven record of self-funding, rapid impact yields a high return on our clients consulting investment. Our clients report an average savings of 15%, with 80% captured within two years of implementation. Global experience indicates that total ROI ranges from 10-80X consulting fees, with an unmatched set of Fortune 500 client references. McKinsey also offers deep experience across geographies, industries, and commodities. We are not only purchasing experts – we understand the underlying industries, extracting savings at the intersection of industry and functional purchasing solutions, where the real value hides. Our engagements are backed up by proprietary tools, resources, and benchmarks which accelerate time to impact. We have more than 50 staff members dedicated to global support team provides expertise, time-saving leverage, and cost effective support 24/5. Engagements are further supported with proprietary benchmarks, e.g., 600+ companies in our Global Purchasing Excellence DatabaseTM, Commodity DatabaseTM with savings rates and levers for over 1,000 commodities.

EXHIBIT 28: MCKINSEY SUPPLY CHAIN MANAGEMENT PRACTICE REDUCES CLIENT COSTS BY ~15%

IMPACT

Typical savings achieved in purchasing engagements is 15%



1 Representative sample of engagements

SOURCE: End of program debriefs

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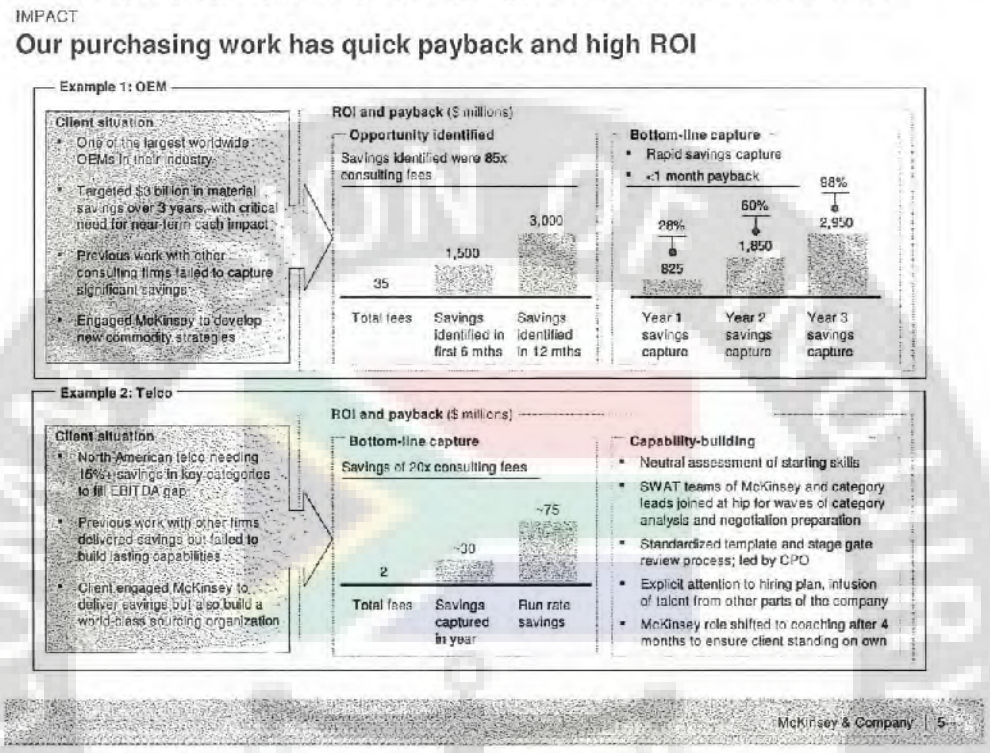
EXHIBIT 29: PURCHASING WORK HAS A QUICK PAYBACK AND HIGH ROI



26. Experience with the socio-economic issues (SD, B-BBEE, industrialisation, localisation etc.)

See evaluation criteria 17 – A thorough understanding and experience of the socio-economic issues.

27. Extensive experience in South Africa

Not only do we have extensive experience in South Africa, we also understand the important role South Africa plays in the development of the entire continent. All our Solution Team members are local South African entities (except for ART), and we have served governments, state owned companies and private companies across all sectors. We therefore understand government objectives and how an important event such as the acquisition of locomotives needs to be translated into a Transnet and South African solution (see Appendix 1 for more details).

EXHIBIT 30: MCKINSEY OFFICES IN AFRICA

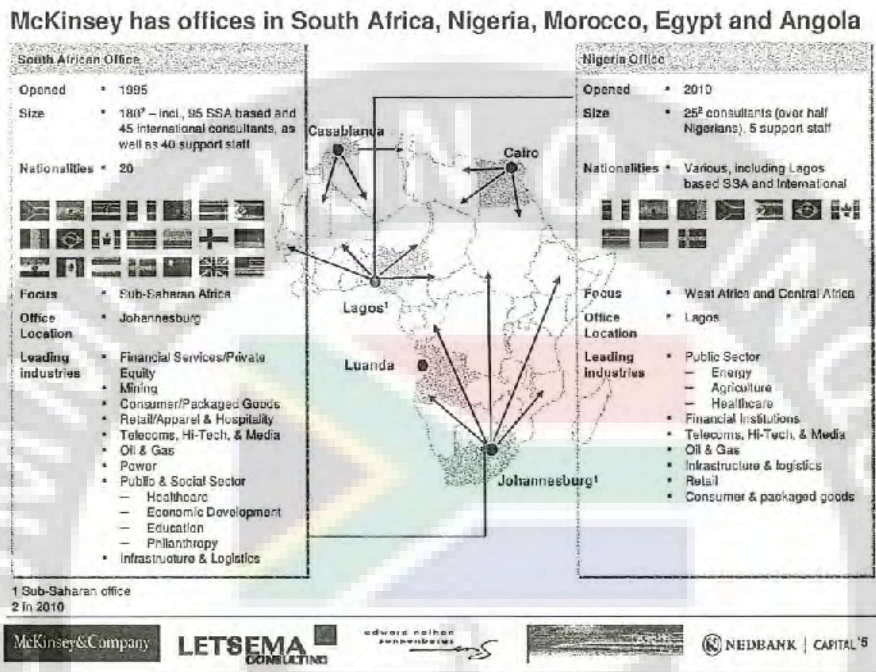
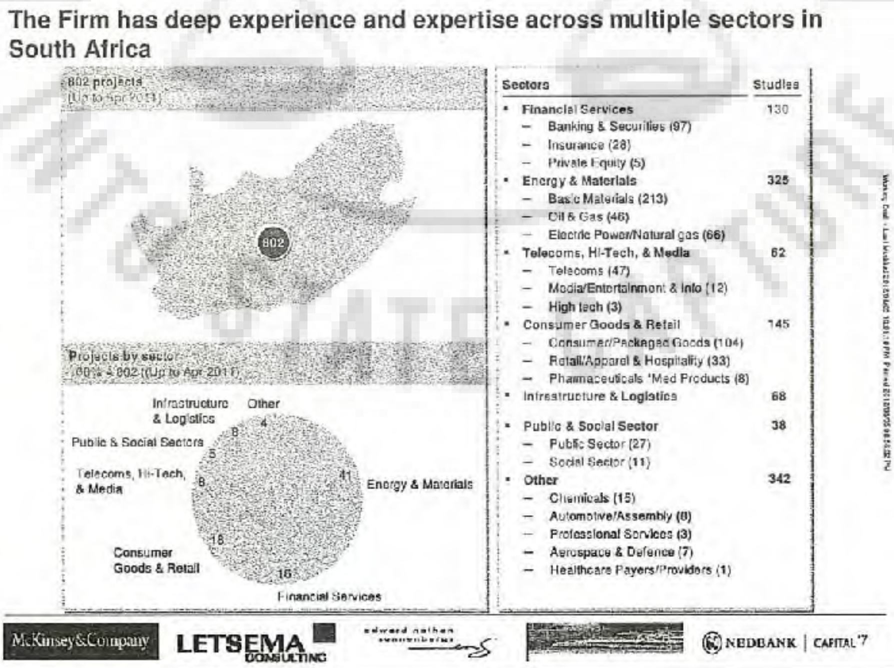


EXHIBIT 31: MCKINSEY EXPERIENCE ACROSS SECTORS IN SOUTH AFRICA



28. List of key personnel who will be involved in the project and experts who can be called upon

See section - Solution Team members and CVs' - in main document.

29. Working knowledge of Transnet Systems and processes

Over the years, McKinsey and Letsema have supported Transnet on cross-functional issues and therefore have an intimate understanding of Transnet systems and processes (see Appendix 1 for more details):

EXHIBIT 32: PARTNERSHIP EXPERIENCE ON TRANSNET PROJECT

After Vulindlela, McKinsey supported Transnet on targeted priorities, including MDS, capital, organizational health and capability building

	Group	TFR	TPT
McKinsey	• Market demand strategy (ongoing, Group Finance) • Capital excellence (ongoing, Group Finance) • Commercial capability building (e.g., negotiation preparation) (2010/11) • Commercial risk assessment (2010), incl. detailed review of pricing practices at TFR and TPT • Development of Transnet pricing guidelines (2010) • Port-hub strategy (2009) • Development of integrated pricing model (IPM); integrated key account plans (2008) • Establishment of Group Commercial (2008)	• Business Unit Implementation / organizational health (ongoing, TFR) • TFR CE office support (2011) • NatCor de-bottlenecking (Part 2) (2010) • Volume validation (2010) • R'BayCor ops breakthrough (2009/10) • NatCor de-bottlenecking (Part 1) (2009/10) • NatCor strategy (2009/10) • NatCor sales stimulation (2009/10) • Coal line pricing (2008/09) • Spoornet reorganization (05) **Independent** • S.A. Freight sector 2025	• DCT 10,000 k check up (2011) • DCT costing diagnostic (2010) • DCT incentive evaluation (2010) • DCT post-strike turnaround (2010)

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EXHIBIT 33: ONGOING SUPPORT FOR MDS PROJECT

30. Practical approach to this project to cover requirements and deliverables, and set up governance

See section - Analytical approach and workplan – in main document.

CLIENT REFERENCES

Our Solution Team has global and local client references to reinforce comfort, background and provide Transnet the opportunity to connect directly with past experience in the context of this project. The majority of the client references laid out below have a short impact story in Appendix 1.

Client (Location)	Key contact	Brief project description	Contact details
Transnet (South Africa)	Vikas Sagar, Principal (McKinsey)	Various projects including Vulindlela, Market Demand Strategy, Rail Project Optimisation, Development of Pricing Guidelines	*Email: Vikas_Sagar@McKinsey.com* *Telephone: +27 11 506 8149*

Client (Location)	Key contact	Brief project description	Contact details
PRASA (South Africa)	Sukhin Bhandari, Associate Partner (Letsema)	Creation of the overall Supplier Development Strategy Developed a market intelligence survey to gather information on local supplier capacity and capabilities. Developed the Local Content and Skills Development sections of the RFP Developed and drafted the Local Content and Skills Development requirements for the Main Supplier Agreement Worked as part of the Transaction Advisory Team to support the Bidder Clarification process	*Email:* *sukhinb@letsema.co.za* *Telephone:* *+27 011 233 0000*
Rail & Mega-Projects			
Mongolian Railways (Mongolia)	Batzaya Baasandorj, CEO (Mongolian Railways)	Building a business case for a cross-country railway, including developing the financial model, organizing the PMO and leading the stakeholder engagement process	*Email:* *zaya@monrail.mn* (please reach out to Bruno Roy: *Bruno_Roy@mckinsey.com* before contacting)
Queensland Rail (Australia)	Available on request	Capital optimisation programme for over USD 15bn capital pipeline including portfolio sequencing and optimisation, large project cost reduction and capital procurement	*Contact details available on request*
Eskom (South Africa)	Fabio Pedrazzi, Associate Principal (McKinsey)	Created capital projects and delivery organisation and optimised capex program to reduce cost and ensure execution	*Email:* *Fabio_Pedrazzi@McKinsey.com* *Telephone:* *+27 11 506 8086*
Royal Dutch Shell	Matthias Bichsel, Director Project & Technology (Royal Dutch Shell)	Diagnosis of key issues with project delivery and end-to-end turnaround programme	*Contact details available on request*
Sasol (South Africa)	Flip de Wet, Managing Director (Sasol)	Capital excellence transformation including capital diagnostic, organisation design, portfolio optimisation and project cost reduction	*Contact details available on request*
Anglo Gold Ashanti (South Africa)	Filipe Barbosa, Principal (McKinsey)	Allocation and organisation diagnostic for basic materials company	*Email:* *Filipe_Barbosa@McKinsey.com* *Telephone:* *+27 11 506 8048*

Client (Location)	Key contact	Brief project description	Contact details
Alcoa	Kevin Anton, Ex-Head of Capital Delivery (Alcoa)	Risk assessment of capital programme using cash flow at risk (Monte Carlo) methodology and development of mitigation levers including capital optimisation and funding	*Contact details available on request*
Total-TNK	Didier Baudrand, EVP Downstream (Total-TNK)	Designed and delivered major Capex delivery organisation	*Contact details available on request*
Cairn India (India)	Rick Bott, Executive Director and COO (Cairn India)	Built world class project organisation and capabilities	*Contact details available on request*
Inmet	Jochen Tilk, CEO (Inmet)	Supported delivery model, EPCM contractor selection and contract set up for USD5 bn copper project	*Contact details available on request*
Railcorp, New South Wales (Australia)	Available on request	Technical review and due diligence in support of procurement of a new fleet of 678 electric multiple unit double deck commuter cars, being built in China for Sydney suburban services	*Contact details available on request*
UK Government, Department of Transport (UK)	Available on request	Advice and feasibility studies to the UK Department for Transport on Stafford station remodelling, Great Western Electrification and line speed upgrades for the West Coast and Midlands Main Lines as well as tender assessment for a fleet of new high speed trains.	*Contact details available on request*
Taiwan High Speed Rail (Taiwan)	Available on request	Retained over 4 years by Taiwan High Speed Rain Cooperation, to review design drawings for civil works and for rolling stock for the $25 billion project.	*Contact details available on request*
Class 91 High Speed Electric Locomotive (UK)	Available on request	Project engineer for procurement of 31, 225 km/h high speed electric locomotives and 310 coaches with tilt capacity, for use on Britain's East Coast Main Line.	*Contact details available on request*
Mersey Travel (UK)	Available on request	Led a major review of electrification options for the 75 mile MerseyRail network in the UK advising on the business case for extension of the present network, types of rolling stock required, operational requirements and infrastructure.	*Contact details available on request*
PPP references			
Malaysia	Available on	Developed an Economic Transformation Programme	*Contact details*

Client (Location)	Key contact	Brief project description	Contact details
government (Malaysia)	request	to assist Malaysian government in achieving its "high-income" aspiration	*available on request*
Panama government (Panama)	Available on request	Logistics & Infrastructure Strategy for Panama	*Contact details available on request*
E Oppenheimer & Son (Africa)	Available on request	Pan-African infrastructure investment strategy for a private equity fund	*Contact details available on request*
Eurotunnel Group (Europe)	Available on request	PPP railway operator and infrastructure provider in Europe: Turnaround	*Contact details available on request*
Georgia Regional Transport Authority (US)	Available on request	Supporting a U.S. state in its PPP coordination	*Contact details available on request*
Canada Department of Finance (Canada)	Available on request	Business plan for Canadian PPP authority	*Contact details available on request*
NMBS (Europe)	Available on request	European rail company: PPP tunnel investment assessment	*Contact details available on request*
Procurement references			
Department of Public Enterprises (DPE) (South Africa)	Hilton Amsel, Director (Letsema)	Programmatic policy design and documentation. Design the programmatic policy for the programmatic procurement of locomotives. Develop the governance gateways and the relevant gateway checkpoints in the process. Develop the transactional acquisition process to enable the go to market process for the acquisition of locomotives.	*Email Hiltona@letsema.co.za Telephone: +27 011 233 0000*
Department of Public Enterprises (DPE) (South Africa)	Hilton Amsel, Director (Letsema)	Supplier industry analysis Funding options ETC all deliverables from 202 slide pack the bubbles Developed the high-level industry strategy for the locomotive industry (electrical and diesel) Pre-feasibility study for the programmatic (20 year +) procurement of Locomotives. Developed the various funding options to enable off-balance sheet funding. Designed a Centre of excellence for complex capital	*Email Hiltona@letsema.co.za Telephone: +27 011 233 0000*

Client (Location)	Key contact	Brief project description	Contact details
		procurement (COE) Developed the COE business case.	
Transnet (South Africa)	Hilton Amsel, Director (Letsema)	Supported Transnet in the development of the CSDP policy to enable the implementation of CSDP across the group. Developed the CSDP foundation: CSDP process, Control framework for CSDP Evaluation criteria for CSDP transactions Tender documentation and legal appendix's for CSDP transactions Reporting mechanisms for reporting to the DPE and DTI on CSDP progress. CSDP transactional support.	*Email* *Hiltona@letsema.co.za* *Telephone:* *+27 011 233 0000*
Transnet (South Africa)	Sukhin Bhandari	Development of a coherent group wide Supplier Development strategy, encompassing Supplier Development, Enterprise Development and CSDP. Developed the Supplier development organisation design (people, process and reporting) Developed the overarching supplier development evaluation criteria including B-BBEE criteria and future recognition.	*Email* *sukhinb@letsema.co.za* *Telephone:* *+27 011 233 0000*
Transnet (South Africa)	Hilton Amsel, Director (Letsema)	Provided support in the development of the tender documentation, evaluation criteria, negotiation support (savings levers), CSDP proposal and CSDP plan documentation with International OEMs for locomotives (GE, EMD and Mitsui locomotive deals)	*Email* *Hiltona@letsema.co.za* *Telephone:* *+27 011 233 0000*
Transnet (South Africa)	Hilton Amsel, Director (Letsema)	Provided support in the development of the tender documentation, evaluation criteria, negotiation support (savings levers), CSDP proposal and CSDP plan documentation with International OEMs for port equipment (Ship to shore cranes, Haulers, Straddle Carriers)	*Email* *Hiltona@letsema.co.za* *Telephone:* *+27 011 233 0000*
Transnet (South Africa)	Hilton Amsel, Director (Letsema)	Provided support in the development of the tender documentation, evaluation criteria, negotiation support (savings levers), CSDP proposal and CSDP plan documentation with International OEMs for rail infrastructure.	*Email* *Hiltona@letsema.co.za* *Telephone:* *+27 011 233 0000*
Transnet (South Africa)	Hilton Amsel, Director (Letsema)	Developed the Transnet supplier development plan for submission to the minister of the DPE. Currently working with Transnet to arrange industry engagements, especially engagements with B-BBEE companies. Currently working with Transnet divisions to develop divisional supplier development plans across all commodity groups.	*Email* *Hiltona@letsema.co.za* *Telephone:* *+27 011 233 0000*
Transnet (South Africa)	Hilton Amsel, Director (Letsema)	Supporting the development of the new Procurement Procedure Manual (PPM) by ensuring the newly adopted Supplier Development strategy is integrated into the PPM. Developed the Supplier Development Policy to enable the organisation to adopt the new Supplier Development strategy. Developed process for the following Supplier Development processes: Enterprise development	*Email* *Hiltona@letsema.co.za* *Telephone:* *+27 011 233 0000*

Client (Location)	Key contact	Brief project description	Contact details
		Focused supplier development Strategic supplier development (CSPD) Programmatic Supplier Development (DPE policy)	
Transnet (South Africa)	Hilton Amsel, Director (Letsema)	Developing quick win strategy to obtain Enterprise Development points to enhance the current B-BBEE scorecard for Transnet. Conducted commodity spend analysis across Transnet spend. Categorised spend into four supplier development segments: Small business; Focused; Strategic; and Programmatic. Prioritised Enterprise Development opportunities and developed plans to develop suppliers. Developed process for the recording of Enterprise Development initiatives to ensure ED points are obtained in the next B-BBEE audit.	*Email* *Hiltona@letsema.co.za* *Telephone:* *+27 011 233 0000*
Transnet (South Africa)	Hilton Amsel, Director (Letsema)	Developed and obtained board approval for the new Supplier Development and B-BBEE further recognition Evaluation Criteria.	*Email* *Hiltona@letsema.co.za* *Telephone:* *+27 011 233 0000*
Eskom (South Africa)	Markus Gschwari, Partner (Letsema)	Working with McKinsey & Co, our teams developed the appropriate organisation to enable the supplier development and meet Eskom's and Government's supplier development objectives.	*Email* *markusg@letsema.co.ca* *Telephone:* *+27 011 233 0000*
Eskom (South Africa)	Markus Gschwari, Partner (Letsema)	Eskom wished to segment suppliers and their Supplier development activities by process as opposed to by Government policy (ASGISA, CSDP, B-BBEE). This process informed the organisation design mentioned above. Suppliers were segmented by value and industrial leverage, this enabled Eskom to treat each supplier correctly according to its aspirations for Supplier Development.	*Email* *markusg@letsema.co.ca* *Telephone:* *+27 011 233 0000*

In this document we would like to share a few selected relevant rail examples from McKinsey's experience as an illustration. Please feel free to contact any of the references listed below for additional input.

Reference case example 1: Deutsche Bahn Mobility Logistics

DB BAHN

Client and Project Information
Client Name: Deutsche Bahn Mobility Logistics AG
Project Name: GO 4 IT Procurement
Period of Performance: Jan 2006 to December 2006
Scope of work: 1-year procurement program focusing on rolling stock spare parts with the dual aspiration of capturing 350 Mio. EUR while at the same time building developing capabilities of the procurement core team
Reference: Kay-Uwe May, Head of Procurement Strategy kay-uwe.may@bahn.de

Context

Deutsche Bahn Mobility Logistics AG is on of the largest Transport & Logistics Companies in Europe with over EUR 35 billion in revenue and roughly 178,000 employees. The group as a whole has more than EUR 6 billion procurement spent every year, with more than 1 billion going into the rolling stock asset base annually. Due to the long-life span of the asset base, procurement at Deutsche Bahn has to deal with the complexities of benchmarking total cost of ownership in a complex technical environment and regulatory environment.

Approach

The joint McKinsey-client team focused on the spare part section of the Deutsche Bahn procurement. The project performed several waves, each of which followed a three steps process:

1. *Transparency and Prioritization:* Based on the spend database and a prioritization logic, the key categories were ranked according to expected impact.
2. *Idea generation and estimation of potential*: Initial ideas for optimizing TCO were developed in several rounds of workshops, covering all potential impact areas, (e.g., technical specifications, supplier market considerations, TCO measures, etc.) For all measures the potential was estimated and key hurdles to implementation were identified and solutions developed.
3. *Verification and implementation:* Client lead category teams conducted further analysis to verify initial ideas. The teams developed implementation plans based on the developed measures.

In parallel the client core team was going through a capability building program, with different phase of training-on-the-job and classroom training, covering all key aspects procurement (e.g., workshop facilitation/idea generation process, TCO calculation and modeling, negotiation strategy).

Impact at Deutsche Bahn Mobility Logistics

The McKinsey-led procurement program at Deutsche Bahn set-up the procurement strategy for the entire Mobility Logistics division. More than 30 procurement-leaders were trained on-the job and in formal classroom training. The program identified more than EUR 300 million savings potential. On individual categories up to 80% savings potential were identified based on a mix of technical, TCO and commercial levers, typically a potential of 15-30% has been identified on the prioritized categories.

Reference case example 2: National express

national express

Client and Project Information
Client Name: National Express Group Plc
Project Name: UK bus turnaround – work addressed fleet planning, network optimization, maintenance and procurement; North America school bus turnaround – work covered fleet planning, ownership and financing, and procurement
Period of Performance: 2009-2011
Scope of work: ongoing transformation to improve profitability and capital efficiency of one of Europe's largest single location urban transit systems and of the world's second largest school bus operator
Reference: *Please note that if you wish to contact Neil Barker, we need to first let him know who is going to contact him so please check with us before initiating any contact.* Neil Barker, Managing Director of National Express' UK Bus division (former) Neil.Barker@nationalexpress.com

National Express is one of the largest and most successful private sector land transport operators in the world. In the UK it operates bus services in the West Midlands conurbation, transporting over 1 million passengers a day. It is also the world's second largest school bus operator, and runs 17,000 school buses in North

America from nearly 170 depots. In addition, it operates arguably the world's most successful intercity coach business as well as a significant proportion of the UK's national railway network.

Following a period of underperformance, a new CEO, Dean Finch, was brought in to turn around the performance of the Group. McKinsey has supported that program fully over the last year and continues to do so.

Approach

McKinsey's relevant work with National Express includes:

1. Fleet planning: identifying at least a 10% reduction in National Express' North American and UK bus fleet by (a) optimizing scheduled and unscheduled maintenance, and (b) redistributing vehicles across the network to better meet demand
2. Procurement: working with National Express' North American team to achieve a 20% reduction in addressable spend, including at least 10% on rolling stock
3. Ownership and financing: evaluating alternative ownership and financing models for National Express' fleet

Impact at National Express

In UK transit, the combined turnaround program has improved the UK transit division's EBIT margin by over 3 percentage points in the last 9 months, and is on track to deliver industry leading margins. Meanwhile, opportunities have been identified to reduce NEX's fleet by 10%, significantly reducing capex for the next few years.

In North American school bus operations, the program has only just launched, but is targeted a 7 percentage point margin improvement. At the same time, McKinsey helped identify an opportunity to reduce fleet size by 1,500 vehicles, cutting capex over the next few years by almost USD 100 million.

Reference case example 3: Hong Kong MASS TRANSIT

MTR

Client and Project Information

Client Name: Hong Kong Mass Transit Railway (MTR)

Project Name: 3 projects: Procurement bundling; Capital project value management; Building a performance culture in new projects

Period of Performance: 2002-2010

Scope of work: Conducted over 15 projects with MTR on various different topics since 2002, including savings identification and value engineering.

Reference: *Please note that if you wish to contact TC, we need to first let him know who is going to contact him so please check with us before initiating any contact.*

TC Chew, Mass Transit Railway Corporation, Hong Kong.

tcchew@mtr.com.hk

Hong Kong Mass Transit Railway (MTR) is the primary metro and rail operator and developer, serving all of Hong Kong. MTR serves over 1.2 billion riders annually via subway, light rail and intercity rail service. Continuous improvement is a major theme for MTR and it has been consistently reducing its operating cost by 2% annually with procurement being one of the levers. It is also going through a phase of expansion with 5 new lines in Hong Kong to come on line in next 7 years and is expanding operations into 3 cities in the Mainland China with substantial investments in the infrastructure and rolling stock. The corporation has significant focus on developing capability to drive capex savings in all these projects.

Focus of our work

McKinsey partnered with the Hong Kong MTR to support a review of a CapEx optimization for one of MTR's overseas lines. Ideas were generated through facilitated cross-functional idea generation sessions. The team conducted a detailed assessment on different cost drivers, prioritized ideas, and designed an implementation plan. Some of the ideas generated included exploring alternative designs and use of different materials. We also conducted several training sessions on TCO, design to value and strategic procurement techniques across the organisation.

Impact at Hong Kong MTR

The projects helped Hong Kong MTR generate capital savings opportunities that reduces CapEx cost by up to 25% in the targeted categories. The organisation has been institutionalizing these capabilities and processes to achieve further savings.

SOLUTION TEAM MEMBERS OVERVIEW AND CVS

McKinsey & Company

- McKinsey & Company is a global management consulting firm. They are trusted advisors and counsellors to the world's leading businesses, governments, and social sector institutions, helping them tackle their most difficult issues and most serious challenges.
- McKinsey has a network of more than 9,000 consultants based in 97 offices across 50 countries, who collectively speak more than 120 languages. In addition, they have more than 1,300 research professionals worldwide to support their consulting staff. McKinsey is organised into 18 industry sector practices (e.g., insurance, banking and securities, public sector, social sector) and 8 functional practices (e.g., strategy, operations, risk management, sales & marketing, organisation, corporate finance, business technology and sustainability and resource productivity), each with dedicated experts and research staff.
- McKinsey's infrastructure practice has broad and deep industry knowledge. They have a dedicated infrastructure practice that has executed over 750 engagements with 240 clients across the industry. Their expertise covers the end-to-end process from planning and financing through stakeholder management to design, delivery and operation of assets across seven client segments and asset classes.
- McKinsey serves core industries in the rail and port logistics value chain with over 1 600 client engagements in travel, transport and logistics providing experience of over 2 400 consultant years, with 180 of these focussing on rail cargo (~375 consultant years). In the last 5 years alone, we have led 18 procurement engagements (equating to ~43 consultant years), with savings opportunities ranging from 2 - 30%. This work has shown us that procurement can influence 40 – 55% of total cost base for railroads, making if a major value lever.

Our dedicated local leadership team will include:

- **Michael Kloss.** Michael is a Director in our Johannesburg office and is a Sub-Saharan leader in both the Strategy Practice and EPNG Practice. He has helped companies across various industries on more than 150 projects with broad-based performance improvement and strategy programmes. Michael was recently involved in developing a perspective on South Africa's freight sector regulatory landscape, industry requirements, capabilities, and option space, including extensive benchmarking of the global regulatory landscape as well as working with a major European railway on product design and purchasing levers with savings potentials as high as 35 percent. He holds a PhD in Biology from Gottfried Wilhelm Leibniz Universitat Hannover.

- **Norbert Dorr.** Norbert is a Director in our Johannesburg office and chairs McKinsey's Africa Council. He was also the co-leader of our European Supply Chain and Operations practice until he moved to South Africa in 2002. Norbert has served a variety of clients in the mining industry, energy, industrial equipment and the public sector. He has extensive experience in capital optimization and transformation programmes. He holds an M.Sc. in Aeronautical Engineering from the Technical University of Munich and an MBA from the University of California, Berkeley.
- **Nomfanelo Magwentshu.** Nomfanelo leads the Implementation Delivery Service Line and the Public Sector practice in McKinsey's Johannesburg office. She is a seasoned executive with several years experience in strategic development and operational management in the public sector domain. She has a proven track record in managing large scale transformations and initiatives. Prior to McKinsey, Nomfanelo held several executive positions at SAA before taking up the role of Chief Operating Officer of the 2010 FIFA World Cup Organizing Committee. Nomfanelo holds an MBA, BSC Honours in Statistics and a B.Sc. in Mathematics and Statistics.
- **Vikas Sagar.** Vikas is a Principal in our Johannesburg office. He supports the Travel, Transport & Logistics (TTL) practice as well as leading both the Consumer / Packaged Goods and Marketing & Sales practices. He has assisted clients with operational turnaround processes and growth strategies, but has spent the majority of his time supporting clients in TTL industries. Vikas has worked with Transnet on a variety of projects over the past few years. He holds a BA in Management and Asian Studies from the University of Michigan and an MBA specializing in Finance and Marketing from Wharton School of the University of Pennsylvania.
- **Prakash Parbhoo.** Prakash is a Principal in our Johannesburg office and a member of the Capital Productivity Practice for Sub-Saharan Africa. Most of his work involves helping capital intensive clients across multiple industries (mining, oil & gas and transportation) improve their capital project practices and improve value. The capital project work that he has led in South Africa over the last three years has allowed his clients to have a clearer perspective on their project portfolio, allowing them to prioritise and accelerate projects

where necessary. Prakash is South African and holds a B.Sc. and M.Sc. in Mechanical Engineering from the University of Cape Town. Prakash's recent engagement experience includes transforming the capital project function of a transportation company to ensure effective delivery of a USD 20bn project portfolio, and stress-testing and optimizing the design of a EUR 200m production plant, including fully quantifying the risks and alternative options, finding savings of ~10%.

- **Fabio Pedrazzi.** Fabio is an Associate Principal in our Johannesburg office. He specializes in large scale capital programs and procurement within infrastructure and other capital-intensive industries. Fabio has worked extensively on cost optimization initiatives and value engineering across asset classes (rail, power, rolling mills, construction and mining equipment). He holds an M.Sc. In Business Administration and Economics from Stockholm University School of Business and an M.Sc. In Industrial and Chemical Engineering from the Royal Institute of Technology.

Key advisory board members:

- **John Bell.** John is an independent consultant based in Ontario, Canada. He is a corporate planning and strategy expert with a background in engineering. He has supported and managed many projects and initiatives in his 32 years at Royal Dutch Shell Plc, including managing the global upstream corporate business plan and strategy, and a technical and operational excellence revitalization project. John holds a B.Sc. In Engineering Science from the University of Durham, an M.Sc. In Applied Mathematics from Henley Management College and an MBA from Henley Management College.
- **Neil Morrison.** Neil is an independent consultant based in Johannesburg. He was Special Advisor to the Minister of Public Enterprises and focused on affordability of the new power stations, recapitalization and credit rating of Eskom, market structure for electricity and the IRP. He was CEO of Deutsche Bank, Johannesburg Branch and head of the Global Markets division. Previous to that, he was Head of Public Sector Finance at RMB with a focus on project finance, structured finance and the development of corporate, infrastructure and municipal bonds. Neil holds an MA in Economics from Boston University and a B.Sc(Hons) in Physics from UCT.

Global experts within McKinsey:

- **Achim Dunnwald.** Achim is a Principal in our Frankfurt office. He has more than 10 years of experience in the logistics industry, and works with companies world-wide on product and regulatory strategy, growth, operations and procurement. He is a dedicated member of McKinsey's transportation practice and leads the global Post, Express and Parcel practice. Achim holds an MBA from UC Berkley, and a PhD and Masters Degree in History and Political Science from the University of Bonn.

- **Oliver Gottschall.** Oliver is a practice expert based in our Bangkok office. His fields of expertise include Travel & Logistics and Oil & Gas, with a particular interest in procurement and operations performance improvement. Oliver's recently developed a procurement capability-building programme for an Australian railway services provider resulting in significant cost reduction in OEM spare parts for locomotives, railway wagons, as well as infrastructure components. He holds a Bachelor-equivalent degree in European Business Studies, a Masters degree in Business and Managerial Economics and a PhD in International human Resource Management.
- **James Hexter.** James is a Director in our Beijing office. He is the co-leader of the Global Infrastructure and Real Estate Practice and leads the practice in Asia. James also has a wealth of experience in procurement, sourcing, product development, supply chain and manufacturing due to the 5 years he spent leading the Operations Practice in Asia. Experience specifically relevant to this study include advising the Central Government of an Asian country on the restructuring of their National programme to increase PPP in public infrastructure, Initial results indicate a reduction in deal completion time by 50% and a reduction in capital required to complete deals by 10-30%.. He has worked with several freight and urban rail operators and has experience across asset classes on capex reduction and end-to-end project delivery. James is a graduate of the Harvard Business School, where he was a Baker Scholar and received the Thomas A. Wolfe and Henry Ford Awards and of Brown University.
- **Jiri Maly.** Jiri Maly is an Expert Principal in the Canadian office of McKinsey & Company. He joined the firm in 1997 and works with a wide range of companies around the globe, helping them deliver multi-billion dollar capital projects and programs of multiple projects. Jiri has worked deeply on over 25 megaprojects in the power, oil & gas, mining, and infrastructure sectors across over 60 client engagements. He has also led several new breakthroughs in McKinsey's capabilities in the capital projects space, including developing a new, "gold standard" value assurance tool, an advanced portfolio risk/return analytical technique, and establishing a McKinsey standard approach for identifying, evaluating, and managing risks in mega-projects.

- **John Means.** John is an Engagement Manager in the Washington, DC office. He has deep expertise in contractor due diligence, contracting strategy, contractor management, project organisational design and capital management systems (process, systems and capabilities). Before joining McKinsey, John spent seven years with a global construction conglomerate in project delivery and leading internal consulting teams on best practices and innovation. He is a licensed professional engineer and selected as one of the top 10 young engineers by the National Society of Professional Engineers. John received an MBA from Kenan-Flagler business school at the University of North Carolina-Chapel Hill and a Bachelor of Science in Engineering from Duke University.
- **Dr. Georg Kasperkovitz.** Georg is a Partner in our Vienna office. He leads the McKinsey Global Rail Practice and serves as a core member of the Operations Practice. Georg has been active in nearly all areas of the railway industry over the past 11 years. He has recently helped define a long-term growth strategy for a worldwide top 10 CIS railway, including rail cargo (heavy-haul line operations) and infrastructure, as well as conducted a comprehensive performance improvement programme for a national integrated Western European railway, encompassing 11 profit improvement projects, a new corporate structure, and a new model for public infrastructure financing. Georg holds a PhD in Mechanical Engineering from the Vienna University of Technology and an MBA from Harvard Business School.
- **Thomas Nezter.** Thomas is a Director at the Cologne office of McKinsey & Company. Thomas graduated from the University of Cologne and St. Gallen with a degree in business administration, after which he worked at 3M in the United Kingdom for six months. He then joined McKinsey in 1996 as a Fellow in Germany. During his Ph.D. leave between 1999 and 2000 he wrote his thesis in business at the University of Cologne. Since Thomas joined the Firm, he focused on operations and regulation topics mainly in the transportation and the infrastructure industry. Thomas is a core member of our worldwide infrastructure practice leadership group. He leads the infrastructure practice in India and is highly involved in the knowledge and practice building of the firm. Examples of his current work include developing a metro for one of India's major cities, analysing infrastructure development needs for Asia's two largest railway companies, and identifying an optimisation potential in ground and air transportation networks for a major Indian logistic service company.
- **Enrico Resmini.** Enrico is a Principal of the Milan office of McKinsey & Company, which he joined in 1995 as a Business Analyst. Enrico is part of

the Leadership Group of McKinsey Procurement Practice and is responsible for all procurement activities in the Mediterranean Complex. He holds a Laurea degree in Aerospace Engineering from the Polytechnic of Milan and a MBA from INSEAD. Enrico has developed a considerable experience in procurement and operations improvement topics across multiple industrial settings in Italy and Europe. His recent studies include the launch of a group purchasing effort to reduce costs by as much as 20-30% in a major high tech industrial player with more than 20 business units involved, and execution of a major airline turnaround, with specific focus on a procurement workstream, tackling more than EUR 2.1bn of spending in 8 months.

- **Detlef Kayser**. Detlef is a Director in the Hamburg office of McKinsey & Company and is the Leader of the McKinsey Global Manufacturing Practice with dedicated staff of 250 production/lean experts. Detlef has extensive experience Serving clients in industrial environments as well as in the public sector and worked in the aerospace industry before joining McKinsey. Detlef studied mechanical engineering and holds a Ph.D. in aerospace and aeronautics (with summa cum laude). His recent engagements include Project leader of the EXPRESS project for optimization of the maintenance cost in the long distance passenger operation of DB; improvement project for the long-haul passenger division of the Deutsche Bahn with focus on reducing marketing cost; project to improve fixed capital productivity in the long-haul passenger division of the Deutsche Bahn; and project on negotiation/renegotiation of major component prices in two power plant projects (USD 8bn each).
- **Jules Seeley**. Jules Seeley is a partner in McKinsey's Boston Office. He recently moved to Boston from the London office where he was based for the past 8 years. Jules is one of the leaders of McKinsey's work in the Travel, Transport and Logistics practice, with particular focus on rail and urban transit systems. He has served transport clients deeply on issues including operational efficiency, procurement, regulatory strategy, capital investment programs, and on major renewals and investment projects. He also has deep experience in infrastructure public-private partnerships where he has advised clients in the UK, Scandinavia, the US, Israel and India. His recent studies include strategic sourcing in the European rail and metro signalling sector to identify cost reduction levers and procurement strategy for a USD 3bn signalling renewal program and assessing the operational efficiency and effectiveness of capital upgrade and maintenance work in transport infrastructure.

- **Benjamin Cheatham.** Ben Cheatham is a Partner in McKinsey's Philadelphia Office. He leads the Americas Infrastructure Practice, serving prominent private and public sector clients involved in planning, financing, and developing civil infrastructure. His recent engagements have included developing innovative growth strategies, enhancing capital productivity, and improving operations for his clients. Examples of his recent client service experiences include conducting an investment opportunity scan for a multi-billion dollar Sub-Saharan infrastructure fund, and designing a growth strategy for one of the world's largest diversified infrastructure developers.

Letsema

- Letsema Consulting is a South African strategy to implementation consulting firm. We boast significant work experience in the public sector working with clients such as the Department of Trade and Industry (DTI), the Department of Public Enterprise (DPE), the National Treasury, and a number of large SOCs, including Eskom and Transnet. We also serve private sector clients across a wide variety of industries, with significant experience in the Mining and Financial services industry. We work closely and together with our clients on their complex journeys to transformation and have engaged with them in many cases from Strategy through to successful implementation.
- Letsema Consulting was incorporated in 1989. We boast significant functional expertise in Supply Chain Management and have served clients in the areas of Strategic Sourcing, Procurement, Supply Chain Organisation design, Logistics Strategy and Design and Implementation. We work at both the most senior levels and the line levels of our client organisations to operationalise their strategies and to bring about lasting change and transformation.
- Letsema Consulting is committed to the transformation process underway in South Africa and are a level 3 contributor with 51% black share ownership. We participate in thought leadership groups such as the Aspen Institute, the African Leadership Institute and the Rhodes Foundation. Our commitment to the community is displayed though our passion for choosing consulting engagements that have societal impact on the South African economy. Our Corporate Social Responsibility focus is on African Leadership via the Africa Leadership Institute (ALI), which is linked to the Aspen Institute and their Henry Crown Fellowship.

Our leadership team includes:

- **Hilton Amsel.** Hilton is a Director at Letsema. He has 10 years of consulting and management experience in a range of industries such as Government, FMCG, Manufacturing and Utilities. In those 10 years, Hilton has assisted companies with the implementation of large ERP systems and successfully managed numerous business process re-engineering assignments. He has developed the performance measurement framework and technology strategy for the implementation of a corridor performance measurement system for the dti, managed a major strategic sourcing and supply chain management initiative for Eskom, developed an integrated supply chain management strategy and a Supplier Development (CSDP) strategy for Transnet. He holds a BA (Communications and Industrial Psychology) from the Rand Afrikaans University.
- **Aldo Sguazzin.** Aldo is a Director at Letsema. He brings over 14 years of consulting and management experience in a range of industries such as Aerospace and Defense, Government, FMCG, Manufacturing, Construction and Utilities. He has led various operational improvement engagements for Transnet, developed and implemented sourcing strategies of MRO equipment, developed a business strategy and plan for the integration of the procurement arm of Transnet into the core business unit. He holds a BSc (Engineering) from the University of the Witwatersrand.
- **Sukhin Bhandari**. Sukhin is an Associate Partner at Letsema. He has over 20 years of consulting experience and has vast experience from working in both Europe and Africa. He has played leadership and expert advisory roles on transformation projects for large South African government owned utility and infrastructure organisations, was the lead Transaction Advisor on the Localisation and Skills Development work-streams for the PRASA Rolling Stock Acquisition Programme (programmatic procurement of approximately 7,400 EMUs over a 20 year period to revitalise South African Passenger Rail services), he has assisted Transnet on over 20 projects over the last five years including commercial, operational efficiency improvement, supply chain strategy and implementation which generating savings of over R1.6bn from strategic sourcing, led the High Performing Team assignment for a mining company, headed an internal team at a South African cement company which formulated the sub-equatorial strategy, undertook large capital project studies and a range of performance improvement and optimisation projects, provided corporate finance advisory services including company listings on the Dares Salaam Stock exchange, privatisation strategies acquisition advisory,

company valuations, disposals, due diligence and feasibility studies, supply chain re-engineering projects including the redesign of existing policies and processes and heading an implementation programme, and has professional experience from working in Strategic Planning and Corporate Finance roles for organisations based in the UK.

- **Yashwin Bhoola.** Yashwin is an Associate Partner at Letsema. He has served clients in the tourism, transportation, defense, telecommunications, SED and financial sectors. He has worked on understanding key operational improvement levers and implementing strategic interventions to rapidly drive change in a South African national port, diagnosing key bottlenecks in the logistics process for a multinational mining company, led the implementation and embedding of several infrastructure improvement initiatives for Transnet and developed a Defence Industry Strategy for the South African government. He holds a B.Sc. (Mechanical Engineering) and M.Eng. (Industrial) from the University of the Witwatersrand.
- **Greg Poisson.** Greg is a Manager at Letsema and has an indepth knowledge of Transnet through the various amounts of projects he has undertaken. He has assisted Transnet with a R1.5bn capital procurement and the preparation of negotiating levers which resulted in over R500m in savings, assisted in the implementation of a in industrial offset programme which has resulted in over R500m localisation of capital purchases, assisted in the creation of a long term procurement strategy for mechanised maintenance services ensuring continuity of supply and potential saving of over R100m per year, assisted with the implementation and embedding of a Supplier Development Programme over a number of business units which created benefits to the South African economy of over R1.5bn, assisted with the development of a strategy to guide the acquisition of locomotives. He holds BJournalism from the Rhodes University and a MBA from The Gordon Institute of Business Science.
- **Kavir Bhoola.** Kavir is an Engagement Manager at Letsema Consulting. He has served clients in the transport, rail and energy sectors. His experience includes a procurement engagement to reduce expenditure at Transnet, cost reduction initiative for Eskom, including evaluation of cost structures and re-negotiation of contracts with suppliers, developing a view of short to medium term locomotive requirements for Transnet and strategies to optimise the fleet, designed and implemented solutions to improve efficiencies and performance for Transnet across the entire logistical chain. He holds a BSc (Physiotherapy) from the University of Witwatersrand, a PDM from Wits

Business School and is currently registered for an MBA at the Wits Business School (1st year).

- **Max Smeiman.** Max is a Supply Chain expert. His expertise lies in complex supply chain planning environments where the optimisation of manufacturing and distribution forms the core of business performance improvement. He has played a major role in transforming business planning processes at leading Consumer Packaged Goods companies. He has Extensive knowledge of the following industries; Transportation, Consumer Package Goods (including FMCG), Petrochemical, Aerospace, Metals, Paper and Pulp, Third Party and Fourth Party Logistics and has performed a strategic analysis on container logistics for Transnet in order to redefine their container distribution business model. He holds a B.Sc(Hons) degree in Industrial Engineering from the University of Pretoria, a MBL from the University of South Africa (UNISA) and is currently completing a PhD in Industrial Engineering.

Advanced Rail Technologies (ART)

- Founded in 2004 by 4 senior UK railways executives, ART is a UK-based that brings together a team with a high degree of proficiency in both business and functional railway skills. The company was formed to promote, develop and implement advanced technology, provide support services and consultancy to improve the economics of rail logistics worldwide.
- ART provides a wealth of expertise within a wide area in the freight industry and addresses the full spectrum of needs for unlocking Africa's transportation challenges.

Our team includes:

- **David Potter.** David is an experienced railway director and professional engineer with experience in developing and operating passenger and freight railways in more than 20 countries around the world, for a wide range of public and private sector clients, from project inception to operation. Since 2007, David has provided advice to the executive Boards of both Transnet Group and the rail operator (Transnet Freight Rail) on locomotive procurement, fleet management and strategy. He is currently technical advisor on procurement of a fleet of 100 new high performance locomotives. David holds a B.Sc. in Mechanical Engineering from the University of London and is a Chartered Engineer, a Fellow of the Institution of Mechanical Engineers and an Associate of the City and Guilds Institute in London.

- **Tom Greaves.** Tom is an expert in procurement, maintenance and operation of traction and rolling stock. Tom gained his key experience through railway service over 39 years with British Rail. He held managerial appointments in traction, motive power and operational functions at all levels of the industry ranging from depot to Railway Board Headquarters.
- **Bob Clarke.** Bob has had considerable success, leading the teams advising the UK and international governments on some of the largest railway engineering projects being carried out today. His work is privatization by the design and implementation of schemes which deliver high quality performance for minimum cost, earning Bob a reputation as one of the world's leading railwaymen. At British Rail in the 1980s and early 1990s, Bob was the principal architect of performance management and possession management techniques which remain at the heart of the UK rail system. In addition, he has played a prominent role in the introduction of new plant which has resulted in step changes to the quality and efficiency of maintenance and renewal work. His understanding of railway economics, operations as well as the engineering equips him to establish the most appropriate and cost effective specification and methodology for construction and maintenance.
- **Hugh Fenwick.** Hugh played a prominent role in designing and building much of the new UK railway infrastructure of the past half-century. His expertise covers all aspects of rail infrastructure engineering and strategic project management. Hugh has become one of the UK government's most trusted rail industry advisors. His work has had considerable influence on the design of infrastructure schemes funded by the UK Governement's Department for Transport and has also set out how future enhancements being considered by the DfT can be taken forward. Hugh's work has covered the complete spectrum of infrastructure engineering projects from building new pieces of railway, to advising on major track remodeling schemes and assessing the implications of building a high speed rail network in the UK. Like Bob, Hugh has a broad understanding of railway requirements that can lead to identifying cost efficient solutions.
- **David Wilkinson.** David is one of the industry's most experienced rivatiza and telecommunications engineers. His skill is in determining the most appropriate and cost effective train control solution for particular circumstances. For example, his challenge of the UK Network Rail's proposal for the West Coast Main Line Upgrade reduced costs while delivering increased capacity, providing increased line speed and reduced journey times.

ART is further reinforced by access to senior specialists having a wide expertise in rail, ports and global infrastructure financing and operations.

Edward Nathan Sonnenbergs (ENS)

- ENS is Africa's largest law firm, with over 450 professionals, and advises clients across all areas of business relating to law, tax, forensics and IP, including, privatization niche areas and throughout Africa. The firm benchmarks itself according to international standards whilst retaining a uniquely African focus, making it well-equipped to advise clients wherever they may choose to do business. ENS was established over 100 years ago, making it one of the oldest and most experienced full service law firms in Africa.
- ENS is one of the few firms of the continent with a dedicated Projects and Project Finance Department with extensive integrated rail and port expertise and as well as extensive experience in relation to large infrastructure projects, PPPs, road and rail concessions, track access structures, wagon ownership schemes and hybrids of the foregoing.
- ENS has extensive experience in many aspects of port, rail and other infrastructure projects, including, but not limited to:
  - South Africa's freight transport regulatory and policy environment
  - legal and regulatory feasibility assessments
  - port and intermodal transport systems
  - port development and reform
  - financing mechanisms
  - public private partnerships
  - rail and port services agreements
  - freight regulation, pricing, licensing and concessions
  - extensive due diligences
  - shipping , logistics and marine law
  - rolling stock leasing agreements, rolling stock, rail and equipment supply contracts
  - EPC and EPCM contracts
  - operating agreements

- management agreements
- ENS's project finance team offers legal and other services in the following areas:
  - advice on sophisticated funding arrangements (such as limited recourse project finance, capital markets funding, and ECA backed funding)
  - feasibility and due diligence investigations
  - corporate formation and structuring
  - transactional support in respect of PPPs, restructurings and privatizations
  - advice on all aspects of corporate structuring and taxation;
  - advice on land acquisition.

Our team includes:

- **John Ferraz** is a director at Edward Nathan Sonnenbergs Inc. based in Johannesburg, South Africa. He is admitted as an attorney of the High Court of South Africa and is a specialist in the fields of infrastructure project development, rail and road transportation, public sector procurement, energy (including electricity and renewable energy) and natural resources, and gas and petrochemical projects. John specialises principally in infrastructure project development, rail and road transportation including rail and port integration, public sector procurement and PPPs. He has experience in matters involving project development and rail and road transportation including freight rail transportation and related port handling operations relating to various products and commodities including automotive, coal, manganese, and iron ore, as well as rail commuter transportation, and related PPP and other private sector participation mechanisms and arrangements. John has a Bachelor of Arts and an LLB from the University of Witwatersrand. In addition he is a Candidate Higher Diploma in Company Law, University of the Witwatersrand.
- **Simon Osborne** is a director of Edward Nathan Sonnenbergs Inc. based in Cape Town, South Africa. He is an admitted as an attorney of the High Court of South Africa, and has significant experience in advising a range of banks and financial services providers on a wide spectrum of issues, including transaction structuring and documentation. In his capacity as a director of Edward Nathan Sonnenbergs, Simon has provided ongoing legal advice for the past 8 years to Transnet, including its divisions Transnet Freight Rail, Transnet Port Terminals and Transnet National Ports Authority, in relation to

a number of projects and transactions. He has advised Transnet, including Transnet Port Terminals and Transnet National Ports Authority, in relation to the integrated transportation, unloading, stockpiling, reclaiming and loading of vessels in relation to various commodities, including in particular iron ore at the Port of Sishen, which has led to significant knowledge of the functions of Transnet's divisions, as well as the regulatory environment within which they operate.

- **Pippa Reyburn** is a director at Edward Nathan Sonnenbergs Inc. based in Johannesburg, South Africa. She is an admitted attorney and conveyancer of the High Court of South Africa. Pippa specialises in public private partnerships, public sector procurement and financial management, infrastructure and other public sector transactions, structures of government, constitutional and administrative law and all aspects of regulatory law. Pippa has transactional experience in the public and private sector, including public private partnerships at national, provincial and local government levels, foreign investment in South Africa, concessions and privatisation. She has advised Transnet on a variety of issues including procurement and constitutional aspects of coal and manganese line allocation of capacity, the legal consequences of certain aspects of the new regulatory regime for ports in and its legal obligations as regards asset disposal and broad-based black economic empowerment. Pippa also assisted Eskom and Transnet with their submission on the draft Government Shareholder Management Bill.
- **Sasha Singh.** Sasha is a Director at Edward Nathan Sonnenbergs Inc. based in Johannesburg, South Africa. He is admitted as an attorney of the High Court of South Africa and is a specialist in the fields of infrastructure project development, rail and road transportation, public sector procurement, energy (including electricity and renewable energy) and natural resources, and gas and petrochemical projects. Sasha specialises in rail transportation agreements involving chemicals, iron ore, manganese and coal; energy related projects, with a specific focus on the commercial aspects and the regulatory environment (including electricity, petroleum and gas legislation); public private partnerships in matters involving hospitals, prisons and office accommodation; magistrate and High Court litigation; and advising local government on a wide variety of transactions, including the acquisition of commercial property and the restructuring of municipal services such as electricity reticulation (by providing advice to local government in relation to the proposed Regional Electricity Distributors), airports and waste.
- **Sibonile Moyo.** Sibonile is an Associate at Edward Nathan Sonnenbergs Inc. based in Johannesburg, South Africa. She is admitted as an attorney of the

High Court of South Africa has experience in banking and finance, project finance and has assisted in transactions where ENS acted for various local and international lenders including all the major South African banks, various international banks and development fund institutions. Sibonile's experience includes general bank finance, secured and unsecured lending, debt capital markets, property-related finance and commodity finance as well as general commercial law work. Sibonile has been involved in matters where ENS acted for various borrowers, as well as other local and foreign borrowers in a wide range of general and project finance related matters. In her career at ENS she has been involved in matters concerning rail transportation agreements, public private partnerships, public sector procurement and financial management, infrastructure, project finance and other public sector transactions, structures of government, company law issues including drafting and reviewing commercial agreements, and opinion work on various aspects of regulatory law.

Koikanyang

- Koikanyang has the track-record and expertise to deliver in respect of all the elements related to the required legal advisory services. We have experience in a number of complex projects which require commercial, technical and legal team members to work extremely closely, and to have a good understanding of each others' specialist areas.
- The firm's Commercial Practice is international and national in scope and involves representation of some of the largest corporations, state institutions and firms. The practice ranges from small, traditional transactions to large, highly complex transactions and provides a full range of corporate, finance, and transactional legal services to its clients. To best meet all the needs and objectives of its clients, the Commercial Practice offers the complete resources of the firm for problem solving and transaction implementation. Regardless of the transaction or the client, Koikanyang Incorporated brings to the table its reputation as an innovative, effective, and efficient law firm.

Our team includes:

- **Kuvashen Padayachee.** Kuvashen joined the firm in September 2009 as an associate. He completed his articles at Eversheds South Africa and worked in the commercial, telecommunications and competition regulatory departments. He is part of the firm's commercial department and advises regularly on matters related to *inter alia* competition law, labour law, transactional structuring, public sector, regulatory, media and telecommunications law. Kuvashen was appointed a director of the firm in March 2010.

- **Chopologe Olckers Koikanyang.** Chopologe joined Mallinicks in 1995 and remained there until January 2001. He was appointed a partner in the commercial and property departments from September 1998 until February 2002. He then co-founded Mchunu Koikanyang Attorneys in February 2002. He has acquired extensive experience in various areas of law, including corporate and commercial law, labour law, mining law, communication/media law, environmental law, mergers and acquisitions, privatisation and restructuring of state owned enterprises, Public Private Partnership, corporate governance, employee share ownership plans, conveyancing, commercial property and commercial litigation. He has advised and continues to successfully advise clients in the public and private sectors on all of the above-mentioned areas of law.
- **Odwa Bongile Kupiso.** Odwa joined the firm's commercial law department in May 2011. Before joining the firm, he articled with Mallinicks Inc in Cape Town and later practiced as an associate in the commercial litigation department at Eversheds South Africa. He later practiced for his own account under Kupiso Attorneys until he joined our firm at the beginning of May 2011. His areas of expertise include amongst others, general commercial litigation, banking law, international trade law, sectional title law, administrative and constitutional law and corporate law. Odwa has also served as a researcher for the Trade Law Centre for Southern Africa (TRALAC) in Stellenbosch and as an internal Legal Counsel for Absa Bank and First National Bank.

Nedbank Capital

- Nedbank is South Africa's fourth largest banking group measured by assets, with a strong deposit franchise and the second largest retail deposit base. The group provides a wide range of wholesale and retail banking services and a growing insurance, asset management and wealth management offering through five main business clusters, namely Nedbank Capital, Nedbank Corporate, Nedbank Business Banking, Nedbank Retail and Nedbank Wealth.
- Nedbank has been the leading South African Arranger of project finance transactions over the past 36 months, with projects exceeding R14bn brought to financial close over past 36 months. Nedbank is currently the mandated lead arranger on projects totaling ZAR 38 billion in Southern Africa. The bank is also the leading Southern African Lender to infrastructure project

finance transactions, currently hold approximately 22% of all SA infrastructure project finance debt. Nedbank has invested in a significant proportion of total South African infrastructure debt across all sectors, leading in road, rail and telecommunications sectors. It has the largest demonstrated underwriting capacity in the SA market for infrastructure deals over past three years and has underwritten deals exceeding R6 bn ranging from R750m to R2bn single ticket. Nedbank Capital has both the balance sheet and credit appetite to underwrite and/ or finance significant funding requirements, with a high appetite for PPP and Government Infrastructure projects, leveraging off previous successful financings.

Our team includes:

- **Mike Peo.** Mike is Head of Infrastructure, Energy and Telecommunications at Nedbank Capital. Mike spent six years, after completing his articles, with Arthur Andersen & Co. attaining the position of Senior Manager. Thereafter, Mike joined NIB with a brief to develop the function responsible for the management of Nedcor Bank Limited and NIB's structured and project finance book. Mike was part of the team negotiating the financial and intercreditor aspects of the recently completed N4 Platinum Toll Road Project (R3,5bn) and has participated in the following project finance transactions: New Limpopo Bridge Project (USD 6m), Beitbridge Bulawayo Railway (USD 65m), Maputo Corridor N4 Toll Road (R1,5bn), N3 Toll Road Project (R2,5bn), Global Resorts Casino (R250m), Bloemfontein Correctional Services (R450m), Eritcel Cellular License (USD 10m), Rhino Resorts Casino (R150m). Recent transactions led by Mike that have achieved financial close in 2009 include; New Dawn Satellite, the financing of an all African Satellite (USD 215m), refinancing of N1N4 Bakwena Platinum Toll road of R3.7bn and the long term Neotel financing facility of R4.40bn.
- **Brett Botha.** Brett is Lead Principal Infrastructure at Nedbank Capital. Brett articled at KPMG Inc and then spent 3 years as the financial manager at Degremont SA, an engineering company involved in the design, construction and rehabilitation of water treatment plants. Brett has 13 years of banking experience, 10 years of experience in infrastructure project finance and 3 years of experience in the financial management of structured tax and project finance transactions. Brett is responsible for leading the infrastructure team within the investment bank of Nedbank Capital in securing funding, advisory, underwriting or arranging mandates for transport and social infrastructure transactions (which comprises prisons, hospitals, schools, government accommodation buildings, water and sanitation projects, road, rail, ports and

airports) predominately in South Africa and Sub-Saharan African countries. Brett has been involved in numerous project finance transactions, including: the N1 N2 Toll Concession (R10bn), N1N4 Bakwena Platinum Toll road R (R3.7bn), Munitoria PPP Project (R1.4bn), and the Gautrain Rapid Rail link (R25bn) amongst others.

- **Philna Potgieter.** Philna is Head of Africa & Export Credit Finance at Nedbank Capital. Philna has thirteen years of finance experience including project finance, structured trade and commodity finance and export credit finance. Philna established export credit finance in 2008 as an independent business unit in Nedbank Capital dedicated to originating, arranging, structuring and implementing transactions in various sectors, countries and with various borrowers ranging from sovereign, corporate to limited recourse projects. Prior to 2008 Philna was a member of the Structured Trade and Commodity Finance team of Nedbank Capital where she was also tasked with arranging structured trade and export credit finance transactions as well as managing and restructuring of the historical Nedbank Africa book of Nedbank Corporate containing export credit finance and insurance backed transactions. Prior to joining Nedbank Philna spent 4 years in the International Finance team of the Industrial Development Corporation of South Africa Limited (IDC) where she was responsible for arranging Export Credit Agency backed finance, international structured finance and finance from development institutions both locally and internationally for large projects in South Africa as well as internationally. Previous work experience also includes extensive commercial legal experience in the Legal Department of the IDC as well as an admitted attorney.
- **Mandy Symons.** Mandy is Principal: Export Credit Finance at Nedbank Capital. Mandy has over 25 years experience in the banking industry with a focus on corporate and international business. Mandy spent 11 years as a specialist in Structured Trade & Commodity Finance, working for three different South African banking institutions. Mandy joined Nedbank Capital's Export Credit Finance team in 2008 and is responsible for the origination, structuring, negotiation and implementation of transactions supported by Export Credit Agencies (ECA's) and Multilateral Organisations, including facilities for large corporate clients, foreign governments and parastatal organisations, as well as Project Finance transactions. Mandy's recent successful transactions include the financing of Paladin Africa's Kayelekera uranium mine in Malawi, the financing of a nickel production plant for a mining and industrial conglomerate listed on the New York stock exchange and operating in Russia, a project financing in

Kenya and a large import finance facility supported by the Export Credit Agency of the USA.

Utho Capital

- Utho Capital is a corporate and project finance advisory and consulting firm, wholly owned and managed by a team of professionals with over 80 years combined hands on experience. Utho Capital is a specialist infrastructure advisory firm that has been in operation for over twelve years, providing creative financial solutions to both private and public sector clients in South Africa and across the African continent.
- Utho is a leading PPP specialist and advisory firm with in-depth experience from having developed PPP guidelines and frameworks in various countries in Africa to implementation of PPPs and capital raising for PPP Projects.

Our team includes:

- **Reginald Muzariri.** Reginald is a Chartered Accountant with over 15 years experience in finance, management consulting and corporate finance. He has extensive experience in structuring, advising and implementing transactions in all aspects of corporate finance including mergers and acquisitions, IPOs, due diligences and private equity.
- **Archie Barnwell.** Archie is a Chartered Accountant with over 20 years experience in finance, management consulting, corporate finance, enterprise development, retail banking and project finance. He has extensive experience in project finance, new venture and deal structuring.

Analytical approach and workplan

OVERALL APPROACH

Our holistic approach to the rolling stock procurement takes into account the full extent of the impact on Transnet and the local economy, and includes the consideration of the following factors which will play a critical role in the transaction:

- Capital costs
- Life-cycle costs
- Industrial aspirations
- Standardisation
- Global demand and export markets
- Opportunity costs and Financial constraints

Key decisions will be made based on trade-offs between commercial and development objectives to inform the value engineering focus, and ensure the optimum strategic decision for Transnet and South Africa.

It is important that the development of the business cases and overall tender process for the locomotives not be unduly delayed (given the importance of these locomotives to South Africa's overall economic growth). We have therefore designed a process which we believe will yield a solid result within a limited timeframe. We see five primary 'streams' which will run in parallel: 1) Transaction advisory and execution, 2) Supplier development, 3) Technical evaluation and optimisation, 4) Business case validation and 5) Programme Office and Stakeholder management. These are described below:

EXHIBIT 34: OVERALL APPROACH

Overall approach: work streams and key deliverables

	Description	Key deliverables	Primary lead
1 Transactional advisory and execution	• Develop procurement strategy • Develop and issue RFI and RFP • Conduct evaluations and coordinate approval process • Oversee contracting requirements	• Contracting strategy for programmatic approach • Designed tendering process in line with requirements applicable to State-owned-companies (SOCs) • Supplier evaluation criteria • Request for Information / Quotation documentation • Recommended deal structuring, financing and funding options • Short listed selection of bidders based on criteria • Template contract for awarding of the tender	• Letsema • ENS/Kolkanyang • Nedbank Capital/ Litho Capital
2 Supplier Development	• Develop supplier development strategy (Localisation, Skills transfer etc) • Strategy sign off • Incorporation of supplier development criteria into rest of the tender process	• Incorporation of supplier development elements into procurement process	• Letsema
3 Technical evaluation and optimisation	• Work with shortlisted suppliers to define technical value levers • Clarify localisation and value dependencies • Optimise localisation vs value	• Technical evaluation levers and estimated value • Optimisation approach for joint value optimisation between Transnet and the selected suppliers • Improved outcome through value engineering with shortlisted suppliers – optimising for main objectives of procurement strategy (e.g., highest local content at best value for money)	• McKinsey • ART • Letsema
4 Business case validation	• Unpack, refine and review key assumptions and calculations in overall business case • Standardise assumptions across commodities • Scrub to optimise requirements for individual commodity growth plans	• Updated and improved business case and relevant documentation for submission to the Transnet Board of Directors and DPE – including end-to-end requirements of the overall General Freight programme	• McKinsey • Letsema
5 PMO and stakeholder management	• Monitor and track milestones • Schedule and plan of critical events • Stakeholder management • Facilitate interactions with industry through market engagements • Create visibility of programme progress and key issues	• Overall coordination of programme • Integration of all stakeholder inputs	• Mckinsey • Letsema

Stream 1: Transaction advisory and execution

The objectives of this stream are to engage the locomotive supplier market to develop a set of suitable suppliers, run the procurement RFIs and RFQ processes, negotiations and award contract.

- ***Step 1: High level procurement strategy:*** In parallel we will develop a high level procurement strategy including a high level localisation strategy
- ***Step 2: Procurement strategy development*:** In parallel with steps 3-5 below we will develop a more detailed procurement strategy
- ***Step 3: Development of an 'RFI+'*:** We will engage the locomotive supplier market for an assessment of a) what the expected price range for these locomotives will be; b) what their social development plan is (we would also request an assessment of how much local content they could secure depending on volume of locomotives procured); c) other general information related to the purchase; this will require the drafting of contracts, tender documents, etc., which will be developed by our cross-functional team (e.g., legal advisory)
- ***Step 4*: *Assess the total value of the deal and develop options:*** The objective of this workstream will be to ensure that the optimal deal structure is

developed for Transnet and that all the financing risks have been considered and appropriately mitigated. Based on the work conducted in stream 4 and initial market intelligence, a number of options for how the deal can be structured will be developed and evaluated (capital markets, project financing etc.). Pros, cons, risks of each of the options will be articulated. Engagement with Transnet and other stakeholders will be undertaken to arrive at a 'preferred' approach

- ***Step 5: Shortlist the suppliers:*** We will jointly develop a set of shortlisting criteria by which the suppliers will be screened. Returns from the RFI process will then be used to develop a shortlist of potential suppliers to work with to conduct the more detailed value engineering
- ***Step 6: Obtain approval***: As part of the overall engagement process, obtain approval for the deal structure and proposed supplier award from the necessary authorising bodies (BADC, Board, DPE). Depending on specific deal structure chosen, the appropriate parties will be approached to secure funding, guarantees, etc., documentation drawn up.
- ***Step 7: Finalise tender and award tender***: Update the tender requirements based on the work completed jointly between Transnet and the shortlisted suppliers. Award the tender to the most favourable supplier based on the criteria agreed such as life cycle cost, local content & industry development etc.
- ***Step 8: Issue payment (before end of February)***

Stream 2: Supplier development

This stream aims to develop a detailed supplier development strategy that takes localisation, industrialisation, skill transfer etc. to inform business case validation and feed into the RFI/RFQ process.

- ***Step 1: Analyse the historic and future requirements within Transnet.*** This is to define the areas or principles around which supplier development should/can be applied.
- ***Step 2: Analyse supplier markets and commodity.*** Understand what the supplier market offers and what components are best suitable for localisation.
- ***Step 3: Define top down targets.*** This step defines targets for both Transnet and industry, which will form a basis for supplier evaluation and inform actions required achieve targets.

- ***Step 4: Develop the supplier development plan to achieve targets.*** This step focuses on creating pragmatic action plans that can be implemented within the scope of this acquisition.
- ***Step 5: Sign-off plan with BADC, DPE etc.***
- ***Step 6: Incorporate supplier development elements into the tender process.*** This would include incorporating the defined strategy and plan into the RFP, establishing clear evaluation criteria and supporting the evaluation process to ensure compliance against signed-off strategy.

Stream 3: Technical evaluation and optimisation

The objectives of this stream is to ensure that the locomotive has the appropriate specifications and that the local supplier development approach is sufficiently robust to ensure the indirect job creation that MDS promises to deliver.

- ***Step 1: Identify list of technical levers and quantify top down impact.*** We would leverage our previous experience, joint problem solve with Transnet engineers, and benefit from our global network of relationships with other rail operators to generate ideas. The prioritised list coming out of this step will frontload the in-depth supplier engagement during the evaluation/negotiation phase.
- ***Step 2: Conduct value engineering and assess localisation:*** Working with the shortlisted suppliers we will help them to reduce the cost and increase the local content (appropriately balanced to create value for Transnet and South Africa) of the locomotive design. This will also provide a thorough understanding of the technical characteristics of the locomotive and its suitability to meet the needs of MDS, as well as the supplier's ability to deliver on local content in practice.

Stream 4: Business case validation

The objectives of this stream are to validate the business case that has already been developed for the 1064 locomotives and ensure that these are robustly linked to business outcomes on a commodity by commodity basis. Key steps include:

- ***Step 1: Assess the business case:*** In this step we will conduct a quick, high level assessment of the overall business case for the 1064 locomotives and understand the minimum specification required to achieve the MDS volumes (i.e. what are the characteristics of the locomotives required to deliver the MDS volumes). From this we will have two end products: a) a range of quantity of locomotives that will be purchased and b) a rough specification for the locomotives.

- *Step 2*: ***Disaggregate the business case into commodities:*** In order to evaluate the robustness of the business case it will be necessary to link the locomotives required to concrete business outcomes such as increased volume, or maintained volume (replacing retired locos). We will conduct a quick assessment to understand which commodities benefit from the locomotives and create the required links.
- ***Step 3: Assess each of the commodity business cases:*** Each of the commodity-linked business cases will be evaluated at high level to affirm the number of locomotives required to deliver the business outcome. Given the tight timelines, effort will be focused on locomotives and the business case will not be evaluated for robustness of the wagon or infrastructure requirements.
- ***Step 4: Confirm the locomotive requirements:*** Based on the commodity business cases we will confirm the overall type, quantity and timing of the locomotive requirements and ensure that the supplier plans can deliver these (via the supplier engagement stream above).
- ***Step 5: Obtain approval:*** Each of the business-outcome linked business cases (commodity cases) will be written up in summary form for approval. These will be submitted to the necessary authorities (BADC, Board, DPE) for approval.
- ***Step 6: Finalise***: From the approved business cases, the overall integrated procurement requirement for the locomotives can be generated and documented. The procurement team (see steps 3a & 3b in stream 1) will ensure that the appropriate strategies have been developed in parallel to avoid any delay.

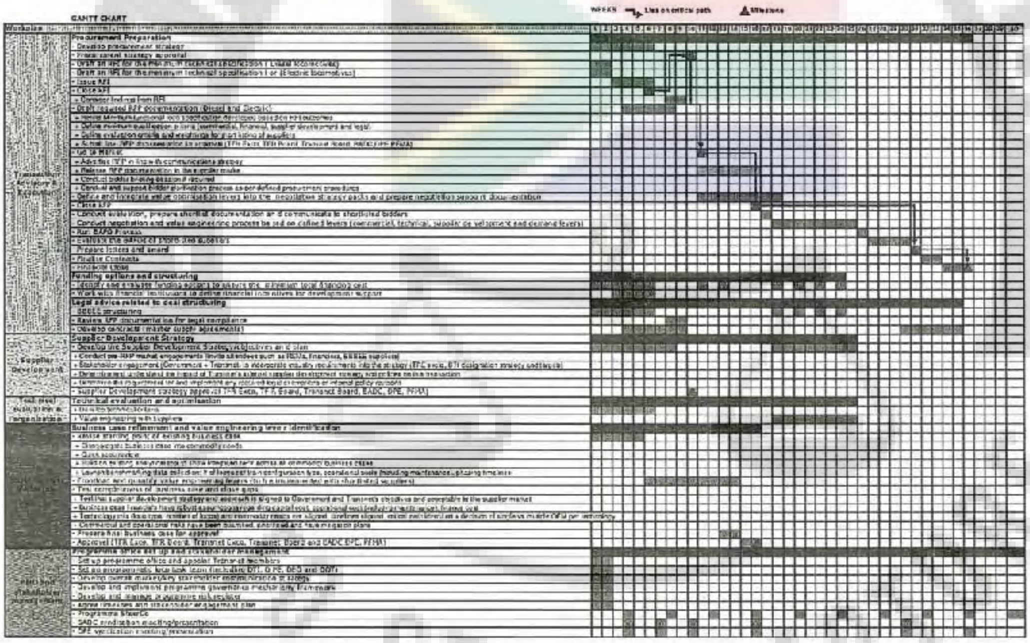
Stream 5: Programme Office and Stakeholder management

The objective of this stream is to ensure that all the different work packages are integrated and that the overall programme stays on track. The steps outlined below are not necessarily sequential as ongoing activities will happen in parallel:

- ***Step 1: Establish the programme office:*** Set up and refine the overall workplan (building on the initial plan provided below), and ensure that all parties are clear on deliverables and timelines. Set up a regular monitoring process to ensure that all the work packages remain in sequence.

- ***Step 2: Setup stakeholder engagement process:*** Identify all stakeholders and approval committees that need to be engaged. Ensure that the overall set of work packages are integrated into the approvals timelines.
- ***Step 3: Obtain approval for overall approach:*** The overall approach outlined above will require further refinement and approval from BADC or other committees before proceeding.
- ***Step 4: Keep BADC and DPE up to date:*** In order to avoid approval delays at BADC and DPE we propose that as the process unfolds and we build a clearer sense of the outcome, that the relevant approval committees be kept up to date with progress, key issues and improvements.
- ***Step 5: Ongoing engagement and monitoring:*** The office will continue to monitor and report on overall progress, and support Transnet's project manager (e.g., set up and organise project team weekly updates, track milestones, highlight risks and coordinate for Project SteerCos and Project ExCos).

WORKPLAN AND RACI MATRIX



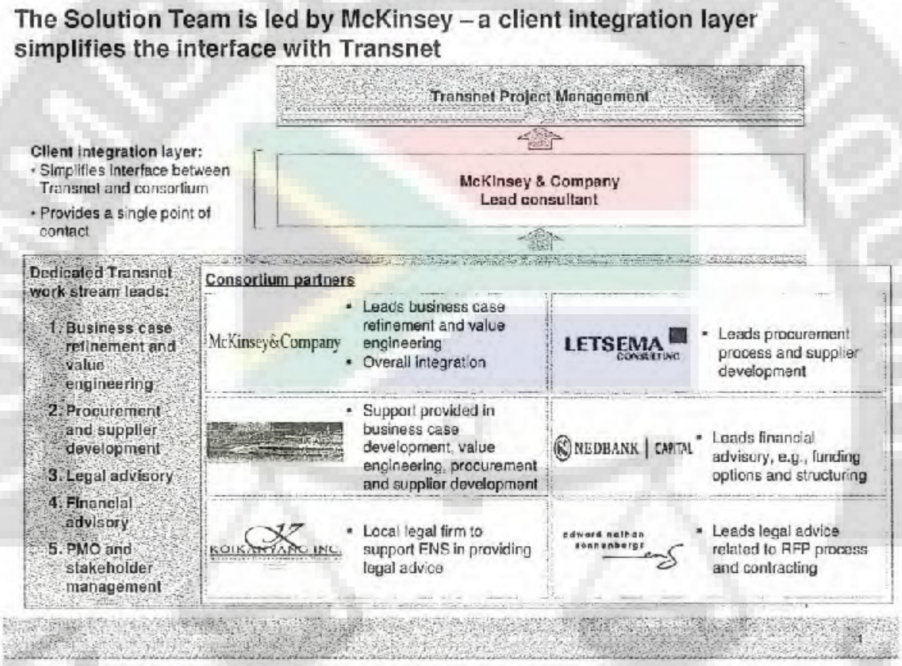
RACI Allocation

Key activities	McK	Letsema	ART	ENS	Koikanyang	Financial
Procurement Preparation						
- Develop procurement strategy	C	R/A	C	C	C	C
- Draft an RFI for the minimum technical specification (Diesel locomotives)	I	I	R/A	I	I	I
- Draft an RFI for the minimum technical specification for (Electric locomotives)	I	I	R/A	I	I	I
- Issue RFI	C	R/A	C	I	I	I
- Close RFI	C	R/A	C	I	I	I
+ Consider findings from RFI	I	I	R/A	I	I	I
- Draft required RFP documentation (Diesel and Electric)	C	R/A	C	C	C	C
+ Refine Minimum functional loco specification developed based on RFI outcomes	I	I	R/A	I	I	I
+ Define minimum qualification criteria (commercial, financial, supplier development and legal)	C	R/A	C	C	C	C
+ Define evaluation criteria and weightings for short listing of suppliers	C	R/A	C	C	C	C
+ Submit final RFP documentation for approval (TFR Exco, TFR Board, Transnet Board, BADC,DPE,PFMA)	C	R/A	C	C	C	C
- Go to Market	C	R/A	I	I	I	I
+ Advertise RFP in line with communications strategy	C	R/A	I	I	I	I
+ Release RFP documentation to the supplier market	C	R/A	I	I	I	I
+ Conduct bidder briefing session if required	C	R/A	I	I	I	I
+ Conduct and support bidder clarification process as per defined procurement procedures	C	R/A	C	C	C	C
- Define and integrate value optimisation levers into the negotiation strategy packs and prepare negotiation su	R/A	C	C	C	C	C
- Close RFP	I	R/A	I	R/A	I	I
- Conduct evaluation, prepare shortlist documentation and communicate to shortlisted bidders	R/A	C	C	C	C	C
- Conduct negotiation and value engineering process based on defined levers (commercial, technical, supplier	R/A	C	C	C	C	C
- Run BAFO Process	R/A	C	C	C	C	C
- Evaluate the BAFOs of shortlisted suppliers	R/A	C	C	C	C	C
- Prepare letters and award	I	I	I	R/A	I	I
- Finalise Contracts	I	I	I	R/A	I	I
- Financial Close	I	I	I	R/A	I	I
Funding options and structuring						
- Identify and evaluate funding options to ensure the minimum total financing cost	I	I	I	I	I	R/A
- Work with financial institutions to define financial incentives for development support	I	I	I	I	I	R/A
Legal advice related to deal structuring						
- BBBEE structuring	I	I	I	R/A	C	I
- Review RFP documentation for legal compliance	I	I	I	R/A	I	I
- Develop contracts (master supply agreements)	C	C	C	R/A	C	C
Supplier Development Strategy						
- Develop the Supplier Development Strategy/objectives and plan	C	R/A	C	C	C	C
+ Conduct pre-RFP market engagements (invite attendees such as RSMs, financiers, BBBEE suppliers)	C	R/A	I	C	I	I
+ Stakeholder engagement (Government + Transnet) to incorporate industry requirements into the strategy (T	I	R/A	I	C	I	I
+ Determine and understand the impact of Transnet's internal supplier development strategy and policies on t	I	R/A	I	C	I	I
+ Determine the requirement for and implement any required legal exemptions or internal policy revisions	I	R/A	I	C	I	I
- Supplier Development strategy approval TFR Exco, TFR Board, Transnet Board, BADC, DPE, PFMA)	I	R/A	I	I	I	I
Technical evaluation and optimisation						
+ Develop technical criteria	I	I	R/A	I	I	I
+ Value engineering with suppliers	I	I	R/A	I	I	I
Business case refinement and value engineering lever identification						
- Revise starting point of existing business case	R/A	C	C	C	C	C
+ Disaggregate business case into commodity needs	R/A	C	C	C	C	C
+ Quick spec review	R/A	I	C	I	I	I
+ Build on existing analytical tool to show integrated NPV across all commodity business cases	R/A	C	C	C	C	C
+ Launch benchmarking data collection; # of locos per train configuration type, operational costs (including m	R/A	C	C	I	I	I
- Frontload and quantify value engineering levers (to be implemented with shortlisted suppliers)	R/A	C	C	C	C	C
- Test completeness of business case and close gaps	R/A	C	C	C	C	C
+ Test that supplier development strategy and approach is aligned to Government and Transnet's objectives a	C	R/A	I	I	I	I
+ Business case financials have robust assumptions regarding capital cost, operational cost (including mainte	C	I	I	I	I	R/A
+ Technology mix (loco type, number of locos) and commodity needs are aligned, timelines aligned, critical pa	C	C	R/A	I	I	I
+ Commercial and operational risks have been quantified, prioritised and have mitigation plans	R/A	I	I	C	C	C
- Prepare final business case for approval	R/A	C	C	C	C	C
- Approval (TFR Exco, TFR Board, Transnet Exco, Transnet Board and BADC,DPE, PFMA)	R/A	I	I	I	I	I
Programme office set up and stakeholder management						
- Set up programme office and appoint Transnet members	R/A	I	I	I	I	I
- Set up programmatic loco task team (including DTI, DPE, DED and DOT)	R/A	C	I	I	I	I
- Develop overall market/key stakeholder communication strategy	R/A	C	C	C	C	C
- Develop and implement programme governance mechanism/framework	R/A	I	I	I	I	I
- Develop and manage programme risk register	R/A	C	C	C	C	C
- Agree timelines and stakeholder engagement plan	R/A	C	C	C	C	C
- Programme SteerCo	R/A	I	I	I	I	I
- BADC syndication meeting/presentation	R/A	I	I	C	I	I
- DPE syndication meeting/presentation	R/A	C	I	I	I	I

HOW WE WOULD WORK TOGETHER WITH TRANSNET

While our Solution Team would act and work as one integrated team together with Transnet, we have chosen to simplify the interface between the broader Solution Team leadership and the Transnet project team leadership.

EXHIBIT 35: SOLUTION TEAM STRUCTURE



Our experience shows that working collaboratively as peers with our clients on a daily basis produces the greatest, most sustainable impact. It also increases the likelihood of constructive relationship and sustainability, and is the most effective way to transfer knowledge, skills and project management disciplines to the client team. We therefore propose joint ownership of work streams and the work packages, with a dedicated Transnet team assigned to drive, lend support and provide guidance.

EXHIBIT 36: PROJECT GOVERNANCE STRUCTURE

Governance will operate through formal project forums that synthesize and cascade reporting to the Steering Committee to ensure transparency

Guiding principles

- Senior leaders from McKinsey will act as the liaison between Transnet and the Solution Team
- McKinsey is the primary point of contact (as lead consultant)
- We will be co-located with Transnet's project team
- We will establish a "war room" for weekly project updates
- Each work stream will have a Transnet co-lead to ensure skills transfer
- The Solution Team will act as one team, together with Transnet

Meetings/Forums		Frequency	Who
Steering Committee (3 hours)	▪ Has overall accountability for the project ▪ Constituted by Transnet with McKinsey as a member	▪ Monthly ▪ End of each Phase	▪ Project Sponsor ▪ Project Owner/ Manager ▪ Business Owners ▪ Project Managers ▪ Consortium leaders
Project ExCo (2 hours)	▪ Directs overall project, is the conduit to the Steer Co ▪ Constituted by Transnet with leads from Solution Team as standing members	▪ Fortnightly	▪ Project Manager (chair) ▪ Project Managers ▪ Work stream leads ▪ Core team (by invite)
Project updates (1 hour)	▪ Manages daily operation of the project i.e. content, schedule, risks, issues ▪ Constituted by Solution Team in consultation with Transnet	▪ Weekly	▪ Project Managers ▪ Work Stream Leads ▪ Core team (by invite)
Check in (20 mins)	▪ Work Stream leads agree on priorities and deliverables ▪ Escalates key risks or issues to the Project Manager	▪ Daily	▪ Project Managers (when necessary) ▪ Work Stream Leads ▪ Core team

This collaborative working relationship is enabled by four pillars that inform our proposed governance model:

- **Focus on creating impact as a measurement of success.** We aim to create real change on the ground – not just "a report".
- **Clear executive management mandate, commitment and leadership.** We propose the establishment of a project governance that ensures sufficient leadership attention:
  - Project ExCo chaired by the Transnet Project Manager and include senior representation from the Solution Team leadership, Transnet Group Finance, TRE, TFR and participation from project work stream leads. The Project ExCo ideally meets every two weeks.
  - Steering Committee for the duration of the project that gives the Project ExCo a mandate to execute against. The Steering Committee ideally meets every month.
- **Open dialogue, regular guidance and rapid decision-making.** The Project ExCo and Steering Committee are governance bodies to make directional decisions, share ideas in a constructive manner, and push for insights within

the broader team. In addition, the dedicated working teams will problem solve open questions in weekly update meetings, and each workstream will drive daily activities via daily check-in meetings.

- **Dedicated client leader and team members in the project working team.** Typically, our clients assign a full-time team to work with us. In some cases, however, it may be more practical to involve people on a part-time or informal basis. We will work with your Project Manager to determine the most appropriate resource model.

Team setup and fee structure

To complete the acquisition within the timeframe and create substantial value to Transnet we propose the following Solution Team composition and fees:

Our professional fees (excl. VAT and expenses) to deliver on the 9 month end-to-end acquisition of locomotives is ZAR 71,300,000.00.

Our professional fees including expenses (excl. VAT) are ZAR 80,100,000.00.

EXHIBIT 37: WORK STREAMS AND DELIVERABLES

Overall approach: work streams and key deliverables

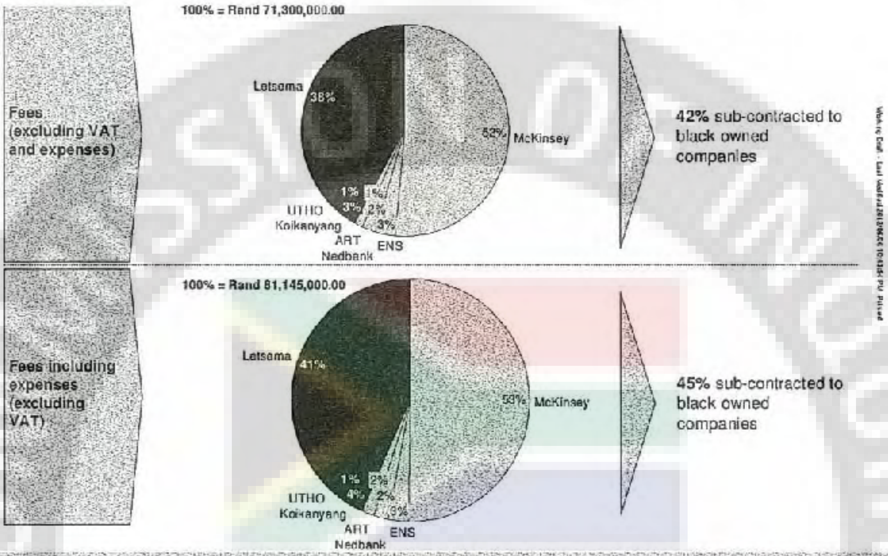
Work stream	Key deliverables	Primary lead	Team	Duration	Fees	Fees inclusive[3]
1 Transactional advisory and execution	• Contracting strategy for programmatic approach • Designed tendering process in line with requirements applicable to State-owned-companies (SOCs) • Supplier evaluation criteria • Request for Information / Quotation documentation • Short listed selection of bidders based on criteri	Letsema	EM + 3	30 Weeks	R 9.7m	R 10.7m
	• Recommended deal structuring, financing and funding options	Nedbank/Utho Capital	4 + 2	4 Weeks	R 2.0m	R 2.1m
	• Template contract for awarding of the tender and overall SOC procurement requirements	ENS/Koikanyang	3 + 3	10 Weeks	R 4.5m	R 4.7m
2 Supplier Development	• Incorporation of supplier development elements into procurement process	• Letsema	EM + 3	30 Weeks	R 8.5m	R 9.4m
3 Technical evaluation and optimisation	• Technical evaluation levers and estimated value • Optimisation approach for joint value optimisation between Transnet and the selected suppliers • Improved outcome through value engineering with shortlisted suppliers – optimising for main objectives of procurement strategy (e.g., highest local content at best value for money)	• McKinsey	EM + 4[1]	8 Weeks	R 12.8m	R 14.7m
		• ART	1-2	10 Weeks	R 1.0m[2]	R 1.3m
		• Letsema	EM + 1	10 Weeks	R 3.1m	R 3.4m
4 Business case validation	• Updated and improved business case and relevant documentation for submission to the Transnet Board of Directors and DPE – including end-to-end requirements of the overall General Freight programme	• McKinsey	EM + 4[1]	16 Weeks	R 24.0m	R 27.6m
		• Letsema	EM + 2	16 Weeks	R 3.3m	R 3.6m
5 PMO and stakeholder management	• Overall coordination of programme • Integration of all stakeholder inputs	• McKinsey	Leadership coverage	30 Weeks	R 0m	R 0m
		• Letsema	EM	30 Weeks	R 2.4m	R 2.6m
					∑ R 71.3m	∑ R 80.1m

1 Includes leadership commitment of 30 weeks to ensure end to end delivery and integration
2 FX rate of ZAR/GBP 13.14
3 Including expenses at 15% for McKinsey, 10% for Letsema, 5% for ENS/Koikanyang/Nedbank/Utho, 30% for ART. Excluding VAT

The total sub-contracted amount to B-BBEEE is 42%. If expenses are included (excluding VAT) the total subcontracted amount to B-BBEEE is 45%.

EXHIBIT 38: SUB-CONTRACTING TO BLACK-OWNED COMPANIES

42% of the value is sub-contracted to black owned companies (>51% ownership)



SOURCE: Source

Average blended hourly rates are presented below.

EXHIBIT 39: BLENDED HOURLY RATES

Blended hourly rates for Solution Team

	Description	Number of individuals	Blended rate per hour
McKinsey	• Engagement Director and Principals • Associate Principals • Engagement Managers • Associates (4 business case, 4 value engineering) • Research analysts[1] • Specialists and experts[1] • Production specialists[1]	• 4 • 1 • 2 • 8 • 2 • 1 • 2	R 2,350/hr
Letsema	• Engagement Director • Associate Partner • Engagement Managers • Senior Consultants • Consultants	• 1 • 1 • 5 • 8 • 7	R1,273/hr
ART	• Managing director • Senior expert	• 1 • 1	R 2,463/hr (GBP 1,500/hr at 13.14 ZAR/GBP)
ENS	• Partners • Directors	• 1 • 2	R 1,700/hr
Koikanyang	• Partners • Directors	• 1 • 2	R 1,700/hr
Nedbank Capital	• Partner • Financial analysts / market analysis	• 1 • 3	R 1,420/hr
Utho Capital	• Financial analysts	• 2	R 1,500/hr

1 Not client facing

Working Draft - Last Modified [illegible] Printed

3

McKinsey&Company LETSEMA CONSULTING edward nathan sonnenbergs NEDBANK | CAPITAL KOIKANYANG INC

Returnable documents

MCKINSEY & COMPANY

LETSEMA

DF22

McKinsey Incorporated
88 Stella Street
Sandown Mews East
Sandton
2196

30 November 2012
Reference: LOI/GSM/12/05/0447

Dear Mr Michael Kloss

RE: LETTER OF INTENT for the provision of Advisory Services Related to the Acquisition of the 1064 Locomotives Tender over a period of 9 months. LOI/Proposal Reference No: GSM/12/05/0447 ("the Mandate")

Pursuant to our Request for Proposal (RFP Number 12/05/0447), we wish to inform you that your offer has been accepted and that your consortium has been awarded the contract for the provision **of Advisory Services related to the Acquisition of the 1064 Locomotives Tender** (the **Services**) to Transnet, subject to the conditions precedent set out in section 1 below.

The Parties to this agreement are:

(1) **Transnet SOC Ltd** (**Transnet**), a State Owned Company and the procurer of the services, (Registration Number 1990/000900/30); together with

(2) **McKinsey Incorporated** (**the Supplier**), (Registration Number 1995/002398/10) and the other members of the consortium, namely, **Regiments Capital (refer to 1.5)**, **Advanced Rail Technologies**, **Nedbank Capital** and **Utho Capital**.

Transnet wishes to contract with the Supplier for the provision of **the Services** as outlined in clause 3.3 below, which, if mutually agreed by the Parties, will be documented and effected in accordance with a **9** (**nine**) month Agreement between the Parties. It is agreed that the Supplier will play the lead role and take overall responsibility for the entire Mandate. This condition also applies to services specified in 1.5 and 1.6 herein.

The Parties are desirous of successfully concluding negotiations and thereafter executing a contract (**the Agreement**) to enable the Supplier to provide the Services detailed in section 3.3 below in a timely manner.

The Parties have identified the Services which Transnet would wish the Supplier to provide in the interim while execution of an Agreement between the Parties is being finalised. Conditions of this requirement are specified in sections 2 and 3 below.

The purpose of this Letter of Intent (**LOI**) is to document the intention of the Parties in respect of the required Services for **the provision of Advisory Services related to the Acquisition of the 1064**

Locomotives Tender and it will remain in effect until the Agreement is signed by both Parties, or until 90 (ninety) days have elapsed from date of issue of this LOI, whichever event should occur first.

NOW THEREFORE IT IS AGREED

1. Conditions Precedent

With reference to the Supplier's offer (07 June 2012), Transnet wishes to finalise pricing, the details of the Service to be provided and other matters in order to conclude the Agreement with the Supplier. In the interim, the under-mentioned conditions precedent will apply:

1.1 The Parties agree to work towards concluding the Agreement for the **provision of Advisory Services related to the Acquisition of the 1064 Locomotives Tender,** over a period of 9 (nine) months, commencing **15 January 2013** and expiring **15 October 2013** (or sooner if completed). Please note that contract timeline may be for a longer period, at no extra cost to Transnet if the deliverables are not executed for whatever reason as this engagement is output based, as opposed to time based.

1.2 The Parties agree to use this document as a proxy for the binding legal Agreement and under its authority Transnet intends to request that the Supplier commences the provision of such Services as required, during which period the detailed Agreement will be negotiated and finalised between the Parties.

1.3 During this interim period Transnet wishes to gain an enhanced degree of comfort in terms of provision of the Services and would wish to reflect such in the Agreement in the form of a Service Level Agreement agreed by the Parties.

1.4 Transnet will discuss with the Supplier and agree the terms and conditions of the Agreement.

1.5 The Supplier agrees to partner with Regiments Capital, for the procurement and supplier development elements of this project.

1.6 The Supplier agrees to relinquish all legal services to Webber Wentzel (WW), a firm that was not part of the original consortium but appointed by Transnet for the delivery of legal services. Notwithstanding the appointment of WW by Transnet, the Supplier will oversee all work and deliverables supplied by WW and manage the deliverables of the entire Transaction Advisory services in an integrated manner.

2. Interim Service Requirement

2.1. The Supplier agrees to promptly commence with the provision of the Services as detailed in section 3.3 below, after this LOI's confirmation date, and in compliance with Transnet's interim purchase order.

2.2. Should negotiations between the Parties break down for any reason, the Supplier may immediately invoice **Transnet Group Finance** for all reasonable, actual costs incurred up until that date and such amount shall become due and payable by Transnet against presentation to Transnet of an undisputed Tax Invoice.

3. Contract Fees and Deliverables (inclusive of 2.1 above)

The proposed fees for the Services to be rendered, which the Parties in the interim accept, are understood by both Parties (subject to signing of the Agreement) and are as tabled in Annexure A hereto.

3.1. **Fees** and related costs are quoted in South African currency and are exclusive of Value-Added Tax (**VAT**). Expenses will be capped at 10% of the value of the engagement for the Supplier and its sub-contractors and billed on an actual basis capped at R35,2 million excluding disbursements.

3.2. **Payment** will be effected by Transnet, against presentation by the Supplier of undisputed Tax Invoices, within 30 (thirty) days from date of month-end statement for deliverables effected during that month.

3.3. **Key deliverables and project timescales.**

The key project deliverables for a period of 9 (nine) months are for the provision of **Advisory Services related to the Acquisition of the 1064 Locomotives Tender.** Please note that contract timeline maybe for a longer period, at no extra cost to Transnet if the deliverables are not executed for whatever reason as this engagement is output based, as opposed to time based.

The objective is to award the loco tender by the end of the third quarter of the calendar year 2013 on the back of

- a robust and de-risked business case that is fully supported and approved by the Board and the Shareholder
- a fully capacitated and flawless transaction process
- a commercial negotiation that maximises the value delivered to Transnet and South Africa.

The deliverables are covered in detail in annexure B, and include:

- **Developing and augmenting the business case for the approval of the locomotives by the Transnet Board of Directors and Department of Public Enterprises;**

- **TFR GFB 7 year end to end business case understanding impact of the following based on validated volume expectations:**
  - Wagons
  - Locomotives
  - Infrastructure
  - Optimisation
  - Profitability of each sector- link into efficiencies and capacity
  - Clear capital volume link;

    Any work done in relation to the above is to be carried forward and used as part of the SWAT team's project.
- **Procurement and Legal – Supplier Development and Localisation strategy:**
  - Design and Setting up tendering process in line with requirements applicable to State-owned-companies (SOCs)
  - Request for proposal documentation;
  - Supplier evaluation criteria
  - Request for Information / Quotation documentation
  - Short listed selection of bidders based on criteria
  - Template contract for awarding of the tender
  - Negotiation fact packs and capability building
  - Claims procedure and OEM management approach post award
  - creation of a loco industry in South Africa
  - Integrate this into the transaction and commercial process
  - Execution of transaction process (RFP, process orchestration, adjudication capacity)
  - Develop contracting strategy for programmatic approach;
- **Technical/Operations:**
  - Reduce loco lifecycle costs through technical (specifications) and commercial lever optimisation with short-listed suppliers
  - Technical evaluation levers and estimated value
  - Optimisation approach for joint value optimisation between Transnet and the selected suppliers
  - Improved outcome through value engineering with shortlisted suppliers – optimising for main objectives of procurement strategy (e.g., highest local content at best value for money);

- **Financial:**
  - Developing finance and funding options
  - Develop deal structure (financing, hedging and de-risking options);
- **Project Management Office:**
  - Proactive stakeholder engagement throughout process to ensure all are granted on time (e.g. PFMA)
  - Manage overall process to ensure all parts come together
  - Provide oversight of legal aspects from a project management perspective.

4. Miscellaneous

4.1. Neither Party shall reveal the content of this LOI or anything disclosed to the other Party in pursuance hereof to any third party, except with the prior express written consent of the other Party, and then only to the extent required to facilitate progression of the startup procedures.

4.2. This LOI may only be amended or modified in writing by the authorised signatories of the LOI.

Thus duly signed at ......JHB......, South Africa on this ......04...... day of ......December...... 20.12.. on behalf of:

Transnet SOC Ltd

WITNESSES

1 ....

2 ....

NAME: Anoj Singh

Designation: Group Chief Financial Officer

Thus duly signed at ......Johannesburg......, South Africa on this ......06...... day of ......December...... 20.12. on behalf of:

McKinsey Incorporated

NAME: Michael Kloss

Designation: Director

WITNESSES

1 ....

2 ....

ANNEXURE A –FEES/COSTS

Deliverables must be executed for a fee of R35.2m as per the fee note below. Any overrun in terms of time will not be for the account of Transnet as the engagement is output based and not time based. Mckinsey will take overall responsibility for the deliverables and quality of the end products. Expenses will be capped at 10% of the value of the engagement for the Supplier and its sub-contractors and billed on an actual basis:

1064 Loco TA			
	Contracting strategy	NB/Utho Regiments/Burlington	R1.4m R6.1m
	Business case validation	McK	R6.6m
	Technical evaluation and execution	McK + ART	R13.5m
	PMO, integration and stakeholder management	Regiments/Burlington + McK	R7.6m
	Total Loco		**R35.2m**

ANNEXURE B: KEY DELIVERABLES

	Key deliverables	Measure of success
Transactional advisory and procurement execution	**Led by Mck with deal structuring recommendations from Utho/Nedbank, contracting strategy input recommendations from WW, Regiments/Burlington. McK responsible.** **Leading a fair and precise process to maximise socio-economic impact for South Africa and Transnet** • Designed tendering process in line with requirements applicable to State-owned-companies (SOCs) to ensure award on time • Contracting strategy for programmatic approach and maximised localisation; Contracts that maximise Transnet's flexibility if volume predictions are not met • Supplier evaluation criteria and adjudication process • Recommended deal structuring, financing and funding options to minimise risk for Transnet to be delivered by Nedbank Capital/Utho with McK guidance and Mck integration • Overall integration of all stakeholder inputs and communication on process progress	Fair process, professional and transparent to key stakeholders - and in line with requirements applicable to SOCs Deal structure which minimises the financial risk for Transnet Contracting strategy implemented that optimally balances loco demand and supplier development objectives Tender award completed in line with timelines submitted with RFP response)
Technical evaluation and optimisation	**Led by McK and ART** **Lifecycle cost savings from technical improvement levers, and price reduction of locomotives** • Technical evaluation levers and direct impact on loco lifecycle costs by ART and McK • Joint value optimisation between Transnet and the shortlisted suppliers based on levers already identified by ART and implementable in the given timeframe, e.g., highest local content at best value for money	Estimate of total lifecycle cost for each loco type from short listed suppliers quantified and handed over to Transnet Top 3 technical optimisation levers from ART evaluated and quantified Value from technical lever optimisation negotiated and reflected in contract with selected loco suppliers

Business case integration and re-write	**Led by McK** **Re-write of the business case, approved by Board and DPE** • Integrated end-to-end business case across commodities to validate loco quantities with recommendations to adjust ranges in the fleet plan and get ranges for the contracting • Scenario based modeling to inform contracting based on macro-economic scenarios and links to export coal and export iron ore business cases, and different capex outcomes • Adequately address DPE queries.	Rewritten business case that is approved of by the Transnet Board and DPE
PMO	**Led by Regiments/Burlington with McK leadership oversight** • Monitor overall process timelines against milestones • Setting up and preparing documentation for steering committees and formal reviews • Escalate issues through regular project steercos • Prepare external stakeholder communications	Detailed project plan with milestones Clear governance structure that creates an integrated view of the entire process across all advisors Effective steering committee meetings- clear agenda with decisions to be made, all information required for decisions circulated beforehand, issues logged and resolved Aligned external stakeholders

ANNEXURE C: PREREQUISITES

	People required from Transnet
1 Transactional advisory and execution	• 1 full time project manager from Group Legal for 26 weeks planning/projects), business planning • 1 full time TFR procurement specialist to own the procurement process for 26 weeks • Ad hoc time from Group finance (treasury), procurement;
2 Technical evaluation and optimisation	• 2 workstream leads (1 diesel and one electric)- full time for 10 weeks and then as needed for adjudication; they will drive technical evaluation and optimisation; from TFR
3 Business case integration and re-write	• 1 planning/ GFB business case lead full time for 16 weeks full time; from TFR • 1 fleet planning specialist full time for 16 weeks; from TFR
4 PMO and stakeholder management	• 1 full time PMO lead full time for 26 weeks; tracks critical path activities, prepares templates/reporting and action; TFR or Group

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TRANSNET

Execution Version

AGREEMENT

Entered into by and between

TRANSNET SOC LTD (Reg. Nr. 1990/0009000/30)

And

McKINSEY INCORPORATED (Reg. Nr. 1995/002398/10)

FOR THE PROVISION OF SERVICES RELATED TO THE ACQUISITION OF 1064 LOCOMOTIVES TENDER

Agreement Number	**GSM 12/05/0447**
Commencement Date	**15 JANUARY 2013**
Expiry Date	**31 MARCH 2014**

TABLE OF CONTENTS

1 INTRODUCTION

This Agreement is entered into by and between:

Transnet SOC Ltd [Registration Number 1990/000900/30] whose registered address is Carlton Centre, 150 Commissioner Street, Johannesburg 2001, Gauteng, Republic of South Africa [**Transnet**]

And

McKinsey Incorporated [Registration Number 1995/002398/10] whose principal place of business is at Sandown Mews East, 88 Stella Street, Sandton, 2196, Gauteng, South Africa [**the Service Provider**].

NOW THEREFORE, IT IS AGREED:

1.1 Transnet hereby appoints the Service Provider to provide, and Transnet undertakes to accept the provision of Services provided for herein, as formally agreed between the Parties and in accordance with the Work Order(s) issued as schedules to this Agreement; and

1.2 The Service Provider hereby undertakes to render the Services provided for herein, as formally agreed between the Parties and in accordance with the Work Order(s) issued as schedules to this Agreement.

2 DEFINITIONS

Where the following words or phrases are used in this Agreement, such words or phrases shall have the meaning assigned thereto in this clause, except where the context clearly requires otherwise:

2.1 **AFSA** means the Arbitration Foundation of South Africa;

2.2 **Agreement** means this Agreement and its associated schedules and/or annexures and/or appendices, including the Work Order(s), specifications for the Services and such special conditions as shall apply to this Agreement, together with the General Tender Conditions and any additional provisions in the associated bid documents tendered by the Service Provider [as agreed in writing between the Parties], which collectively and exclusively govern the provision of Services by the Service Provider to Transnet;

2.3 **Background Intellectual Property** means all Intellectual Property introduced and required by Transnet to give effect to its obligations under this Agreement owned in whole or in part by or licensed to Transnet or its affiliates prior to the Commencement Date or developed after the Commencement Date otherwise pursuant to this Agreement;

2.4 **Business Day(s)** means Mondays to Fridays between 07:30 and 16:00, excluding public holidays as proclaimed in South Africa;

2.5 **Commencement Date** means 5 January 2013, notwithstanding the signature date of this Agreement;

2.6 **Confidential Information** means any information or other data, whether in written, oral, graphic or in any other form such as in documents, papers, memoranda, correspondence, notebooks, reports, drawings, diagrams, discs, articles, samples, test results, prototypes, designs, plans, formulae, patents, or inventor's certificates, which a Party discloses to the other Party [intentionally or unintentionally, or as a result of one Party permitting the representative of the other Party to visit any of its premises], or which otherwise becomes known to a Party, and which is not in the public domain and includes, without limiting the generality of the term:

a) Information relating to methods of operation, data and plans of the disclosing Party;

b) The contents of this Agreement;

c) Private and personal details of employees or clients of the disclosing Party or any other person where an onus rests on the disclosing Party to maintain the confidentiality of such information;

d) Any information disclosed by either Party and which is clearly marked as being confidential or secret;

e) Information relating to the strategic objectives and planning of the disclosing Party relating to its existing and planned future business activities;

f) Information relating to the past, present and future research and development of the disclosing Party;

g) Information relating to the business activities, business relationships, products, services, customers, clients and Subcontractors of the disclosing Party where an onus rests on the disclosing Party to maintain the confidentiality of such information;

h) Information contained in the software and associated material and documentation belonging to the disclosing Party;

i) Technical and scientific information, Know-How and trade secrets of a disclosing Party including inventions, applications and processes;

j) Copyright works;

k) Commercial, financial and marketing information;

l) Data concerning architecture, demonstrations, tools and techniques, processes, machinery and equipment of the disclosing Party;

m) Plans, designs, concepts, drawings, functional and technical requirements and specifications of the disclosing Party;

n) Information concerning faults or defects in goods, equipment, hardware or software or the incidence of such faults or defects; and

o) Information concerning the charges, Fees and / or costs of the disclosing Party or its authorised Subcontractors, or their methods, practices or service performance levels actually achieved;

2.7 **Copyright** means the right in expressions, procedures, methods of operations or mathematical concepts, computer program codes, compilations of data or other material, literary works, musical works, artistic works, sound recordings, broadcasts, program carrying signals, published editions, photographic works, or cinematographic works of the copyright owner to do or to authorise the doing of certain acts specified in respect of the different categories of works;

2.8 **Default** means any breach of the obligations of either Party [including but not limited to fundamental breach or breach of a fundamental term] or any Default, act, omission, negligence or statement of either Party, its employees, agents or Subcontractors in connection with or in relation to the subject of this Agreement and in respect of which such Party is liable to the other;

2.9 **Deliverable(s)** means any and all reports, analyses or other such materials furnished by the Service Provider to Transnet in relation to the Services;

2.10 **Designs** mean registered Designs and/or Design applications and will include the monopoly right granted for the protection of an independently created industrial design including designs dictated essentially by technical or functional considerations as well as topographies of integrated circuits and integrated circuits;

2.11 **Fee(s)** shall mean the agreed Fees for the Services to be purchased from the Service Provider by Transnet, as detailed in the Work Order(s), issued in accordance with this Agreement;

2.12 **Foreground Intellectual Property** means all Intellectual Property developed by either Party pursuant to this Agreement;

2.13 **Intellectual Property** means Patents, Designs, Know-How, Copyright and Trade Marks and all rights having equivalent or similar effect which may exist anywhere in the world and includes all future additions and improvements to the Intellectual Property;

2.14 **Know-How** means all Confidential Information of whatever nature relating to the Intellectual Property and its exploitation as well as all other Confidential Information generally relating to Transnet's field of technology, including technical information, processing or manufacturing techniques, Designs, specifications, formulae, systems, processes, information concerning materials and marketing and business information in general;

2.15 **Materials** means the Deliverables, the Service Provider Materials;

2.16 **Parties** mean the Parties to this Agreement together with their subsidiaries, divisions, business units, successors-in-title and their assigns;

2.17 **Party** means either one of the Parties;

2.18 **Patents** mean registered Patents and Patent applications, once the latter have proceeded to grant, and includes a right granted for any inventions, products or processes in all fields of technology;

2.19 **Permitted Purpose** means any activity or process to be undertaken or supervised by Personnel or employees of one Party during the term of this Agreement, for which purpose authorised disclosure of the other Party's Confidential Information or Intellectual Property is a prerequisite in order to enable such activity or process to be accomplished;

2.20 **Personnel** means any partner, employee, agent, consultant, independent associate or supplier, Subcontractor and the staff of such Subcontractor, or other authorised representative of either Party;

2.21 **Purchase Order(s)** means official orders issued by an operating division of Transnet to the Service Provider for the provision of Services;

2.22 **Service(s)** means the setup and operation of the MDS Execution support office, the Service(s) provided to Transnet by the Service Provider, pursuant to Schedule 1 "Work Order"(s) in terms of this Agreement;

2.23 **Subcontract** means any contract or agreement or proposed contract or agreement between the Service Provider and any third party whereby that third party agrees to provide to the Service Provider the Services or any part thereof;

2.24 **Subcontractor** means the third party with whom the Service Provider enters into a Subcontract;

2.25 **Service Provider Materials** means including, but not limited to, data, diagrams, charts, reports, specifications, studies, inventions, software, software development tools, methodologies, ideas, methods, processes, concepts and techniques analyses, know-how, tools, frameworks, models and industry perspectives used and/or developed by the Service Provider in connection with the Services;

2.26 **Tax Invoice** means the document as required by Section 20 of the Value-Added Tax Act, 89 of 1991, as may be amended from time to time;

2.27 **Third Party Material** means software, software development tools, methodologies, ideas, methods, processes, concepts and techniques owned by, or licensed to a third party and used by the Service Provider in the performance of the Services;

2.28 **Trade Marks** mean registered Trade Marks and trade mark applications and includes any sign or logo, or combination of signs and/or logos capable of distinguishing the goods or services of one undertaking from those of another undertaking;

2.29 **VAT** means Value-Added Tax chargeable in terms of the Value-Added Tax Act, 89 of 1991, as may be amended from time to time; and

2.30 **Work Order(s)** means a detailed scope of work for a Service required by Transnet, including timeframes, Deliverable, Fees and costs for the supply of the Service to Transnet, which shall be appended to this Agreement.

3 INTERPRETATION

3.1 Clause headings in this Agreement are included for ease of reference only and do not form part of this Agreement for the purposes of interpretation or for any other purpose. No provision shall be construed against or interpreted to the disadvantage of either Party hereto by reason of such Party having or being deemed to have structured or drafted such provision.

3.2 Any term, word, acronym or phrase used in this Agreement, other than those defined under the clause heading "Definitions" shall be given its plain English meaning, and those terms, words, acronyms, and phrases used in this Agreement will be interpreted in accordance with the generally accepted meanings accorded thereto.

3.3 A reference to the singular incorporates a reference to the plural and *vice versa*.

3.4 A reference to natural persons incorporates a reference to legal persons and *vice versa*.

3.5 A reference to a particular gender incorporates a reference to the other gender.

4 NATURE AND SCOPE

4.1 This Agreement is an agreement under the terms and conditions of which the Service Provider will arrange for the provision to Transnet of the Services which meet the requirements of Transnet, the delivery of which Services is controlled by means of Purchase Orders to be issued by Transnet and executed by the Service Provider, in accordance with this Agreement.

4.2 Such Purchase Orders shall be agreed between the Parties from time to time, subject to the terms of the relevant Work Order(s).

4.3 Each properly executed Purchase Order forms an inseparable part of this Agreement as if it were fully incorporated into the body of this Agreement.

4.4 During the period of this Agreement, both Parties can make written suggestions for amendments to the Work Order(s), in accordance with procedures set out in clause 29 *[Amendment and Change Control]* below. A Party will advise the other Party within 14 [fourteen] Business Days, or such other period as mutually agreed, whether the amendment is acceptable.

4.5 Insofar as any term, provision or condition in the Work Order(s) conflicts with a like term, provision or condition in this Agreement and/or a Purchase Order, or where this Agreement is silent on the matter, the term, provision or condition in this Agreement shall prevail, unless such term or provision or condition in this Agreement has been specifically revoked or amended by mutual written agreement between the Parties.

4.6 The Service Provider will perform its obligations under this Agreement in accordance with the timeframe(s) [if any] set out in the relevant schedule, save that the Service Provider will not be liable under this clause if it is unable to meet such obligation within the time required as a direct result of any act or omission by Transnet and it has used its best endeavours to advise Transnet of such act or omission. In the event of such delay, any time deadlines detailed in the relevant schedule shall be extended by a period equal to the period of that delay.

5 AUTHORITY OF PARTIES

5.1 Nothing in this Agreement will constitute or be deemed to constitute a partnership between the Parties, or constitute or be deemed to constitute the Parties as agents or employees of one another for any purpose or in any form whatsoever.

5.2 Neither Party shall be entitled to, or have the power or authority to enter into an agreement in the name of the other; or give any warranty, representation or undertaking on the other's behalf; or create any liability against the other or bind the other's credit in any way or for any purpose whatsoever.

6 WARRANTIES

6.1 The Service Provider warrants to Transnet that:

a) It has full capacity and authority to enter into and to perform this Agreement and that this Agreement is executed by a duly authorised representatives of the Service Provider;

b) It will discharge its obligations under this Agreement and any annexure, appendix or schedule hereto with all due skill, care and diligence;

c) It will be solely responsible for the payment of remuneration and associated benefits, if any, of its Personnel and for withholding and remitting income tax for its Personnel in conformance with any applicable laws and regulations; and

d) The use or possession by Transnet of any Materials will not subject Transnet to any claim for infringement of any Intellectual Property Rights of any third party.

6.2 The Service Provider warrants that it will perform its obligations under this Agreement in accordance with the Service Levels as defined in the relevant schedule. Transnet may at its reasonable discretion audit compliance with the Service Levels, provided that any such audit is carried out with reasonable prior notice and in a reasonable way so as not to have an adverse effect on the performance of the Services or the manner in which the Service Provider ordinarily conducts business. Without prejudice to clause 6.3 below, in the event that the Service Provider fails to meet the Service Levels, Transnet may claim appropriate service credits or invoke retention of Fees as detailed in the relevant schedule and/or Work Order.

6.3 The Service Provider shall, in accordance with the Service Provider's document retention policies, establish and maintain a secure file containing a copy of any presentation, progress review, report or other document furnished to Transnet by the Service Provider in connection with the Services, together with any working papers necessary to support its conclusions or analyses (collectively, the "Working Papers File"). Transnet may, at its own cost, inspect the Working Papers File at any time, during the five (5) year period from the end of the calendar year in which the relevant Services are completed or terminated, solely for the purpose of determining whether the Service Provider performed the Services in accordance with the Work Order. Any information furnished in connection with this provision shall be kept confidential in accordance with this Agreement.

6.4 The Service Provider warrants that for a period of 90 [ninety] days from Acceptance of the Deliverables they will, if properly used, conform in all material respects with the requirements set out in the relevant schedule. The Service Provider will at its expense remedy any such non-conformance as soon as possible but in any event within 30 [thirty] days of notification by Transnet.

6.5 The Service Provider will remedy any defect within 30 [thirty] days of being notified of that defect by Transnet in writing.

6.6 The Service Provider will not be liable to remedy any problem arising from or caused by Transnet's use of the Deliverables in any way not intended by the Work Order or any modification made by Transnet to the Deliverables, or any part thereof, without the prior approval of the Service Provider.

6.7 The Service Provider shall advise Transnet of the effects of any steps proposed by Transnet pursuant to clause 6.6 above, including but not limited to any cost implications or any disruption or delay in the performance of the Services. The Parties agree that any changes to the Services, including the charges for the Services or any timetables for delivery of the Services, will be agreed in accordance with the change control procedure, as set out in clause 29 *[Amendment and Change Control]*.

6.8 The Service Provider warrants that:

a) it has, using the most up-to-date software practicably and reasonably available to it, tested for [and deleted] all viruses identified by the Service Provider in the Materials at the date of the relevant Work Order; and

b) At the time of delivery to Transnet, the Materials do not contain any trojan horse, worm, logic bomb, time bomb, back door, trap door, keys or other harmful components.

The Service Provider agrees that, in the event that a virus is found, it will use its reasonable endeavours to assist Transnet in reducing the effect of the virus and, particularly in the event that a virus causes loss of operational efficiency or loss of data, to assist Transnet to the same extent to mitigate such losses and to restore Transnet to its original operating efficiency.

6.9 The Service Provider undertakes to comply with South Africa's general privacy protection in terms of Section 14 of the Bill of Rights in connection with this Agreement and shall procure that its Personnel shall observe the provisions of Section 14 [as applicable] or any amendments and re-enactments thereof and any regulations made pursuant thereto.

6.10 The Service Provider warrants that it has taken all reasonable precautions to ensure that, in the event of a disaster, the impact of such disaster on the ability of the Service Provider to comply with its obligations under this Agreement will be reduced to the greatest extent possible, and that the Service Provider shall ensure that it has appropriate, tested and documented recovery arrangements in place.

6.11 In compliance with the National Railway Safety Regulator Act, 16 of 2002, the Service Provider shall ensure that the Services, to be supplied to Transnet under the terms and conditions of this Agreement, comply fully with the specifications as set forth in Schedule 1 hereto, and shall thereby adhere [as applicable] to railway safety requirements and/or regulations. Permission for the engagement of a Subcontractor by the Service Provider [as applicable] shall be subject to a review of the capability of the proposed Subcontractor to comply with the specified railway safety requirements and/or regulations. The Service Provider and/or its Subcontractor shall make senior Personnel available to Transnet, during the term of this Agreement, to review any safety-related activities, including the coordination of such activities across all parts of its organisation.

7 TRANSNET'S OBLIGATIONS

7.1 Transnet undertakes to promptly comply with any reasonable request by the Service Provider for information, including information concerning Transnet's operations and activities, that relates to the Services as may be necessary for the Service Provider to perform the Services, but for no other purpose. However, Transnet's compliance with any request for information is subject to any internal security rules and requirements and subject to the observance by the Service Provider of its confidentiality obligations under this Agreement.

7.2 The Service Provider shall give Transnet reasonable notice of any information it requires in accordance with clause 7.1 above.

7.3 Subject to clause 14 *[Service Provider's Personnel]*, Transnet agrees to :

a) provide the Service Provider or its Personnel such access to and use of its facilities as is necessary to allow the Service Provider to perform its obligations under this Agreement; and

b) perform any tasks or responsibilities assigned to Transnet and notify the Service Provider of any issues or concerns Transnet may have relating to the Services..

8 GENERAL OBLIGATIONS OF THE SERVICE PROVIDER

8.1 The Service Provider shall:

a) Respond promptly to all complaints and reasonable enquiries from Transnet;

b) Inform Transnet immediately of any dispute or complaint arising in relation to the provision of the Services;

c) Conduct its business in a professional manner that will reflect positively upon the Service Provider and the Service Provider's Services;

d) Keep full records clearly indicating all transactions concluded by the Service Provider relating to the performance of the Services and keep such records for at least 5 [five] years from the date of each such transaction;

e) Obtain, and at all times maintain in full force and effect, any and all licences, permits and the like required under applicable laws for the provision of the Services and the conduct of the business and activities of the Service Provider;

f) Observe and ensure compliance with all requirements and obligations as set out in the labour and related legislation of South Africa, including the Occupational Health and Safety Act, 85 of 1993;

g) Comply with all applicable environmental legislation and regulations, and demonstrate sound environmental policies, management and performance that are applicable to the Service Provider and performance of the Services; and

h) Ensure the validity of all renewable certifications, including but not limited to its Tax Clearance Certificate and B-BBEE Verification Certificate, for the duration of this Agreement. Should the Service Provider fail to present Transnet with such renewals as they become due, Transnet shall be entitled, in addition to any other rights and remedies that it may have in terms of the Agreement, to terminate this Agreement forthwith without any liability and without prejudice to any claims which Transnet may have for damages against the Service Provider.

8.2 The Service Provider acknowledges and agrees that it shall at all times:

a) Render the Services and perform all its duties with honesty and integrity;

b) Communicate openly and honestly with Transnet and demonstrate a commitment to performing the Services timeously, efficiently and to the required standards;

c) Endeavour to provide the highest possible standards of service and professionalism, with a reasonable degree of care and diligence;

d) Use its reasonable endeavours and make every diligent effort to meet agreed deadlines;

e) Treat its own Personnel, as well as all Transnet's officers, employees, agents and consultants, with fairness and courtesy and respect for their human rights;

f) Practice and promote its own internal policies aimed at prohibiting and preventing unfair discrimination [as further referred to in clause 23 – *Equality and Diversity*];

g) Treat all enquiries from Transnet in connection with the Services with courtesy and respond to all enquiries promptly and efficiently. Where the Service Provider is unable to comply with the provisions of this clause, the Service Provider will advise Transnet of the delay and the reasons therefor and will keep Transnet informed of progress made regarding the enquiry;

h) When requested by Transnet, provide clear and accurate information regarding the Service Provider's own policies and procedures, excluding Know-How and other Confidential

Information, except where a non-disclosure undertaking has been entered into between the Parties;

i) Not accept or offer, nor allow, induce or promote the acceptance or offering of any gratuity, enticement, incentive or gift that could reasonably be regarded as bribery or an attempt to otherwise exert undue influence over the recipient;

j) Not mislead Transnet or its officers, employees and stakeholders, whether by act or omission;

k) Not otherwise act in an unethical manner or do anything which could reasonably be expected to damage or tarnish Transnet's reputation or business image; and

l) Immediately report to Transnet any unethical, fraudulent or otherwise unlawful conduct of which it becomes aware in connection with Transnet or the provision of Services.

9 SERVING COMPETITORS

It is the Service Provider's long-standing policy to serve competing clients and clients with potentially conflicting interests as well as counter-parties in merger, acquisition and alliance opportunities, and to do so without compromising its professional responsibility to maintain the confidentiality of client information. Consistent with such practice and the Service Provider's confidentiality obligations to its other clients, the Service Provider is not able to advise or consult with Transnet about the Service Provider serving Transnet's competitors or other parties. To avoid situations of potential conflict, the Service Provider will not assign consultants, who are providing the Services and who receive confidential information, to a competitively sensitive project for what the Service Provider considers a significant period of time following an assignment for Transnet.

10 FEES AND EXPENSES

10.1 In consideration of the provision of the Services, Transnet will pay to the Service Provider the Fees detailed in the relevant schedule or Work Order.

10.2 Transnet will not be invoiced for materials used in the provision of the Services save for those materials [if any] set out in the Work Order and accepted by Transnet or in any relevant Work Order [which will be invoiced to Transnet at cost].

10.3 The Parties have agreed that the value of the Service Provider's expenses in connection with the provision of the Services shall be fixed at 10% of the total Fees which amount shall be paid by Transnet to the Service Provider.

10.4 All Tax Invoices relating to Fees, and expenses and, where appropriate, shall include VAT as a separate item.

11 INVOICING AND PAYMENT

11.1 Transnet shall pay the Service Provider the amounts stipulated in the relevant schedule or Work Order, subject to the terms and conditions of this Agreement.

11.2 Transnet shall pay such amounts to the Service Provider, upon receipt of a valid and undisputed Tax Invoice as specified in the Work Order appended hereto, once the undisputed Tax Invoices, or such portion of the Tax Invoices which are undisputed become due and payable to the Service Provider for the provision of the Services, in terms of clause 11.4 below.

11.3 All Fees and other sums payable under this Agreement are exclusive of VAT, which will be payable at the applicable rate.

11.4 Unless otherwise provided for in the Work Order(s) appended to this Agreement, Tax Invoices shall be submitted together with a month-end statement. Payment against such month-end statement shall be made by Transnet within 30 [thirty] days after date of receipt by Transnet of the statement together with all undisputed Tax Invoices and supporting documentation.

11.5 Where the payment of any Tax Invoice, or any part thereof which is not in dispute, is not made in accordance with this clause 11, the Service Provider shall be entitled to charge interest on the outstanding amount, at The Standard Bank of South Africa's prime rate of interest in force, for the period from the due date of payment until the outstanding amount is paid.

12 FEE ADJUSTMENTS

12.1 Subject to Clause 10.1, the Fee is fixed for the duration of the Agreement.

13 INTELLECTUAL PROPERTY RIGHTS

13.1 Title to Confidential Information and Intellectual Property

a) Transnet will retain all right, title and interest in and to its Confidential Information and Background Intellectual Property and the Service Provider acknowledges that it has no claim of any nature in and to the Confidential Information and Background Intellectual Property that is proprietary to Transnet. For the avoidance of doubt, all the Service Provider Materials shall remain vested in the Service Provider.

b) The Service Provider shall grant Transnet access to the Service Provider's Background Intellectual Property on terms which shall be negotiated between the Parties for the purpose of commercially exploiting the Foreground Intellectual Property, to the extent that such access is required.

c) To the extent Materials includes any Service Provider Materials, the Service Provider shall grant to Transnet an irrevocable, royalty free, non-exclusive, non-transferable, non-sublicenseable, worldwide licence to use and copy the Service Provider Materials solely as part of the Deliverables and subject to the limitations on the use of the Service Provider name and Deliverables. Subject to the aforegoing and payment in full of the Fees, Transnet will own all Materials furnished by the Service Provider to it in connection with the Services.

13.2 Unauthorised Use of Confidential Information

The Service Provider shall not authorise any party to act on or use in any way any Confidential Information belonging to Transnet whether or not such party is aware of such Confidential

Information, and shall promptly notify Transnet of the information if it becomes aware of any party so acting, and shall provide Transnet the Information with such assistance as Transnet reasonably requires, at Transnet's cost and expense, to prevent such third party from so acting. The Service Provider's work for Transnet is confidential and intended for Transnet's internal use only. The Service Provider does not make public client names, client materials or reports prepared for clients without their prior written permission. Similarly, Transnet agrees that it will not use the Service Provider's name, refer to the Service Provider's work, or make the Deliverables or proposals (including the Service Provider's fees, expenses and other commercial terms) or the existence or terms of this agreement available outside its organization without the Service Provider's prior written permission.

13.3 **Unauthorised Use of Intellectual Property**

a) The Service Provider agrees to notify Transnet in writing of any conflicting uses of, and applications of registrations of Patents, Designs and Trade Marks or any act of infringement, unfair competition or passing off involving the Intellectual Property of Transnet of which the Service Provider acquires knowledge and Transnet shall have the right, as its own option, to proceed against any party infringing its Intellectual Property.

b) It shall be within the sole and absolute discretion of Transnet to determine what steps shall be taken against the infringer and the Service Provider shall co-operate fully with Transnet, at Transnet's cost, in whatever measure including legal action to bring any infringement of illegal use to an end.

c) The Service Provider shall cooperate to provide Transnet promptly with all relevant ascertainable facts.

d) If proceedings are commenced by Transnet alone, Transnet shall be responsible for all expenses but shall be entitled to all damages or other awards arising out of such proceedings. If proceedings are commenced by both Parties, both Parties will be responsible for the expenses and both Parties shall be entitled to damages or other awards arising out of proceedings.

14 SERVICE PROVIDER'S PERSONNEL

14.1 The Service Provider's Personnel shall be regarded at all times as employees, agents or Subcontractors of the Service Provider and no relationship of employer and employee shall arise between Transnet and any Service Provider Personnel under any circumstances regardless of the degree of supervision that may be exercised over the Personnel by Transnet.

14.2 The Service Provider warrants that all its Personnel will be entitled to work in South Africa or any other country in which the Services are to be performed.

14.3 The Service Provider will ensure that its Personnel comply with all reasonable requirements made known to the Service Provider by Transnet concerning conduct at any Transnet premises or any other premises upon which the Services are to be performed [including but not limited to security regulations, policy standards and codes of practice and health and safety requirements]. The Service Provider will ensure that such Personnel at all times act in a lawful and proper manner in accordance with these requirements.

14.4 Transnet reserves the right to refuse to admit or to remove from any premises occupied by or on behalf of it, any Service Provider Personnel whose admission or presence would, in the reasonable opinion of Transnet, be undesirable or who represents a threat to confidentiality or security or whose presence would be in breach of any rules and regulations governing Transnet's Personnel, provided that Transnet notifies the Service Provider of any such refusal [with reasons why]. The reasonable exclusion of any such individual from such premises shall not relieve the Service Provider from the performance of its obligations under this Agreement.

14.5 The Service Provider agrees to use all reasonable endeavours to ensure the continuity of its Personnel assigned to perform the Services. If any re-assignment by the Service Provider of those Personnel is necessary, or if Transnet advises that any such Personnel assigned are in any respect unsatisfactory, including where any such Personnel are, or are expected to be or have been absent for any period, then the Service Provider will promptly supply a suitable replacement.

15 LIMITATION OF LIABILITY

15.1 Neither Party excludes or limits liability to the other Party for:

a) Death or personal injury due to negligence; or

b) Fraud

15.2 Each of the Parties shall indemnify and keep the other Party (the "**Indemnified Party**") indemnified from and against liability for damage to any of the Indemnified Party's property [whether tangible or intangible] or any other loss, costs or damage suffered by the Indemnified Party to the extent that it results from any act of or omission by such Party or its Personnel in connection with this Agreement. Each of the Party's liability arising out of this clause 15.2 shall be limited to a maximum amount payable in respect of any one occurrence or a series of related occurrences in a single calendar year, such amount to be agreed in writing by the Parties.

15.3 Subject always to clauses 15.1 and 15.2 above, the liability of either the Service Provider or Transnet under or in connection with this Agreement, whether for negligence, misrepresentation, breach of contract or otherwise, for direct loss or damage arising out of each Default or series of related Defaults shall not exceed 100% [one hundred per cent] of the Fees paid under the schedule or Work Order to which the Default(s) relates.

15.4 Subject to clause 15.1 above, and except as provided in clauses 15.2 and 15.2 above, in no event shall either Party be liable to the other for indirect or consequential loss or damage or including indirect or consequential loss of profits, business, revenue, goodwill or anticipated savings of an indirect nature or loss or damage incurred by the other Party as a result of third party claims.

15.5 Nothing in this clause 15 shall be taken as limiting the liability of the Service Provider in respect of clause 13 *[Intellectual Property Rights]* or clause 17 *[Confidentiality]*.

16 INSURANCES

16.1 Without limiting the liability of the Service Provider under this Agreement, the Service Provider shall take out insurance in respect of all risks for which it is prudent for the Service Provider to insure against, including any liability it may have as a result of its activities under this Agreement for theft, destruction, death or injury to any person and damage to property. The level of insurance will be kept under review by Transnet, to ensure its adequacy, provided that any variation to the level of such insurance shall be entirely at the discretion of the Service Provider.

16.2 The Service Provider shall arrange insurance with reputable insurers and will produce to Transnet evidence of the existence of the policies after written request therefore by Transnet within 30 [thirty] days after date of policy renewals.

16.3 Subject to clause 16.4 below, if the Service Provider fails to affect adequate insurance under this clause 16, it shall notify Transnet in writing as soon as it becomes aware of the reduction or inadequate cover and Transnet may arrange or purchase such insurance. The Service Provider shall promptly reimburse Transnet for any premiums paid provided such insurance protects the Service Provider's liability. Transnet assumes no responsibility for such insurance being adequate to protect all of the Service Provider's liability.

16.4 In the event that the Service Provider receives written notice from its insurers advising of the termination of its insurance cover referred to in clause 16.1 above or if the insurance ceases to be available upon commercially reasonable terms, the Service Provider shall immediately notify Transnet in writing of such termination and/or unavailability, where after either the Service Provider or Transnet may terminate this Agreement on giving the other Party not less than 30 [thirty] days prior written notice to that effect.

17 CONFIDENTIALITY

17.1 The Parties hereby undertake the following, with regard to Confidential Information:

a) Not to divulge or disclose to any person whomsoever in any form or manner whatsoever, either directly or indirectly, any Confidential Information of the other, without the prior written consent of such other Party, other than when called upon to do so in accordance with a statute, or by a court having jurisdiction, or by any other duly authorised and empowered authority or official, in which event the Party concerned shall do what is reasonably possible to inform the other of such a demand and each shall assist the other in seeking appropriate relief or the instituting of a defensive action to protect the Confidential Information concerned;

b) Not to use, exploit, permit the use of, directly or indirectly, or in any other manner whatsoever apply the Confidential Information, disclosed to it as a result of this Agreement, for any purpose whatsoever other than for the purpose for which it is disclosed or otherwise than in strict compliance with the provisions in this Agreement;

c) Not to make any notes, sketches, drawings, photographs or copies of any kind of any part of the disclosed Confidential Information, without the prior written consent of such other Party, except when reasonably necessary for the purpose of this Agreement, in which case such copies shall be regarded as Confidential Information;

d) Not to de-compile, disassemble or reverse engineer any composition, compilation, concept application, item, component de-compilation, including software or hardware disclosed and shall not analyse any sample provided by Transnet, or otherwise determine the composition or structure or cause to permit these tasks to be carried out except in the performance of its obligations pursuant to this Agreement;

e) Not to exercise less care to safeguard Transnet Confidential Information than the Party exercises in safeguarding its own competitive, sensitive or Confidential Information;

f) Confidential Information disclosed by either Party to the other or by either Party to any other party used by such Party in the performance of this Agreement, shall be dealt with as "restricted" or shall be dealt with according to any other appropriate level of confidentiality relevant to the nature of the information concerned, agreed between the Parties concerned and stipulated in writing for such information in such cases;

g) The Parties shall not make or permit to be made by any other person subject to their control, any public statements or issue press releases or disclose Confidential Information with regard to any matter related to this Agreement, unless written authorisation to do so has first been obtained from the Party first disclosing such information;

h) Each Party shall be entitled to disclose such aspects of Confidential Information as may be relevant to one or more technically qualified employees or internal consultants of the Party who are required in the course of their duties to receive the Confidential Information for the Permitted Purpose provided that the employee or internal consultant concerned has a legitimate interest therein, and then only to the extent necessary for the Permitted Purpose, and is informed by the Party of the confidential nature of the Confidential Information and the obligations of the confidentiality to which such disclosure is subject and the Party shall ensure such employees or internal consultants honour such obligations;

i) Each Party shall notify the other Party of the name of each person or entity to whom any Confidential Information has been disclosed as soon as practicable after such disclosure;

j) Each Party shall ensure that any person or entity to which it discloses Confidential Information shall observe and perform all of the covenants the Party has accepted in this Agreement as if such person or entity has signed this Agreement. The Party disclosing the Confidential Information shall be responsible for any breach of the provisions of this Agreement by the person or entity; and

k) each Party may by written notice to the other Party specify which of the Party's employees, officers or agents are required to sign a non-disclosure undertaking.

17.2 The duties and obligations with regard to Confidential Information in this clause 17 shall not apply where:

a) A Party can demonstrate that such information is already in the public domain or becomes available to the public through no breach of this Agreement by that Party, or its Personnel; or

b) Was rightfully in a Party's possession prior to receipt from the other Party, as proven by the first-mentioned Party's written records, without an infringement of an obligation or duty of confidentiality; or

c) Can be proved to have been rightfully received by a Party from a third party without a breach of a duty or obligation of confidentiality; or

d) Is independently developed by a Party as proven by its written records.

17.3 The Service Provider's work for Transnet is confidential and intended for Transnet's internal use only. The Service Provider does not make public client names, client materials or reports prepared for clients without their prior written permission. Similarly, Transnet agrees that it will not use

Service Provider's name, refer to Service Provider's work, or make the Deliverables or the existence or terms of this Agreement available outside its organization without the Service Provider's prior written permission.

17.4 This clause 17 shall survive termination for any reason of this Agreement and shall remain in force and effect from the Commencement Date of this Agreement and 5 [five] years after the termination of this Agreement. Upon termination of this Agreement, all documentation furnished to the Service Provider by Transnet pursuant to this Agreement shall be returned to Transnet including, without limitation all corporate identity equipment including dyes, blocks, labels, advertising matter, printing matter and the like.

18 TOTAL OR PARTIAL FAILURE TO PERFORM THE SCOPE OF SERVICES

Should the Service Provider fail or neglect to execute the work or to deliver any portion of the Service, as required by the terms of this Agreement or Work Order, Transnet may cancel this Agreement or Work Order in so far as it relates to the unexecuted work or rejected portion of the Service, and, in such event, the provision of any remaining commitment shall remain subject in all respects to these conditions.

19 TERM AND TERMINATION

19.1 Notwithstanding the date of signature hereof, the Commencement Date of this Agreement is **05 January 2013** and the expiry thereof shall occur on 31 March 2015, unless:

a) this Agreement is terminated by either Party in accordance with the provisions incorporated herein or in any schedules or annexures appended hereto, or otherwise in accordance with law or equity; or

b) This Agreement is extended at Transnet's option for a further period to be agreed by the Parties.

19.2 Either Party may terminate this Agreement forthwith by notice in writing to the other Party where the other Party has committed a material Default and, where such Default is capable of remedy, has failed to remedy such Default within 30 [thirty] days of receiving notice specifying the Default and requiring its remedy.

19.3 Either Party may terminate this Agreement forthwith by notice in writing to the other Party when the other Party is unable to pay its debts as they fall due or commits any act or omission which would be an act of insolvency in terms of the Insolvency Act, 24 of 1936 [as may be amended from time to time], or if any action, application or proceeding is made with regard to it for:

a) A voluntary arrangement or composition or reconstruction of its debts;

b) Its winding-up or dissolution;

c) The appointment of a liquidator, trustee, receiver, administrative receiver or similar officer; or

d) Any similar action, application or proceeding in any jurisdiction to which it is subject.

19.4 Transnet may terminate this Agreement at any time within 2 [two] months of becoming aware of a change of control of the Service Provider by notice in writing to the Service Provider. For the purposes of this clause, "**control**" means the right to direct the affairs of a company whether by ownership of shares, membership of the board of directors, agreement or otherwise.

19.5 Transnet may cancel any schedule or Work Order hereto at any time on giving the Service Provider 30 [thirty] days' written notice.

19.6 Notwithstanding this clause 19, either Party may cancel this Agreement without cause by giving 30 [thirty] days prior written notice thereof to the other Party.

20 CONSEQUENCE OF TERMINATION

20.1 Termination in accordance with clause 19 *[Term and Termination]* shall not prejudice or affect any right of action or remedy which shall have accrued or shall thereafter accrue to either Party and all provisions which are to survive this Agreement or impliedly do so shall remain in force and in effect.

20.2 On termination of this Agreement or a Work Order, the Service Provider will immediately deliver up, and procure that its Personnel will immediately deliver up to Transnet, all final Deliverables and property belonging to Transnet [or, in the event of termination of a Work Order, such as is relevant to that Work Order] which may be in the possession of, or under the control of the Service Provider, and certify to Transnet in writing that this has been done.

20.3 To the extent that any of the Deliverables and property referred to in clause 20.2 above is in electronic form and contained on non-detachable storage devices, the Service Provider will provide Transnet with encrypted copies of the same on magnetic media and will irretrievably destroy and delete copies so held. Notwithstanding the foregoing, Service Provider shall be permitted to retain, subject to the terms of this Agreement and for professional archival purposes only, a copy of any Deliverables furnished to Transnet by Service Provider in connection with the Services, together with any working papers necessary to support its conclusions or recommendations.

20.4 In the event that this Agreement is terminated by the Service Provider under clause 19.2 *[Term and Termination]*, or in the event that a Work Order is terminated by Transnet under clause 19.5 *[Term and Termination]*, Transnet will pay to the Service Provider all outstanding Fees [apportioned on a *pro rata* basis] relating to the work undertaken by the Service Provider up until the date of such termination. Transnet will also pay the costs of any goods and materials ordered by the Service Provider in relation to such work for which the Service Provider has paid or is legally obliged to pay, in which case, on delivery of such goods or materials, the Service Provider will promptly deliver such goods and materials to Transnet or as it may direct.

20.5 The provisions of clauses 2 *[Definitions]*, 6 *[Warranties]*, 13 *[Intellectual Property Rights]*, 15 *[Limitation of Liability]*, 17 *[Confidentiality]*, 20 *[Consequence of Termination]*, 26 *[Dispute Resolution]* and 30 *[Governing Law]* shall survive termination or expiry of this Agreement.

20.6 If either Party [**the Defaulting Party**] commits a material breach of this Agreement and fails to remedy such breach within 30 [thirty] Business Days of written notice thereof, the other Party [hereinafter **the Aggrieved Party**], shall be entitled, in addition to any other rights and remedies that it may have in terms of this Agreement, to terminate this Agreement forthwith without any liability and without prejudice to any claims which the Aggrieved Party may have for damages against the Defaulting Party.

20.7 Should:

a) The Service Provider effect or attempt to effect a compromise or composition with its creditors; or

b) Either Party be provisionally or finally liquidated or placed under judicial management, whether provisionally or finally; or

c) Either Party cease or threaten to cease to carry on its normal line of business or default or threaten to default in the payment of its liabilities generally, or commit any act or omission which would be an act of insolvency in terms of the Insolvency Act, 24 of 1936 [as may be amended from time to time];

Then the other Party shall be entitled, but not obliged, to terminate this Agreement on written notice, in which event such termination shall be without any liability and without prejudice to any claims which either Party may have for damages against the other.

21 ASSIGNMENT

Neither Party may assign the benefit of this Agreement or any interest hereunder except with the prior written consent of the other.

22 FORCE MAJEURE

22.1 Neither Party shall have any claim against the other Party arising from any failure or delay in the performance of any obligation of either Party under this Agreement caused by an act of *force majeure* such as acts of God, fire, flood, war, strike, lockout, industrial dispute, government action, laws or regulations, riots, terrorism or civil disturbance, defaults, delays or discontinuance on the part of independent contractors, suppliers, or other circumstances or factors beyond the reasonable control of either Party, and to the extent that the performance of obligations of either Party hereunder is delayed by virtue of the a foregoing, any period stipulated for any such performance shall be reasonably extended.

22.2 Each Party will take all reasonable steps by whatever lawful means that are available, to resume full performance as soon as practicable and will seek agreement to modification of the relevant provisions of this Agreement in order to accommodate the new circumstances caused by the act of *force majeure*. If a Party fails to agree to such modifications proposed by the other Party within 90 [ninety] days of the act of *force majeure* first occurring, either Party may thereafter terminate this Agreement with immediate notice.

23 EQUALITY AND DIVERSITY

23.1 The Service Provider will not victimise, harass or discriminate against any employee of either Party to this Agreement or any applicant for employment with either Party to this Agreement due to their gender, race, disability, age, religious belief, sexual orientation or part-time status. This provision applies, but is not limited to employment, upgrading, work environment, demotion, transfer, recruitment, recruitment advertising, termination of employment, rates of pay or other forms of compensation and selection for training.

23.2 Both Parties to this Agreement undertake that they will not, and shall procure that its employees, agents and Subcontractors will not breach any applicable discrimination legislation and any amendments and re-enactments thereof.

24 NON-WAIVER

24.1 Failure or neglect by either Party, at any time, to enforce any of the provisions of this Agreement, shall not, in any manner, be construed to be a waiver of any of that Party's rights in that regard and in terms of this Agreement.

24.2 Such failure or neglect shall not, in any manner, affect the continued, unaltered validity of this Agreement, or prejudice the right of that Party to institute subsequent action.

25 PARTIAL INVALIDITY

If any provision of this Agreement shall be held to be invalid, illegal or unenforceable, or shall be required to be modified, the validity, legality and enforceability of the remaining provisions shall not be affected thereby.

26 DISPUTE RESOLUTION

26.1 Should any dispute of whatsoever nature arise between the Parties concerning this Agreement, the Parties shall try to resolve the dispute by negotiation within 10 [ten] Business Days of such dispute arising.

26.2 If the dispute has not been resolved by such negotiation, either of the Parties may refer the dispute to AFSA and notify the other Party accordingly, which proceedings shall be held in Johannesburg.

26.3 Such dispute shall be finally resolved in accordance with the rules of AFSA by an arbitrator or arbitrators appointed by AFSA.

26.4 This clause constitutes an irrevocable consent by the Parties to any proceedings in terms hereof, and neither of the Parties shall be entitled to withdraw from the provisions of this clause or claim at any such proceedings that it is not bound by this clause 26.

26.5 This clause 26 is severable from the rest of this Agreement and shall remain in effect even if this Agreement is terminated for any reason.

26.6 This clause 26 shall not preclude either Party from seeking urgent relief in a court of appropriate jurisdiction, where grounds for urgency exist.

27 ADDRESSES FOR NOTICES

27.1 The Parties to this Agreement select the physical addresses and facsimile numbers, as detailed hereafter, as their respective addresses for giving or sending any notice provided for or required in terms of this Agreement, provided that either Party shall be entitled to substitute such other address or facsimile number, as may be, by written notice to the other:

a) **Transnet**

(i) For legal notices:

Transnet SOC Ltd
47^{TH} Floor
Carlton Centre
150 Commissioner Street
Johannesburg 2001
Fax No. 011 308 2348
Attention: Group Legal Counsel

(ii) For commercial matters:

Transnet SOC Ltd
47^{TH} Floor
Carlton Centre
150 Commissioner Street
Johannesburg 2001
Fax No. 011 308 2348
Attention: Executive Manager: Group Finance

b) **The Service Provider**

(i) For legal notices:

McKinsey Incorporated
Sandown Mews East
88 Stella Street
Sandown
Sandton
2196
Fax No. 011 506 9000
Attention: Christina Planert – Partner

(ii) For commercial matters:

McKinsey Incorporated
Sandown Mews East
88 Stella Street
Sandown
Sandton

2196

Fax No. 011 506 9000

Attention: Christina Planert – Partner

27.2 Any notice shall be addressed to a Party at its physical address or delivered by hand, or sent by facsimile.

27.3 Any notice shall be deemed to have been given:

a) If hand delivered, on the day of delivery; or

b) If posted by prepaid registered post, 10 [ten] days after the date of posting thereof; or

c) if faxed, on the date and time of sending of such fax, as evidenced by a fax confirmation printout, provided that such notice shall be confirmed by prepaid registered post on the date of dispatch of such fax, or, should no postal facilities be available on that date, on the next Business Day.

28 WHOLE AND ONLY AGREEMENT

28.1 The Parties hereby confirm that this Agreement constitutes the whole and only agreement between them with regard to the subject matter of this Agreement.

28.2 The Parties hereby confirm that this Agreement replaces all other agreements which exist or may have existed in any form whatever between them, with regard to the subject matter dealt with in this Agreement, including any annexures, appendices, schedules or Work Order(s) appended hereto.

29 AMENDMENT AND CHANGE CONTROL

29.1 Any requirement for an amendment or change to this Agreement or to a Work Order shall only be valid if it is in writing, signed by both Parties and added to this Agreement as an addendum hereto.

29.2 In the event the Parties cannot agree upon changes, the Parties shall in good faith seek to agree any proposed changes using the dispute resolution procedures in clause 26 *[Dispute Resolution]*.

30 GOVERNING LAW

This Agreement is exclusively governed by and construed in accordance with the laws of the Republic of South Africa and is subject to the jurisdiction of the courts of the Republic of South Africa.

30.1 **Change of Law**

In this Agreement, unless the context otherwise requires, references to a statutory provision include references to that statutory provision as from time to time amended, extended or re-enacted and any regulations made under it, provided that in the event that the amendment, extension or re-enactment of any statutory provision or introduction of any new statutory provision has a material impact on the obligations of either Party, the Parties will negotiate in good faith to agree such amendments to this Agreement as may be appropriate in the circumstances. If, within a reasonable period of time, the Service Provider and Transnet cannot reach agreement on the nature of the changes required or on modification of Fees, Deliverables, warranties, or other terms and conditions, either Party may seek to have the matter determined in accordance with clause 26 *[Dispute Resolution]* above.

31 COUNTERPARTS

This Agreement may be signed in any number of counterparts, all of which taken together shall constitute one and the same instrument. Either Party may enter into this Agreement by signing any such counterpart.

Thus signed by the Parties and witnessed on the following dates and at the following places:

For and on behalf of **TRANSNET SOC LTD** duly authorised hereto	For and on behalf of **MCKINSEY INCORPORATED** duly authorised hereto
Name:	Name: DAVID FINE
Position:	Position: DIRECTOR
Signature:	Signature:
Date: 11/03/14	Date: 21/02/14
Place:	Place: SANDTON

AS WITNESS: Name:	**AS WITNESS:** Name: BENEDIKT FREY
Signature:	Signature:

AS WITNESS: Name:	**AS WITNESS:** Name: FABIO PEDRAZZI
Signature:	Signature:

SCHEDULE 1 – Work Order No:

For the Provision of Advisory Services Related to the Acquisition of the 1064 Locomotives Tender over a period of 9 months

With reference to the Master Agreement, Reference Number **GSM/12/05/0447** [the **Agreement**] between Transnet SOC Ltd [**Transnet**] and McKinsey, Incorporated (Pty) Ltd [**the Service Provider**] pursuant to which the Service Provider has agreed to perform certain services to Transnet subject to such Agreement, the defined terms in the Agreement will, unless otherwise indicated, have the same meaning in this Work Order.

In consideration of the mutual covenant and agreements contained in the Agreement and in this Work Order, it is agreed as follows:

1 **DESCRIPTION OF THE SERVICES**

In support of Transnet's Market Demand Strategy (MDS), Transnet has embarked on a Project to upgrade and replace its current Locomotive Fleet in order to increase handling capabilities in support of the MDS directives. In relation to the Investment expenditure programme, Advisory Services related to the 1064 Locomotives Tender over a period of 14 [fourteen] Months is thus required. Due to the specialist nature of the Project, Advisory services on the process, application and acquisition guidelines required with the award of the Tender are of critical importance and thus are required.

The Service Provider has agreed to the provision of such services in regards to the deliverables of such said service in its entirety and as outlined in this document with reference to this work order.

2 **PROJECT DELIVERABLES**

The Deliverables, over a period of 14 [fourteen] months and governed by this Work Order, include:

2.1 Advisory Services related to the Acquisition of the 1064 Locomotives Tender

2.2 The objective is to award the Locomotive tender by the end of the third quarter of the calendar year on the back of:

- A robust and de-risked business case that is fully supported and approved by the board and share holder
- A fully capacitated and flawless transaction process
- A commercial negotiation that maximises the value delivered to Transnet and South Africa

2.3 Developing and augmenting the business case for the approval of the locomotives by the Transnet Board of Directors and the Department of Public Enterprises;

2.4 Transnet Freight Rail Goods Freight business Year end to end business case understanding impact of the following based on validated volume expectations

- Wagons
- Locomotives
- Infrastructure
- Optimisation
- Profitability of each sector- Link into efficiencies and capacity
- Clear capital volume link

Procurement and Legal – Supplier Development and Localisation Strategy:

- Design and setting up tendering process in line with requirements
- Request for proposal documentation
- Supplier evaluation criteria
- Request for information / quotation documentation
- Short listed selection of bidders based on the criteria
- Template contract for awarding of the tender
- Negotiation fact packs and capability building
- Claims procedure and OEM management approach post award
- Creation of Locomotive industry in South Africa
- Integrate this into the transaction and commercial process
- Execution of transaction process (RFP, Process orchestration, adjudication capacity)
- Developing contracting strategy for programmatic approach

TECHNICAL/OPERATIONS

- Reduce loco lifecycle costs through technical and commercial lever optimisation with short listed suppliers.
- Technical Evaluation levers and estimated value
- Reduce loco lifecycle costs through technical and commercial lever optimisation with short listed suppliers.
- Technical Evaluation levers and estimated value
- Optimisation approach for Joint value optimisation between Transnet and the selected suppliers
- Improved outcome through value engineering with shortlisted suppliers - Optimising for main objectives for procurement strategy (e.g. highest local content at best value for money)

FINANCIAL

- Developing finance and funding options
- Develop deal structure (financing, hedging and de-risking options)

PROJECT MANAGEMENT OFFICE

- Proactive stakeholder engagement throughout process to ensure all are granted on time (e.g. PFMA)
- Manage overall process to ensure all parts come together.
- Provide oversight of legal aspects from a project management Perspective

3 **PROJECT MANAGERS**

Transnet Project Manager	**MOHAMED MAHOMEDY**
Designation	**GM**
Operating Division	**Group Finance Capital Integration**
Address	**Room 4550**
Cell Phone	**083 357 2493**
Telephone	**011 584 0733**
Fax	
Email	Mohammed.Mahomedy@transnet.net

Service Provider's Project Manager	**CHRISTINA PLANERT**
Designation	Partner
Address	
Cell Phone	
Telephone	
Fax	011 506 9000
Email	

4 **ACCEPTANCE CRITERIA FOR DELIVERABLES**

Transnet's Project Manager or his/her nominated delegate will sign off the authorised approval for the Deliverables as detailed in project deliverables above.

5 **PROGRESS REPORTS AND REVIEW MEETINGS**

Project management and review meetings will be held on a monthly basis at Carlton Centre, Johannesburg, or as otherwise directed by Transnet's Project Manager.

6 **FEES AND DISBURSEMENTS**

6.1 Any authorised expenses / disbursements will be reimbursed, subject to the provisions of clause 10 *[Fees and Expenses]* of the Agreement hereto.

6.2 Payment terms are subject to clause 11 *[Invoicing and Payment]* of the Agreement hereto.

Thus signed by the Parties on the following dates and at the following places:

7	**SIGNED** for and on behalf of:	9	**SIGNED** for and on behalf of:
8	**McKinsey, Incorporated**	10	**Transnet SOC Ltd**
11	Signature	12	Signature ....
13	Name:	14	Name: Molefe.
15	Position:	16	Position:
17	Date:	18	Date:
19	Place:	20	Place:

ANNEXURE A – Project Fees

Deliverables must be executed for a fee of R35 200 000 [Thirty five million and two hundred thousand Rands]. Any overrun in terms of time will not be for the account of Transnet as the engagement is output based and not time based. McKinsey will take overall responsibility for the deliverables and quality of the end products.

McKINSEY	***DESCRIPTION***	***INDIVIDUALS***	***BLENDED RATE***
	Engagement Director and Principals	4	R2,350.00
	Associate Principals	1	R2,350.00
	Engagement managers	2	R2,350.00
	Associates	8	R2,350.00
	Research Analysts	2	R2,350.00
	Specialists and Experts	1	R2,350.00
	Production Specialists	2	R2,350.00
LETSEMA (SUBCONTRACTOR)	Engagement Director	1	R1,273.00 P/H
	Associate Partner	1	R1,273.00 P/H
	Engagement Manager	5	R1,273.00 P/H
	Senior Consultants	8	R1,273.00 P/H
	Consultants	7	R1,273.00 P/H

ANNEXURE B

ANNEXURE B: **KEY DELIVERABLES**

	Key deliverables	Measure of success
Transactional advisory and procurement execution	**Led by Mck with deal structuring recommendations from Utho/Nedbank, contracting strategy input recommendations from WW, Regiments/Burlington. McK responsible.** **Leading a fair and precise process to maximise socio-economic impact for South Africa and Transnet** • Designed tendering process in line with requirements applicable to State-owned-companies (SOCs) to ensure award on time • Contracting strategy for programmatic approach and maximised localisation; Contracts that maximise Transnet's flexibility if volume predictions are not met • Supplier evaluation criteria and adjudication process • Recommended deal structuring, financing and funding options to minimise risk for Transnet to be delivered by Nedbank Capital/Utho with McK guidance and Mck integration • Overall integration of all stakeholder inputs and communication on process progress	Fair process, professional and transparent to key stakeholders - and in line with requirements applicable to SOCs Deal structure which minimises the financial risk for Transnet Contracting strategy implemented that optimally balances loco demand and supplier development objectives Tender award completed in line with timelines submitted with RFP response)
Technical evaluation and optimisation	**Led by McK and ART** **Lifecycle cost savings from technical improvement levers, and price reduction of locomotives** • Technical evaluation levers and direct impact on loco lifecycle costs by ART and McK • Joint value optimisation between Transnet and the shortlisted suppliers based on levers already identified by ART and implementable in the given timeframe, e.g., highest local content at best value for money	Estimate of total lifecycle cost for each loco type from short listed suppliers quantified and handed over to Transnet Top 3 technical optimisation levers from ART evaluated and quantified Value from technical lever optimisation negotiated and reflected in contract with selected loco suppliers

LOI Reference No: GSM 12/05/0447

FOF-07-715

VV7-DRF-527

Business case integration and re-write	Led by McK **Re-write of the business case, approved by Board and DPE** • Integrated end-to-end business case across commodities to validate loco quantities with recommendations to adjust ranges in the fleet plan and get ranges for the contracting • Scenario based modeling to inform contracting based on macro-economic scenarios and links to export coal and export iron ore business cases, and different capex outcomes • Adequately address DPE queries.	Rewritten business case that is approved of by the Transnet Board and DPE
PMO	Led by Regiments/Burlington with McK leadership oversight • Monitor overall process timelines against milestones • Setting up and preparing documentation for steering committees and formal reviews • Escalate issues through regular project steercos • Prepare external stakeholder communications	Detailed project plan with milestones Clear governance structure that creates an integrated view of the entire process across all advisors Effective steering committee meetings- clear agenda with decisions to be made, all information required for decisions circulated beforehand, issues logged and resolved Aligned external stakeholders

Attachment: Original letter of intent

SUPPLIER DEVELOPMENT VALUE SUMMARY

Anoj Singh, Group Chief Financial Officer

TRANSNET
DF24

Mr. Michael Kloss
McKinsey Incorporated
88 Stella Street
Sandown Mews East
Sandton
2196

Dear Mr Kloss

POTENTIAL CONFLICT OF INTEREST IDENTIFIED – NEDBANK CAPITAL

This letter serves to inform you of the potential conflict of interest identified with Nedbank Capital on the 1064 locomotive Transaction Adviser (GSM/12/03/0428).

The conflict is primarily based on Nedbank Capital being appointed as part of the McKinsey led consortium to provide Transnet with Advisory services related to the acquisition of 1064 locomotives tender as well as their interest in providing funding for other related services to Transnet for the same transaction.

If Nedbank Capital chooses to continue to express an interest to provide other services related to Transnet for the 1064 locomotives transaction, thereby resulting in a conflict, I suggest that McKinsey source an alternative service provider as it relates to the original scope envisaged for Nedbank Capital (funding for advisory services).

I would appreciate a response to this letter by 15 June 2013 to enable Transnet to evaluate the credentials and scope of work of the alternate service provider

Kind Regards

Anoj Singh
Group Chief Financial Officer
Date: 22/05/13

Transnet SOC Ltd
Registration Number
1990/000900/30

Carlton Centre
150 Commissioner Street
Johannesburg
2001

P.O. Box 72501
Parkview, Johannesburg
South Africa, 2122
T +27 11 308 2253
F +27 11 308 1269

DF25

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

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/12/05/0447, 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.

□ □ □

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.

PROTECTING CONFIDENTIAL INFORMATION

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.

1 These practices apply to services rendered by McKinsey & Company, Inc. or any of its affiliates.

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 longstanding 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.

MANAGING RELATIONS WITH OUTSIDE PARTIES

As a basic policy, we do not make public client names, client materials, or reports prepared for clients without their permission. We similarly require that clients not use our name, refer to our work, or make our work products available outside their 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.

□ □ □

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.

DF26

Advisory services related to the acquisition of the 1064 locomotives tender

TRANSNET

RFP GSM/12/05/0447

Memorandum of withdrawal

04 February, 2014

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.

□ □ □

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

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.

PROTECTING CONFIDENTIAL INFORMATION

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.

[1] These practices apply to services rendered by McKinsey & Company, Inc. or any of its affiliates.

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 longstanding 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.

MANAGING RELATIONS WITH OUTSIDE PARTIES

As a basic policy, we do not make public client names, client materials, or reports prepared for clients without their permission. We similarly require that clients not use our name, refer to our work, or make our work products available outside their 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.

□ □ □

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.

Appendix 77 1501

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TRANSNET

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MEMORANDUM

www.transnet.net

TO : Brian Molefe
Group Chief Executive

FROM : Anoj Singh
Group Chief Financial Officer

SUBJECT: 1064 LOCOMOTIVE TRANSACTION – ADVISORY SERVICES

PURPOSE OF SUBMISSION

1. The purpose of this memorandum is to request that the Group Chief Executive to:
   - 1.1 Note the deliverables executed by the transaction adviser on the locomotive transaction compared to the original scope per the Letter of Intent (LOI);
   - 1.2 Ratify the amendment in the allocation of scope of work from Mckinsey to Regiments Capital;
   - 1.3 Ratify the amendment in the make-up in the transaction adviser consortium from Nedbank Capital with Regiments Capital;
   - 1.4 Approve a change in the remuneration model of the transaction adviser compared to the original remuneration model;
   - 1.5 Delegate power to the GCFO to give effect to the above approvals.

BACKGROUND

2. The GCE approved the appointment of the McKinsey led Consortium (Annexure A) to provide complete advisory services on the 1064 locomotive tender, and a Letter of Intent was signed by the Group CFO on 04 December 2012 for R35,2 million excluding VAT and disbursements (Annexure B).
3. A separate Letter of Intent was signed for Webber Wentzels for R10 million for the support on the contracting and legal strategies.
4. In May 2013 a potential conflict of interest was raised with Mckinsey concerning Nedbank Capital, to which a response from McKinsey confirmed the conflict and an alternative as Regiments Capital was proposed.
5. On 19 November 2013 the Group CFO confirmed Transnet's agreement to replace Nedbank Capital with Regiments Capital (Annexure C).
6. The entire scope of the engagement was allocated to Regiments with Mckinsey only responsible for the business case and limited technical optimisation aspects.
7. On 4 February 2014 the LOI scope for Regiments Capital was extended to reflect the above and ensure better implementation and management of risks (Annexure D).
8. The budgeted fees were also increased to R41,2 million excluding VAT and disbursements and R51,2 million including Webber Wentzels.

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DISCUSSION

9. The high level scope, allocation as well as fees of the engagement for the transaction advisors is as follows:

Scope category	Description	Responsible	Comments	Budgeted Fees excluding VAT and disbursements	Actual excluding VAT
Transactional advisory and procurement execution	Leading a fair and precise process to maximise socio-economic impact for South Africa and Transnet • Designed tendering process in line with requirements applicable to State-owned-companies (SOCs) to ensure award on time; • Contracting strategy for programmatic approach and maximised localisation; • Contracts that maximise Transnet's flexibility if volume predictions are not met; • Supplier evaluation criteria and adjudication process; Overall integration of all stakeholder inputs and communication on process progress	McKinsey Regiments Webber Wenztel (WW) Ningiza Horner (NH) (sub-contracted by WW)	McKinsey involvement de-scoped due to the extensive involvement of the Transnet Executive team. WW and NH assisted under tight timelines with no prior notice at all. Teams were requested to avail themselves for this entire project 24/7 over a 60 day period – due to curtailed timelines.	WW – R6,5 million NH – R3,5 million Regiments–R6,1 million	WW–R6,7 million NH – R3,5 million Regiments–R6,1 million
Funding	Recommended deal structuring, financing and funding options to minimise risk for Transnet.	Regiments	Scope was extended to include: • Determining the development and sustainability impact of the acquisition • Conducting a collateral	Regiments–R15 million	Regiments–R15 million

			assessment to the component level to determine the potential for securing concessionary funding through export credit agencies, investment promoting funds/agencies and in the form of vendor finance. • Investigate how asset/component can be secured in order to optimise balance sheet and cost of financing within the context of Transnet policy with respect to asset ownership and control • Developing and implementing a best practice risk management to the transaction • Developing an optimal risk management solution by examining solution that are embedded in the acquisition agreement, funding agreement and separate risk overlays • Evaluating all potential funding sources and mechanisms to select the most appropriate avenues to pursue and execute		
Technical evaluation	Lifecycle cost savings from technical improvement levers, and price	Mckinsey and ART	McKinsey involvement de-scoped.	McKinsey – R13,4 million	McKinsey – R3,3 million

and optimisation	reduction of locomotives • Technical evaluation levers and direct impact on loco lifecycle costs • Joint value optimisation between Transnet and the shortlisted suppliers based on levers already identified by ART and implementable in the given timeframe, e.g., highest local content at best value for money				
Business case integration	Re-write of the business case, approved by Board and DPE • Integrated end-to-end business case across commodities to validate loco quantities with recommendations to adjust ranges in the fleet plan and get ranges for the contracting • Scenario based modeling to inform contracting based on macro-economic scenarios and links to export coal and export iron ore business cases, and different capex	Mckinsey	Completed and DPE approved the business case. The Integrated end-to-end GFP business case was done at a high level and carried over to the Project Factory as part of the SWAT engagement.	McKinsey – R 6,7 million	McKinsey – R6,7 million

	outcomes • Adequately address DPE queries.				
PMO	• Monitor overall process timelines against milestones • Setting up and preparing documentation for steering committees and formal reviews • Escalate issues through regular project Steercos • Prepare external stakeholder communications	Regiments Mckinsey oversight	McKinsey and Regiments involvement de-scoped as this was fully executed internally.	-	-

Value created by Transaction advisor

10. Regiments assisted Transnet in computing the effects of hedging and escalation based on the original delivery schedule compared to an accelerated/revised delivery schedule as well as optimising the foreign exchange hedge and guarantee bond pricing.
11. This enabled Transnet to accelerate the delivery schedule resulting in savings in future inflation related escalation costs and savings in foreign exchange hedging costs.
12. The Transnet Board Acquisition and Disposal Council (BADC) approved an allocation of locomotives between the preferred bidders for the diesel locomotives on a 50/50 split basis i.e. 233 locomotives to GE and 232 locomotives to CNR and a 60/40 split basis for the electric locomotives i.e. 359 locomotives for CSR and 240 locomotives for BT.
13. This allocation resulted in an increase in the cost per locomotive due to bidders having to allocate more of the overhead costs to a smaller batch (break costs).
14. The net saving as a result of this decision as calculated by Regiments is reflected below.
15. Furthermore, the accelerated delivery of locomotives will result in the ability to deliver incremental volumes earning additional revenue.

Figure 1

Summary of Impact of reducing Batch Size	GE Per Loco	CNR Per Loco
Escalation if a batch of 465 was ordered based on original delivery schedule	7 416 495	3 140 096
Hedging cost if a batch of 465 was ordered based on original delivery schedule	3 451 690	5 793 762
Escalation if a batch of 233/232 is ordered based on revised delivery schedule	5 140 840	2 770 643
Hedging cost if a batch of 233/232 was ordered based on revised delivery schedule	2 393 702	5 073 921
Saving on escalation	2 275 655	369 453
Saving on hedging	1 057 988	719 841
Total Saving	3 333 643	1 089 294
Additional cost as submitted by Bidder to reduce batch size	3 133 715	269 975
Net saving	199 928	819 319

Notes:
The forecasts were based on using historical trends of appropriate indices as calculated by Regiments Capital.
The calculations above are based on information available at a point in time to Regiments.
The above calcualtions were prepared to demonstrate the impact of reducing the batch size and will not tie up to the final negotiated position.

Summary of Impact of reducing Batch Size	Bombardier Per Loco	CSR Per Loco
Escalation if a batch of 599 was ordered based on original delivery schedule	13 648 715	11 578 427
Hedging cost if a batch of 599 was ordered based on original delivery schedule	7 509 396	7 012 405
Escalation if a batch of 240/359 is ordered based on revised delivery schedule	6 487 680	6 248 487
Hedging cost if a batch of 240/359 was ordered based on revised delivery schedule	3 424 108	3 607 263
Saving on escalation	7 161 035	5 329 940
Saving on hedging	4 085 288	3 405 142
Total Saving	11 246 323	8 735 082
Additional cost as submitted by Bidder to reduce batch size	5 859 171	1 618 500
Net saving	5 387 152	7 116 582

Notes:
The forecasts were based on using historical trends of appropriate indices as calculated by Regiments Capital.
The calculations above are based on information available at a point in time to Regiments.
The above calcualtions were prepared to demonstrate the impact of reducing the batch size and will not tie up to the final negotiated position.

16. As a result of the work done by Regiments the delivery schedule was accelerated thereby ensuring that the locomotives arrive earlier, resulting in savings in future inflation related escalation costs and savings in foreign exchange hedging costs of approximately R20 billion (before break costs). The overall cost of the transaction reduced from ~R68 billion to R50 billion.
17. In addition, Transnet through Regiments efforts achieved a total savings of approximately R2,8 billion for the performance based foreign exchange and guarantee bond.
18. Regiments also achieved direct benefit to Transnet of R219 million and indirect savings of over R500 million.

Impact on Transnet

19. If the savings were not achieved the following would have been at risk:
    19.1. 1064 locomotive acquisition transaction would be unaffordable at an amount in excess of R50 billion.
    19.2. As a consequence all MDS aspirations of a 350mt volume achievement on rail would not be met.
    19.3. A new strategic direction for Transnet would have needed to be developed.
    19.4. Potential impact on investor confidence and appetite.
    19.5. Significant socio-economic benefits would have been eroded as a result of the reduced capital expansion programme.
    19.6. An amount of R38 billion was included in the 2014/15 Corporate Plan and the financial ratios based on this spend accordingly.
    19.7. The increase in costs to R68 billion would have placed significant pressure on Transnet resulting in a potential ratings downgrade.

Change in remuneration model for the transaction advisor

20. Regiments implemented extensive intellectual property and complex techniques and methodologies to achieve the above benefits to Transnet, thereby mitigating the risks identified above.

21. The Regiments operating model for such engagements is usually based a risk sharing model or success fee (25% of value created /saved).
22. In this case, Regiments was transferred a mandate and remuneration model already accepted by Mckinsey.
23. Regiments initial indications were that they would have preferred to be engaged on a model consistent with para.21 above.
24. This initial request was rejected. However based on the significant value created/saved as well as risks mitigated as noted above, a request to amend the remuneration model was submitted.
25. Consequently an additional fee of R78,4 million excluding VAT is recommended to Regiments, representing 0,042 % of the total savings.
26. Once approval is obtained for the revised remuneration model a contract amendment will be made.

PPPM - GENERAL AMENDMENT PRINCIPLES

27. Amendments in excess of 40% of the original contract value or contract period will be dealt with as follows:
    - 27.1. In such cases PRIOR review and recommendation must be obtained from the appropriate AC first, as well as the original signatory. Thereafter the matter must be submitted for approval to the person with delegations one level higher than the original contract signatory (provided the cumulative value is still within his/her delegations of authority). This rule applies regardless of whether the amendment is still within the original signatory's delegation of authority. On approval, the amended contract will be signed off by the person with the delegation of authority to sign off the contract value concerned.
    - 27.2. However, this rule does not apply to amendments falling within the GCE, Board Acquisitions and Disposals Committee (BADC) or the Board's delegation of authority. For such contract amendments, the matter will be submitted to the GCE, BADC or the Board regardless of the value of the contract amendment (provided the cumulative value is still within their delegations of authority).
    - 27.3. The rules relating to contract amendment stated above apply to contracts awarded via open tender as well as those awarded via confinement and the appointment of consultants.
28. In terms of para.27.2 the content of this request falls within the delegation of the GCE.

FINANCIAL IMPLICATIONS

29. The breakdown per consortium partner including the additional fee from the revised remuneration model is as follows:

Partner	Budgeted Fees R million excluding VAT and disbursements	Actual R million excluding VAT
Webber Wenztel	6.5	6.7
Regiments	21.1	99.5
Ningiza Horner	3.5	3.5
McKinsey	20.1	10.0
Total	**51.2**	**119.7**

BUDGET IMPLICATIONS

30. Although the additional amount was not explicitly budgeted for, sufficient budget exists in the 2014/15 Capital budget.
31. The additional fee of R78,4 million has not been included in the Capital budget however significant savings were achieved.

RECOMMENDATIONS

32. It is recommended that the Group Chief Executive:
    32.1. Note the deliverables executed by the transaction adviser on the locomotive transaction compared to the original scope per the Letter of intent (LOI);
    32.2. Ratify the amendment in the allocation of scope of work from Mckinsey to Regiments Capital;
    32.3. Ratify the amendment in the make-up in the transaction adviser consortium from Nedbank Capital with Regiments Capital;
    32.4. Approve a change in the remuneration model of the transaction adviser compared to the original remuneration model;
    32.5. Delegate power to the GCFO to give effect to the above approvals.

Compiled by

Anoj Singh
Group Chief Financial Officer
Date: 16/04/14

Approved/ ~~Not Approved~~

Brian Molefe
Group Chief Executive
Date: 17. 4. 14

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Annexure A.

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 Wenzel 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 BBEE for all categories
* – PWC and Webbers scored 8 (as per PPM) for pricing as they are double the price compared to McKinsey. Scores shown are only for BBBEE

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 tenderes. 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, Koikanyang, 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: 14/8/2012

RECOMMENDED/~~NOT RECOMMENDED~~:

Garry Pita
GM: Integrated Supply Chain Management
Date: 15/8/12

RECOMMENDED/~~NOT RECOMMENDED~~:

Anoj Singh
Chief Financial Officer
Date: 20/08/12

APPROVED BY:

Brian Molefe
Group Chief Executive
Date: 22.8.12 -

TRANSNET

TRANSNET ACQUISITION COUNCIL

Meeting: 26/07/2012

Agenda Item 9

RFP GSM/12/05/0447:
APPOINTMENT OF ADVISORY SERVICES RELATED TO THE ACQUISITION OF THE 1064 LOCOMOTIVES INFORMED ICT DECISIONS FOR THE GROUP AWARD OF BUSINESS (CONSIDERATION) R50.00M

RESOLUTION/MINUTE 184/2012TAC

THE TAC APPROVED THE AWARD OF BUSINESS FOR CATEGORY 4&5 AS RECOMMENDED

Remarks:

Mr. Esterhuizen declared his non-personal interest in being a part of the evaluation team and recused himself.

The TAC, after discussion, agreed to revise its previous recommendation based on the new information provided. This information plus the previous submission i.e. the full comprehensive submission enabled the TAC to therefore approve the split award of the procurement component of category 4 to the McKinsey Consortium and the legal services within category 4 to Webber Wentzel, as recommended.

However, the TAC noted the following concerns:

- Cost for the project does not qualify for capital sanction in terms of IFRS.
- Group Finance must indicate whether there's budget available for this spend.

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The TAC requires to be informed at the next TAC meeting how this amount can be included into CAPEX, when it is an operating expense.

SECRETARY

Date: 27 July 2012

CHAIRPERSON

Date: 27 July 2012

1000.316

McKinsey Incorporated
88 Stella Street
Sandown Mews East
Sandton
2196

Annexure B

30 November 2012
Reference: LOI/GSM/12/05/0447

Dear Mr Michael Kloss

RE: LETTER OF INTENT for the provision of Advisory Services Related to the Acquisition of the 1064 Locomotives Tender over a period of 9 months. LOI/Proposal Reference No: GSM/12/05/0447 ("the Mandate")

Pursuant to our Request for Proposal (RFP Number 12/05/0447), we wish to inform you that your offer has been accepted and that your consortium has been awarded the contract for the provision of **Advisory Services related to the Acquisition of the 1064 Locomotives Tender** (the **Services**) to Transnet, subject to the conditions precedent set out in section 1 below.

The Parties to this agreement are:

(1) **Transnet SOC Ltd (Transnet)**, a State Owned Company and the procurer of the services. (Registration Number 1990/000900/30); together with

(2) **McKinsey Incorporated (the Supplier)**, (Registration Number 1995/002398/10) and the other members of the consortium, namely, **Regiments Capital (refer to 1.5)**, **Advanced Rail Technologies, Nedbank Capital** and **Utho Capital.**

Transnet wishes to contract with the Supplier for the provision of **the Services** as outlined in clause 3.3 below, which, if mutually agreed by the Parties, will be documented and effected in accordance with a 9 (nine) month Agreement between the Parties. It is agreed that the Supplier will play the lead role and take overall responsibility for the entire Mandate. This condition also applies to services specified in 1.5 and 1.6 herein.

The Parties are desirous of successfully concluding negotiations and thereafter executing a contract (**the Agreement**) to enable the Supplier to provide the Services detailed in section 3.3 below in a timely manner.

The Parties have identified the Services which Transnet would wish the Supplier to provide in the interim while execution of an Agreement between the Parties is being finalised. Conditions of this requirement are specified in sections 2 and 3 below.

The purpose of this Letter of Intent (LOI) is to document the intention of the Parties in respect of the required Services for **the provision of Advisory Services related to the Acquisition of the 1064**

2. **Interim Service Requirement**

2.1. The Supplier agrees to promptly commence with the provision of the Services as detailed in section 3.3 below, after this LOI's confirmation date, and in compliance with Transnet's interim purchase order.

2.2. Should negotiations between the Parties break down for any reason, the Supplier may immediately invoice Transnet Group Finance for all reasonable, actual costs incurred up until that date and such amount shall become due and payable by Transnet against presentation to Transnet of an undisputed Tax Invoice.

3. **Contract Fees and Deliverables** (inclusive of 2.1 above)

The proposed fees for the Services to be rendered, which the Parties in the interim accept, are understood by both Parties (subject to signing of the Agreement) and are as tabled in Annexure A hereto.

3.1. Fees and related costs are quoted in South African currency and are exclusive of Value-Added Tax (**VAT**). Expenses will be capped at 10% of the value of the engagement for the Supplier and its sub-contractors and billed on an actual basis capped at R35,2 million excluding disbursements.

3.2. **Payment** will be effected by Transnet, against presentation by the Supplier of undisputed Tax Invoices, within 30 (thirty) days from date of month-end statement for deliverables effected during that month.

3.3. **Key deliverables and project timescales.**

The key project deliverables for a period of 9 (nine) months are for the provision of **Advisory Services related to the Acquisition of the 1064 Locomotives Tender.** Please note that contract timeline maybe for a longer period, at no extra cost to Transnet if the deliverables are not executed for whatever reason as this engagement is output based, as opposed to time based.

The objective is to award the loco tender by the end of the third quarter of the calendar year 2013 on the back of

- a robust and de-risked business case that is fully supported and approved by the Board and the Shareholder
- a fully capacitated and flawless transaction process
- a commercial negotiation that maximises the value delivered to Transnet and South Africa.

The deliverables are covered in detail in annexure B, and include:

- **Developing and augmenting the business case for the approval of the locomotives by the Transnet Board of Directors and Department of Public Enterprises;**

- **Financial:**
  - Developing finance and funding options
  - Develop deal structure (financing, hedging and de-risking options);
- **Project Management Office:**
  - Proactive stakeholder engagement throughout process to ensure all are granted on time (e.g. PFMA)
  - Manage overall process to ensure all parts come together
  - Provide oversight of legal aspects from a project management perspective.

4. Miscellaneous

4.1. Neither Party shall reveal the content of this LOI or anything disclosed to the other Party in pursuance hereof to any third party, except with the prior express written consent of the other Party, and then only to the extent required to facilitate progression of the startup procedures.

4.2. This LOI may only be amended or modified in writing by the authorised signatories of the LOI.

Thus duly signed at ......JHB......, South Africa on this ......04...... day of ......December...... 2012.. on behalf of:

Transnet SOC Ltd

NAME: Anoj Singh

Designation: Group Chief Financial Officer

WITNESSES

1 ....

2 ....

ANNEXURE A –FEES/COSTS

Deliverables must be executed for a fee of R35.2m as per the fee note below. Any overrun in terms of time will not be for the account of Transnet as the engagement is output based and not time based. Mckinsey will take overall responsibility for the deliverables and quality of the end products. Expenses will be capped at 10% of the value of the engagement for the Supplier and its sub-contractors and billed on an actual basis:

1064 Loco TA			
	Contracting strategy	NU/Udo Regiments/Burlington	R1.4m
	Business case validation	MCK	R6.6m
	Technical evaluation and execution	MCK + ART	R13.5m
	PMO, integration and stakeholder management	Regiments/Burlington + MCK	R7.6m
	Total Loco		R35.2m

, 7m

Business case integration and re-write	Led by McK Re-write of the business case, **approved by Board and DPE** • Integrated end-to-end business case across commodities to validate loco quantities with recommendations to adjust ranges in the fleet plan and get ranges for the contracting • Scenario based modeling to inform contracting based on macro-economic scenarios and links to export coal and export iron ore business cases, and different capex outcomes • Adequately address DPE queries.	Rewritten business case that is approved of by the Transnet Board and DPE
PMO	Led by Regiments/Burlington with McK leadership oversight • Monitor overall process timelines against milestones • Setting up and preparing documentation for steering committees and formal reviews • Escalate issues through regular project steercos • Prepare external stakeholder communications	Detailed project plan with milestones Clear governance structure that creates an integrated view of the entire process across all advisors Effective steering committee meetings- clear agenda with decisions to be made, all information required for decisions circulated beforehand, issues logged and resolved Aligned external stakeholders

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Annexure C

McKinsey Incorporated
88 Stella Street
Sandown Mews East
Sandton
2196

19 November 2013
Reference: LOI/GSM/12/05/0447

Dear Mr. Michael Kloss

RE: LETTER CONFIRMING A CONFLICT OF INTEREST (NEDBANK CAPITAL) AND THE RECOMMENDED ALTERNATIVE (REGIMENTS CAPITAL) IN REGARDS TO ADVISORY SERVICES TO ACQUISITION OF THE 1064 LOCOMOTIVES TENDER OVER A PERIOD OF 9 MONTHS. REFERENCE NO: GSM/12/05/0447

1. Mckinsey Incorporated (McKinsey) and other members of the consortium was awarded the business to provide advisory advice to Transnet for the Acquisition of the 1064 locomotives.
2. McKinsey was awarded the business and Nedbank Capital (Nedbank) was its partner to provide financing, funding options and deal structures for the acquisition of the 1064 locomotives tender.
3. In May 2013 a potential conflict of interest was raised with McKinsey concerning Nedbank to which a response from McKinsey confirmed the conflict and an alternative solution to provide the services to Transnet was proposed in terms of Regiments Capital to provide the services.
4. The 1064 locomotives tender is entering Phase 2 which will now include the funding and deal structuring work envisaged by Transnet for the Acquisition of the 1064 Locomotives.
5. It is thus in the best interest of Transnet and McKinsey to confirm the proposed alternative of Regimens Capital.
6. This letter serves to confirm Transnet's agreement to McKinsey's request for Regiments Capital to provide the required services in place of Nedbank .

Anoj Singh
Group Chief Financial Officer
Date 19/11/13.

Transnet SOC Ltd
Registration Number
1990/000900/30

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Street
Johannesburg
2001

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Parkview, Johannesburg
South Africa, 2122
T +27 11 308 3001
F +27 11 308 2638

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Annexure D1

THIRD ADDENDUM FOR GSM/12/05/0447 - FOR ADVISORY SERVICES RELATED TO THE ACQUISITION OF THE 1064 LOCOMOTIVES TENDER

BETWEEN

McKINSEY INCORPORATED
(1995/002398/10)
("The Service Provider")

AND

TRANSNET SOC LTD
(1990/000900/30)
("Transnet")

1. PREAMBLE AND INTRODUCTION

1.1 McKinsey Incorporated, and Transnet signed a LOI on the 6th December 2012 in terms of which Transnet acquired the services to assist Transnet with advisory services related to the acquisition of 1064 Locomotives tender ("The agreement").

1.2 McKinsey further appointed Regiments Capital (Pty) Ltd as a partner in executing the financing aspect of the above mentioned tender agreement, with McKinsey Incorporated being the principal lead.

1.3 The parties now wish to further vary the LOI and vary the scope of work regarding the financing aspect of the transaction.

1.4 The LOI shall be regarded as amended by the provision of the third addendum.

2. SOLE AGREEMENT

2.1 The LOI and addendum constitutes the sole agreement between the parties relating to the subject matter referred to in paragraph 1 of this third addendum and no variation shall be of any force and effect unless reduced to in writing and signed by or on behalf of both parties.

3. VARIATION OF SCOPE OF WORK

3.1 The deliverables for the revised scope of work will be as per clause 2 derived and agreed upon by Regiments Capital Pty (Ltd) for executing the funding portion of tender agreement GSM/12/05/0447. The objective of this work specific project is to conduct all the necessary studies and preparatory work to enhance Transnet's ability to rise the required funding at a competitive interest rate and to achieve an optimal funding structure with minimal pressure on Transnet's future liquidity. The deliverables include:

1. Determining the development and sustainability impact of the acquisition by,
   a. Conducting socio-economic impact studies.
   b. Determine the acquisition's impact on the environment.
   c. Examining the projects contribution to regional integration.

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2. Conducting a collateral assessment to the component level to determine the potential for securing concessionary funding through export credit agencies, investment promoting funds/agencies and in the form of vendor finance.
3. Present a detailed analysis with specific recommendation to be pursued and executed.
4. Investigate how asset/component can be secured in order to optimise balance sheet and cost of financing within the context of Transnet policy with respect to asset ownership and control.
5. Developing and implementing a best practice risk management to the transaction:
   a. A financial risk assessment framework (including risk identification, risk assessment, risk response, risk monitoring, performance measurement, risk control, risk reporting and compliance) will be developed and implemented.
   b. Cost escalation risk management.
   c. Legal and regulatory risks.
   d. Balance sheet impact – The balance sheet post acquisition and post financing will be evaluated and any necessary responses will be detailed and executed.
6. Developing an optimal risk management solution by examining solution that is embedded in the acquisition agreement, funding agreement and separate risk overlays.
7. Evaluating all potential funding sources and mechanisms to select the most appropriate avenues to pursue and execute. The full spectrum of funding opportunities that will be evaluated include:
   a. Local and International Banks.
   b. Local and International development finance institutions.
   c. Export credit agencies.
   d. Vendor financing.
8. Provide execution support programme management and support in respect to funding:
   a. Assist in the preparation and management of capital raising related tenders/RFPs and RFIs.
   b. Participate in roadshows and assisting with the preparation of information memorandums.
   c. Participate in the fulfilment of conditions precedent required by the funders.
   d. Participate in due diligence exercise and responding to all credit queries raised by the funders.

4. VARIATION OF CONTRACT PRICE

4.1 As a result of the additional scope of work required on the financial phase of this contract, the initial price of R35 200 000.00 (Thirty five million and two hundred thousand rand only) will therefore increase by R6 000 000 (Six Million Rands only). This increase will bring the total Contract value to the fixed amount of R41 200 000.00 (Forty One Million and Two Hundred Thousand Rand only).

4.2 The work performed for this deliverable will be a fixed price of R15 000 000 (fifteen million rand only), utilising the contract value allocated to other deliverables that are no longer required, once R9 000 000 (nine million rand only) has been reached Transnet must approve the continuation of the work past R9 000 000 (nine million rand only) to R15 000 000 (fifteen million rand only).

4.3 Expenses for this piece of work will be capped at 10% of the value, based on actual costs incurred and in terms of Transnet Policies and Procedures

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5. AUTHORITY OF SIGNATURE

5.1 This addendum is effected and confirms the variations herein by acceptance of the signed authority's below:

Signed at ____________ this ______ of ________________ 2014

Name: ERIC WOOD

Title: EXECUTIVE DIRECTOR

~~McKinsey Incorporated~~

REGIMANTS CAPITAL

Authorised signatory who warrants that he/she is duly authorised to sign this Third Addendum

AS WITNESSES:

1. Name: ________________

Signature: ________________

Signed at JHB this 04 of Feb. 2014

Name: Anoj Singh

Title : Group Chief Financial Officer

TRANSNET SOC Ltd

Authorised signatory for and on behalf of Transnet who warrants that he is duly authorised to sign this Third Addendum

AS WITNESSES:

1. Name: ________________

Signature: ________________

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McKinsey&Company

Transnet (SOC) Limited
Carlton Centre
150 Commissioner Street
Johannesburg
2001

Date: 16 April 2014
Reference: GSM/12/05/0447

Dear Anoj Singh,

RE: Transaction advisory services related to the acquisition of the 1064 locomotives ("the mandate")

Pursuant to our discussions and agreement on February 5, 2014 we hereby confirm that the mandate awarded to Mckinsey Incorporated and all rights and obligations created thereby was, on February 5, 2014, ceded and/or delegated to Regiments Capital in accordance with such discussion and agreement. On account of, and pursuant to, the aforementioned cession and delegation, all work related to, and in respect of, the mandate was conducted by Regiments Capital and not by McKinsey Incorporated.

Regards,

Vikas Sagar
Principal

McKinsey, Incorporated, trading as McKinsey & Company
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