EXHIBIT BB 1

STATEMENT & ANNEXURE

OF

POPO SIMON MOLEFE

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

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IN THE COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE

BEFORE THE CHAIRMAN, DEPUTY CHIEF JUSTICE RAYMOND ZONDO

STATEMENT OF THE CHAIRMAN OF THE TRANSNET BOARD OF DIRECTORS

I, the undersigned

POPO SIMON MOLEFE

do hereby make oath and say that:

1. I am the Chairman of the Board of Transnet SOC Limited ("Transnet"). I was appointed by the Minister of Public Enterprises, Mr Pravin Gordhan ("Minister Gordhan") in this capacity on 23 May 2018. I have been requested by the Commission of Inquiry Into Allegations of State Capture ("the Commission") to present this statement and to explain the allegations of state capture that have been levelled against Transnet. I do so in my capacity as Chairman and leader of the Transnet Board of Directors ("the Board").

2. In this statement I set out the problems that the new Board discovered after its appointment, to the extent that it has managed to do so. I also informs the Commission of the remedial steps that the new Board has taken since its appointment.

3. I hasten to state that I have personal knowledge of the happenings prior to my appointment to the Board. The acting Group Chief Executive, Mr Tau Morwe ("Morwe") and the acting Group Chief Financial Officer, Mr Mohammed Mahomedy ("Mahomedy") may in their statements allude to events they have personal knowledge of, given their long experience at Transnet.

4. **PERSONAL BELIEF**

4.1 I would like to believe that I was appointed to lead Transnet because of my firm commitment to good governance, ethical leadership, the responsible use of public funds and courage to confront malfeasance.

4.2 For approximately five decades of my life, I fought against injustice, oppression and exploitation in favour of human dignity and equal rights for all.

4.3 The cornerstone of my belief system is the Freedom Charter, which was drawn up by South African democrats of all races and represents their deepest aspirations when and states (among other things) that the wealth of the country shall be shared amongst all.

4.4 The Freedom Charter most definitely does not state that the wealth of the country shall be shared by a small handful of thieves and crooks.

4.5 Accordingly, I considered my appointment a rare opportunity to make a contribution in turning the fortunes of Transnet and of our country at a very critical moment in our history.

5. **ROLE OF TRANSNET IN THE ECONOMY**

5.1 Transnet has a complex role to fulfil within the national logistics system. As the custodian of ports, rail and pipelines, Transnet's principal objective is the optimal development of the country's freight system. South Africa cannot afford for Transnet to collapse because it drives the South African economy through the transporting of coal necessary for the generation of electricity and the haulage of other vital goods. It performs an equally critical role in the Southern African and the rest of the continent.

5.2 Transnet, as a state-owned company ("SOC"), is a key implementing agent of the Developmental State and must positively contribute to achieving the objectives of the State which includes job creation, skills development, industrial capability building, regional integration, energy efficiency and economic transformation.

5.3 As the custodian of ports, rail and pipelines Transnet has a responsibility to optimise the country's logistics system.

6. NEW DAWN

6.1 On 15 February 2018, President Cyril Ramaphosa was sworn in as the President of the Republic of South Africa. His swearing in, ushered in a "New Dawn" in South Africa. The New Dawn was a recognition of the untold damage to critical public institutions and a resolute to rid them of all malfeasance that caused their systemic weakening and, to begin the arduous task of rebuilding them.

6.2 President Cyril Ramaphosa in his 2018 State of the Nation Address spelt out these challenges and urgent tasks:

6.2.1 "Many of our state-owned enterprises are experiencing severe financial, operation and governance challenges, which has impacted on the performance of the economy and placed pressure on the fiscus. "We will change the way that boards are appointed so that only people with expertise, experience and integrity serve in these vital positions". This is the year in which we will turn the tide of corruption in our public institutions".

6.2.2 In an attempt to rid the state-owned enterprises of the malfeasance that was rampant in the preceding years, President Ramaphosa made various changes to his Cabinet through the Cabinet reshuffle process. On or about 26 February 2018 President Ramaphosa appointed

Minister Gordhan as the Minister of Public Enterprises. Minister Gordhan is responsible for SOE's and made the appointments set out below.

7. **APPOINTMENT OF THE BOARD**

7.1 Following the appointment of Minister Gordhan, particularly, on 23 May 2018, I was appointed the chairmanof the Board and at the same time the Minister appointed eleven other non-executive.

7.2 The non-executive directors who were appointed are Mpho Letlape, Louis von Zeuner, Ursula Fikelepi, Dimakatso Matshoga, Ramasela Ganda, Edward Kieswetter, Aluwani Ramabulana, Flolisani Mufamadi, Vivien McMenamin (who has since resigned), Oupa Motaung, and Gratitude Ramphaka.

7.3 At the time of our appointment, Mr Mohammed Mahomedy had already been appointed on 15 May 2018 as the Acting Chief Financial Officer ("ACFO") of Transnet. He took over from Mr Garry Pita ("Mr Pita") who resigned in April 2018. Mr Morwe was appointed as the acting Group Chief Executive at Transnet on 1 November 2018.

8. **THE ROLE OF THE BOARD**

8.1 The Board is principally responsible for directing and overseeing the affairs of Transnet, balancing the interests of shareholders and stakeholders, and ensuring Transnet's long-term economic, social and environmental sustainability. This responsibility includes it being the deemed Board of the Transnet National Ports Authority in terms of the National Ports Act. The Board, through its Chairman, also serves as the Shareholder of Transnet International Holdings SOC Ltd, a wholly owned subsidiary of Transnet SOC Ltd, incorporated on 29 August 2017 with the express mandate of exploring investment opportunities in Africa and beyond.

8.2 It further ensures that adequate budget planning processes are in place to advance Transnet's mandate by providing an oversight role over Transnet's socio-economic programs. The Board is further tasked with ensuring that Transnet is able to achieve its statutory and commercial objectives by directing and approving Transnet's strategic and operational objectives, and by assessing its performance against targets outlined in the Shareholder's Compact.

8.3 The Board has a duty to ensure that Transnet complies with all legislative and regulatory requirements, including the provisions of the Companies Act, the Public Finance Management Act ("PFMA") and the King IV Report. These laws, rules, codes and standards should be interpreted in the context of the whole compliance universe applicable to the Company. Where required, the Board determines legislative priorities and, in instances of conflict in legislation, the PFMA prevails.

8.4 In sum, the Board remains accountable for leading the organisation ethically and effectively. It reports to the Shareholder Representative being the Minister of Public Enterprises.

9. **STATE CAPTURE**

9.1 We have now been inundated with numerous instances of how key institutions in different spheres of the state have been captured for nefarious ends.

9.2 There is a discernible pattern. Key positions are first filled by individuals who have the veneer of professionalism and possess the appropriate experience.

9.3 They lodge themselves in the vital positions such as CEO, CFO, procurement and the Treasury. From these vantage points, they are then able to manipulate people, processes and systems to their ends and, for the advancement of the agenda of looting.

9.4 They create parallel processes that do not come under scrutiny as they collude among themselves, weaken governance systems, focus on high-value tenders, recruit reputable consultancies to embellish their work.

9.5 All that I have described above has occurred at Transnet.

9.6 On or about November 2016 the office of the Public Protector of South Africa released a report (No: 6 of 2016/17) dated 14 October

2016 titled "State of Capture" report. This is a report based on the Public protector's "*investigation into alleged improper and unethical conduct by the President and other state functionaries relating to alleged improper relationships and involvement of the Gupta family in the removal and appointment of Ministers and directors of State-Owned Enterprises resulting in improper and possibly corrupt award of State contracts and benefits to the Gupta family's businesses*". The Public Protector's report was the first document that highlighted in clear detail possible capture of various government departments and state-owned companies.

9.7 Following the release of the Public Protector's report various newspapers started reporting on numerous allegations of state capture involving many individuals and state functionaries who were alleged to have had links with the Gupta family and who had allegedly aided the Gupta family in capturing the Ministers, heads of state-owned institutions and government officials.

9.8 In May 2017, the Public Affairs Research Institute (PARI) published a ground-breaking study of state capture titled *"Betrayal of the Promise: How South Africa was Stolen"*. It would form the basis of further public engagement on the issue.

9.9 On or about June 2017, Scorpio, the Daily Maverick's newly launched investigative unit, and amaBhungane an independent investigative non-profit organisation, started publishing stories from a much wider trove. This consisted of a few hundred gigabytes of information containing between 100,000 and 200,000 unique e-mails and numerous other documents, which they called the #GuptaLeaks. According to these newspapers, this electronic data was physically located on a hard drive, and consisted of hundreds of thousands of Gupta-linked emails that detail the extent of the family's role in state capture.

9.10 The emails include alleged correspondence between the Gupta family members, their associates, together with leading government officials and officials from state-owned enterprises. These emails were leaked to the media which resulted in exposés in various newspapers explosive #GuptaLeaks reporting. The Commission is in possession of the hard drives as well as copies.

10. WHAT THE NEW BOARD FOUND

10.1 Upon commencing our duties as the Board of Transnet, we were presented with the forensic reports of both Werkmans and Mncedisi Ndlovu and Sedumedi Attorneys ("MNS"). Both reports were presented to us on 13 June 2018.

10.2 It is not an exaggeration to state that the Board was astonished by the widespread corruption and wilful disregard of the rules.

10.3 As the Board settled into its duties, it became clear that Transnet was in a state of total paralysis. Therefore, there is absolutely no doubt in my mind, or in the mind of any member of the board, that what we found when we came into office was nothing less than a horror show.

10.4 The ability of the Board to tackle these issues was not immediately possible and was negatively affected by the following:

10.4.1 a culture of secrecy which made Transnet officials resistant to providing the Board with the requested information (oral or documentary);

10.4.2 the Executive and Management actively discouraged Transnet staff from cooperating with the new Board; and

10.4.3 employees lived in fear, always scared to be seen talking to the new directors or visitors to the Company.

10.5 The three persons who were identified as being the primary architects and implementers of state capture at Transnet are Mr Brian Molefe ("Molefe"), Mr Anoj Singh ("Singh") and Mr Siyabonga Gama ("Gama"). These officials were appointed under the hand of former Minister of Public Enterprises, Minister Malusi Gigaba ("Minister Gigaba"). They gave free reign to Mr Iqbal Sharma

("Sharma") who was the Chairmanof the board's Acquisition and Disposals Committee (BADC).

10.6 As a result of the influence of the aforementioned officials and others who colluded with them at Transnet, Transnet was characterised by:

10.6.1 a pattern of denial of state capture within Transnet;

10.6.2 non-compliance with the prescribed procurement practices; and

10.6.3 a collapse in the functioning of governance structures.

10.7 We were confronted with the reality that some of the key architects of the broad state capture project had effectively turned Transnet into their piggybank by exploiting procurement as an avenue for unlawfully diverting funds by procuring at inflated prices or in paying for advisory services where no services had been rendered.

10.8 Certain members of Transnet Management committed themselves to unlawfully deriving financial wealth at Transnet's expense rather than to provide an efficient state-owned freight and logistics business.

10.9 They built a model of state capture and corruption founded on the following three basic pillars, they:

10.9.1 employed individuals who were interested in personally benefitting at the expense of Transnet. Employees who did not support their agenda were dismissed, transferred or rendered redundant;

10.9.2 flouted decision-making and procurement processes or implemented new systems in order to facilitate state capture; and

10.9.3 enforced reprisals in respect of whistle-blowers and any other persons who attempted to speak out.

10.10 It was evident that the previous Board had devoted significant time and resources to the aspect of procurement and had not maintained proper corporate governance.

10.11 One of the primary tasks of the new Board was (and still is) to investigate the extent of abuse of procurement process at Transnet and to make sure that we clean up the mess as much as possible.

10.12 It is against backdrop that the Board started reviewing what is colloquially known as High Value Tenders within Transnet. What follows is a high-level summary of some of the tenders that the Board reviewed and which the Commission took interest in:

Procurement of Locomotives

10.12.1 In the recent past, Transnet procured 95, 100 as well as 1 064 locomotives. Various procurement irregularities were identified by the investigators in respect of each of these procurement events. I deal with each of them briefly below.

95 Locomotives

10.12.2 The investigations revealed:

10.12.2.1 improper engagements with China South Rail ("CSR") before and after the Tender notice was Issued;

10.12.2.2 the irregular changes to the evaluation criteria that benefitted CSR; and

10.12.2.3 failure to levy delay penalties under circumstances where it should have.

10.12.3 All of which lays credence to a reasonable apprehension that Transnet was biased in favour of CSR.

Acquisition of 100 Locomotives

10.12.4 The following irregularities were identified in respect of the above acquisition:

10.12.4.1 the confinement of 100 locomotives to CSR was not in compliance with the Procurement Policy Manual ("PPM") as it did not meet the requirement of urgency, standardisation, and highly specialised goods as prescribed;

10.12.4.2 the CSR proposal did not meet the objectives of confinement as set out in the memorandum of 21 January 2014 approved by the Transnet board of directors;

10.12.4.3 the acquisition cost escalated from R3.8 billion to R4.4 billion. The memorandum submitted by Mr B Molefe, and recommended by Messrs A Singh and S Gama, justifying the increased cost of R969 million unjustifiably inflated the factors that contributed to the increase. As a result, Transnet overpaid by at least R3.47 million per locomotive and at most, R6.2 million per locomotive; and

10.12.4.4 Messrs B Molefe, S Gama, A Singh and T Jiyane, failed in their fiduciary duties in the acquisition of 100 locomotives from CSR.

1064 Locomotives

10.12.5 The investigations found:

10.12.5.1 the Request For Proposals ("RFPs") did not comply with the Preferential Procurement Policy Framework Act;

10.12.5.2 that Transnet unlawfully deviated from the evaluations process when evaluating technical compliance;

10.12.5.3 that Transnet did not track Local Production and Content threshold as the prices changed during post tender negotiations with the effect that three of the four bidders awarded did not meet the threshold;

10.12.5.4 contrary to Transnet negotiation strategy, the post tender negotiating team permitted the bidders to price for the split in batches thus causing Transnet to incur an additional R2.7 billion in the total estimated cost; and

10.12.5.5 that the relationship between CSR and Essa has tainted the procurement event with corruption.

Relocation

10.12.6 During July 2015, a year and four months after the conclusion of the locomotives Locomotive Supply Agreements ("LSAs"), Transnet approved the "relocation" costs of Bombardier Transport ("BT") and China North Rail ("CNR") amounting to R618, 457 125.00, and R647, 181 494.00, respectively.

10.12.7 Transnet's investigations have uncovered that:

10.12.7.1 there was no actual relocation of either BT or CNR;

10.12.7.2 Neither BT or CSR presented substantiated proposals epoch

10.12.7.3 the "relocation" costs approved by Transnet were not interrogated;

10.12.7.4 there was a suspicious agreement concluded between CNR and BEX, who assisted CNR in the computation of the costs; and

10.12.7.5 the variation orders to the two Locomotive Supply Agreements were not handled with the required care, skill and diligence required by *inter alia*, the Companies Act, PFMA and the PPM;

10.12.8 Transnet appointed a railway logistics expert: Loliwe Rail Solutions (Pty) Ltd ("Loliwe") to conduct an assessment of *inter alia*, the reasonableness of the relocation costs accepted by Transnet.

10.12.9 In summary, Loliwe found that:

10.12.9.1 there was no relocation of either BT and CNR;

10.12.9.2 the variation orders were inflated intentionally by the OEMs and inadequately evaluated by Transnet prior to concluding the approval and amendment of the contracts;

10.12.9.3 there is no justification for either the direct or indirect costs presented by BT and CNR;

10.12.9.4 it was improper for Transnet to have agreed to lump sums for the relocation;

10.12.9.5 the approval of the direct and indirect costs was done without the presentation of valid and substantiated documentation; and

10.12.9.6 the process followed in the approval of the relocation costs was not in accordance with the standard contract management protocol.

10.12.10 The investigations found that Mr Siyabonga Gama's approval of relocation costs without apprising himself of the circumstances surrounding the amount, may have caused Transnet to incur fruitless and wasteful expenditure.

10.12.11 Our investigators recommend that BT and CNR be directed to provide a statement and debatement of the funds paid in relation to "relocation". Transnet is inquiring into whether the variation orders of the two LSAs were contrary to public policy and whether as a result can be declared unlawful and be set aside.

<u>T-SYSTEMS</u>

10.12.12 On 22 February 2017, Transnet awarded an IT Data Services tender to T-Systems as a second highest scoring bidder, as Transnet held a view that there were objective criteria justifying such an award.

10.12.13 Transnet's decision to award the tender to T-Systems and not Gijima was based on the fact that Transnet believed that the risks identified by Gartner Consultants, post BAFO assessment, constituted objective criteria.

10.12.14 According to the report, there was no reasonable basis for Transnet not to have awarded the tender to Gijima. The previous Board was of the view that the identified risks constituted objective criteria, for departing from the requirement to award the tender to the highest scoring bidder (Gijima), was not justifiable for the reasons advanced.

<u>The Stanley Shane influence</u>

10.12.15 The audio recording of the meeting of the BADC held in February 2017, indicate that the procurement process was simply a sham to perpetuate the continued appointment to T-Systems.

11. **REMEDIAL**

Establishment of Committees

11.1 The Board established ad hoc committees, the 1 064 Locomotives Board Steering Committee, comprising Audit Committee members and the Board Chairperson.

11.2 The Board Steering Committee oversees the implementation of the recommendations contained in the MNS and Fundudzi Reports.

Addressing financial and process abuses

11.3 In terms of section 34(1) of the Prevention and Combating of Corrupt Activities Act, the Board has reported certain alleged wrongdoings to the Directorate of Priority Crimes Investigations on 21 November 2018.

11.4 During April 2018, the President by Proclamation appointed The Special Investigating Unit (SIU) to investigating contracts tender irregularities within Transnet and Eskom. The Board has since appointed the SIU to investigate the matters appearing in annexure "E".

11.5 By way of a letter dated 28 February 2019, the SIU provided us with a progress report in which it is inter alia stated that "[t]he SIU anticipates that civil action will be initiated soon." I attach marked as "**E**" a copy of the SIU letter.

<u>Suspensions and Dismissals</u>

11.6 Several Transnet executives and senior managers have been dismissed and/or suspended, these include:

Siyabonga Gama

11.6.1 Transnet former Group Chief Executive, Mr Siyabonga Gama was dismissed 21 October 2018. Mr Gama challenged his dismissal at the Labour Court. His application was dismissed with Costs. Transnet has referred its bill of costs for taxation. Once taxed, Transnet will recover the costs as order by the Labour Court.

11.6.2 At the end of 2018, Transnet wrote to the Transnet Retirement Fund requesting that the Fund to withhold Mr Gama's pension fund. Following the Fund's Administration Committee meeting scheduled for 20 February 2019, Transnet was advised that the Fund had withheld Mr Gama's pension benefits.

Thamsanqa Jiyane

11.6.3 Transnet Engineering Chief Executive, Thamsanqa Jiyane, ("Jiyane") was suspended in September 2018. Mr Jiyane's disciplinary hearing commenced on 31 January 2019.

Lindiwe Mdletshe

11.6.4 Senior Manager Supply Chain Services at TFR, Mdletshe was suspended in September 2018. Ms Mdletshe's hearing sat on 19 February 2019 and is ongoing.

Edward Thomas

11.6.5 Group Chief Supply Chain Officer, Edward Thomas was suspended in October 2018. A date has been arranged with the presiding officer and the matter will be heard on 18 March 2019.

Phetolo Ramosebudi

11.6.6 Group Treasurer, Phetolo Ramosebudi, resigned after being served with a notice of intention to suspend him in November 2018. At the end of 2018, Transnet wrote to the Transnet Retirement Fund requesting that the Fund to withhold Mr Ramosebudi's pension fund. Following the Fund's Administration Committee meeting scheduled for 20 February 2019, Transnet was advised that the Fund had withheld Mr Ramosebudi's pension benefits.

Thabo Lebelo

11.6.7 Transnet Property Chief Executive Thabo Lebelo resigned after being served with notice of intention to suspend him in November 2018.

Civil action

11.7 Our legal team has instituted multiple actions against persons (natural and juristic) who have been found to have either been paid without just cause or colluded in the payment of those persons.

11.8 What follows is high-level summary of all the civil action Transnet has taken to date to recover its loses.

Regiments Capital (Pty) Ltd.

11.8.1 We have instituted two actions against Regiments. The claims are for the amount of R189 240 000, 00 and R79 230 000. 00 respectively. Both claims relate to the unjustified overpayments.

11.8.2 Following difficult negotiations led by MNS, Regiments has tendered an amount that we consider reasonable but has not been accepted as parties are negotiating the fine print.

Trillian Asset Management

11.8.3 Transnet has instituted four claims against Trillian. The claims are for varying amounts totalling the sum of R145 920 000, 00. The amount of R145 920 000, 00 is computed as follows:

11.8.3.1 R93 480 000, 00 for monies paid without just cause for work purportedly executed by Trillian as Lead Arranger of the U$1 billion ZAR equivalent club loan;

11.8.3.2 R41 040 000, 00 paid without cause when work was not done in relation to the property optimization structure; and

11.8.3.3 R11 400 000,00 for monies paid when work was not done in relation to a proposal for financial structuring advisory services.

Mr Siyabonga Gama.

11.8.4 We have issued and served multiple summonses on Mr Gama. The claims are for varying amounts totalling the sum of R323 760 000, 00. The amount of R323 760 000, 00 is computed as follows:

11.8.4.1 R93 480 000, 00 for monies paid without just cause for work purportedly executed by Trillian as Lead Arranger of the U$1 billion ZAR equivalent club loan;

11.8.4.2 R41 040 000, 00 paid without cause when work was not done by Trillian in relation to the property optimization structure; and

11.8.4.3 R189 240 000, 00 for monies paid to Regiments without just cause as a result of purported funding and financial advisory services rendered.

Mr Brian Molefe

11.8.5 Summons for the recovery of the amount of R79 230, 000, 00 have been issued under case number 44359/2018 against Mr Molefe and two others.

11.8.6 The claim relates the unjustified overpayments made to Regiments for advisory work done during post tender negotiations.

Mr Anoj Singh

11.8.7 Transnet has also issued and served multiple summonses on Mr Singh. The claims are for varying amounts totalling the sum of R303 510 000, 00. The amount of R303 510 000, 00 is computed as follows:

11.8.7.1 R41 040 000, 00 paid without cause when work was not done by Trillian in relation to the property optimization structure;

11.8.7.2 R189 240 000, 00 for monies paid to Regiments without just cause as a result of purported funding and financial advisory services rendered; and

11.8.7.3 The amount of R79 230, 000, 00 paid to Regiments. The claim relates the unjustified overpayments.

Mr Garry Pita

11.8.8 Mr Pita has also been served with multiple summonses. The claims against are for varying amounts totalling the sum of R335 160 000, 00. The amount of R335 160 000, 00 is computed as follows:

11.8.8.1 R93 480 000, 00 for monies paid without just cause for work purportedly executed by Trillian as Lead Arranger of the U$1 billion ZAR equivalent club loan;

11.8.8.2 R41 040 000, 00 paid without cause when work was not done by Trillian in relation to the property optimization structure;

11.8.8.3 R11 400 000, 00 for monies paid when work was not done in relation to a proposal from Trillian for financial structuring advisory services; and

11.8.8.4 R189 240 000 for monies paid to Regiments without just cause as a result of purported funding and financial advisory services rendered.

Mr Phetolo Ramosebudi

11.8.9 Claims are for varying amounts totalling the sum of R282 720 000, 00 have been instituted against Mr Ramosebudi. The amount of R282 720 000, 00 is computed as follows:

11.8.9.1 R93 480 000, 00 for monies paid without just cause for work purportedly executed by Trillian as Lead Arranger of the U$1 billion ZAR equivalent club loan; and

11.8.9.2 R189 240 000, 00 for monies paid to Regiments without just cause as a result of purported funding and financial advisory services rendered.

Mr Edward Thomas

11.8.10 A claim for the recovery of the amount of R11 400 000. 00 has been instituted against Mr Thomas.

11.8.11 The amount relates to monies paid to Trillian when work was not done. At the time, Trillian had mere presented a proposal for financial structuring advisory services.

Contractual action

11.9 We have won an early victory against one of the OEMs, by recovering R618 million from CSR. The amount was paid unjustifiably to CSR for start-up costs and the delivery of certain tools and rotables relating to a maintenance agreement for the new locomotives.

Negotiations with the suppliers of the 1064 locomotives

11.10 Based on irregularities in the procurement of 1064 Locomotives and non-compliance with section 54(2) of the PFMA as well as fraud and corruption in the award of the tender to CSR, the Board took a resolution to institute court proceedings to:

11.11 declare the procurement process which culminated in the award of the 1064 Locomotives tenders to the four OEMs irregular;

11.12 seek an appropriate relief on how the Locomotives Supply Agreements ("LSAs") must be dealt with in view of the procurement process being declared irregular

11.13 The Board adopted a differentiated approach to deal with the contracts concluded with the OEMSs based on business needs and legal considerations, to each of the contracts.

11.14 Transnet is therefore currently engaging with the four OEMs with the assistance of MNS to approach the court jointly to declare the awarding of the contracts irregular and seek an appropriate relief on how the contracts must be dealt with in view of the procurement being declared irregular.

12. **THE DIRE CONSEQUANCES THAT WOULD HAVE ENSUED IF TRANSNET HAD COLLAPSED**

12.1 Transnet is the largest and most crucial part of the freight logistics chain that delivers goods to each and every South African and to other parts of the continent. Every day Transnet delivers thousands of tons of goods around South Africa and across the continent, through its pipelines and both to and from its ports. It moves that cargo on to ships for export while it unloads goods from overseas.

12.2 Transnet is made up of five operating divisions, namely, Transnet Freight Rail (TFR), Transnet Rail Engineering (TRE), Transnet National Ports Authority (TNPA), Transnet Port Terminals (TPT) and Transnet Pipelines (TPL).

12.3 Although Transnet is fully owned by the South African government, however, it operates as a corporate entity which supports and contributes to the country's freight logistics network. It aims at developing South African industry, reducing the cost of doing business, while at the same time operating efficiently and profitably.

12.4 Given the centrality of Transnet in the economy of the country, the region, its collapse would have had a devastating effect not only on the country but on the region and SADC as well.

12.5 It is for these reasons that the Board made every effort in its first three months of office, to ensure that the lenders do not recall their loans. This was equally to protect the sovereignty of the country's rating, which is necessary for the overall economic sustainability of the country.

12.6 The significance of Transnet's infrastructure is unmatched in the region and the continent at large. Transnet pipelines consists of the fuel and gas pipeline business, which pumps and manages the storage of petroleum and gas products through its network of high-pressure, long distance pipelines. In particular, Transnet's national

Multipurpose Pipeline (NMPP) plays a significant role in the transportation of petroleum all over the country. If Transnet had collapsed inadequate fuel would be delivered in any part of the country and some parts of the continent.

12.7 The importance of Transnet's freight business in the transportation of goods in South Africa and many parts of the African content are a further indication of Transnet's centrality in the economy. It was apparent that Transnet's operations are to the economy what the heart and lungs are to the human body. The human body dies when these two vital organs become dysfunctional. A dysfunctional Transnet means a dysfunctional economy.

12.8 If one has regard to the precarious financial situation in which entities such as Denel and Eskom find themselves in, it is implicit that the consequences would have been disastrous had Transnet collapsed.

12.9 Having regard to the aforesaid, it is clear that the clean up of corruption has to be immediate and without delay

13. **CONCLUDING REMARKS**

13.1 We believe that our approach rescued the company from its perilous state and is gradually getting it back on the road to recovery.

13.2 This process has neither been cheap nor easy. We have teams of forensic investigators working on cases. We have regular meetings with law enforcement agencies such as the Special Investigations Unit and the Hawks to identify and prosecute all implicated persons. And we have legal advisors who are preparing to institute civil claims against those who benefited from theft, corruption and conspiracy.

13.3 In the period following our appointment, we believe that we are making good progress. An additional R618-million has been refunded to Transnet by CSR.

13.4 In some cases, we have successfully blocked implicated Transnet officials from receiving their Transnet pensions until we have completed the process of recovering what is due to Transnet.

13.5 Having said all this, though, it is clear that our work is by no means done. Every day, we seem to uncover new layers of corruption and discover new networks that have been put in place to siphon money out of Transnet and its suppliers. This accentuates the fact that claws of corruption are long, it roots deep and its tentacles wide. To root out corruption will require all round mobilization of the society.

13.6 We also see increasing evidence that the corrupt networks are fighting back, or preparing to fight back. But what this has done is to strengthen our resolve.

13.7 As a result of the strong political leadership of our President and our Minister, the commitment of the board, the resolve of the Transnet officials committed to good governance and the goodwill of civil society as well as the South African public, we are gradually moving the company from chaos to stability. From stability to sustainable growth.

13.8 We have new structures and procedures in place to ensure good governance and proper accountability for the management of public funds, and we are already seeing the results. What remains a challenge is the building and entrenchment of ethnical leadership underpinned by a new organization and values of service to society.

DR POPO SIMON MOLEFE

Signed before me at Illovo on this 18th day of APRIL 2019. The deponent has acknowledged that he understands the contents of the Affidavit. He has no objection against taking the prescribed oath and considers the oath to be binding on his conscience.

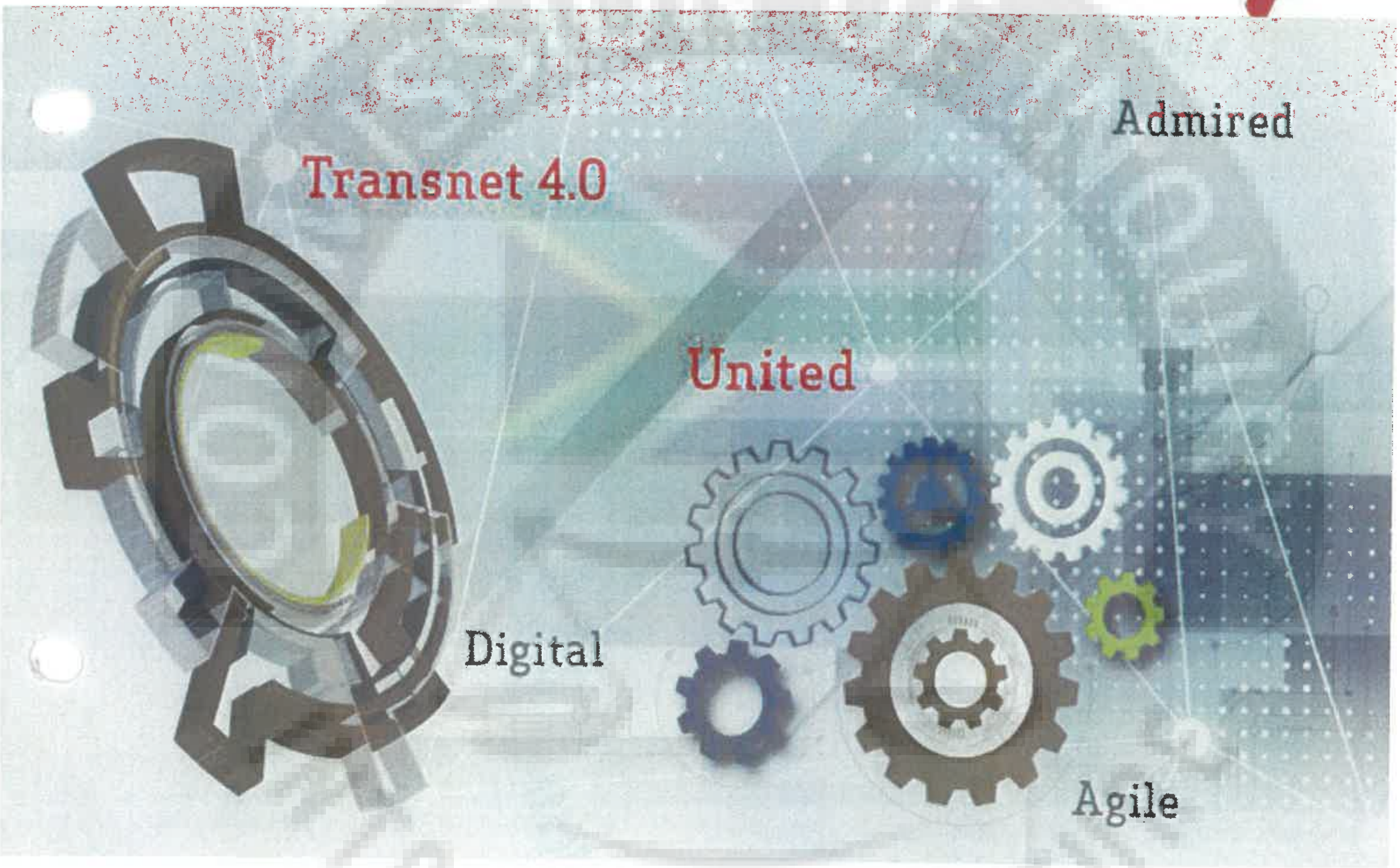
COMMISSIONER OF OATHS

AMOD & VAN SCHALK INC
COMMISSIONER OF OATHS
EX-OFFICIO PRACTISING ATTORNEY RSA
Riaz Amod
16 Fricker Rd
Illovo, Sandton
2196.

ANNEXURE PM 1

Interim Governance Structure and Proposed Delegation of Authority ("DOA") Framework

TRANSNET

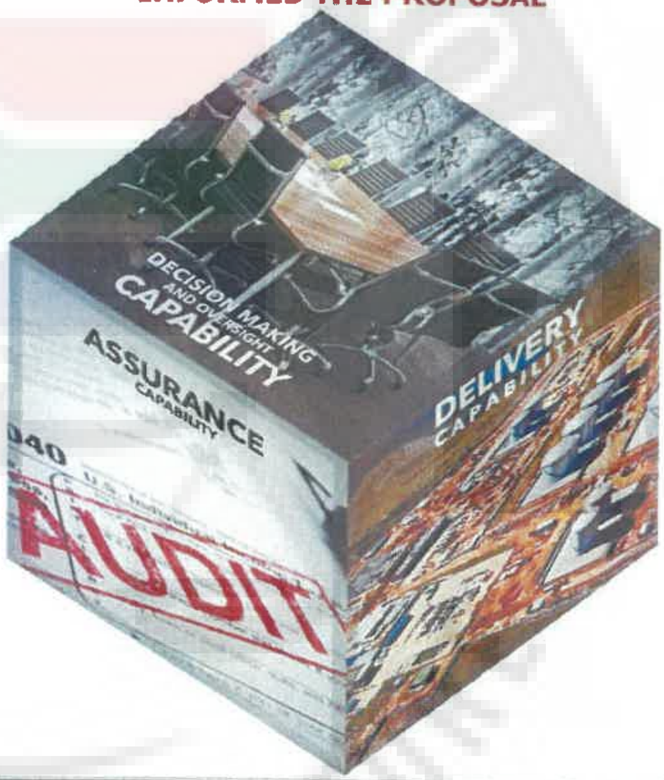


Governance Context

TRANSNET

- The Transnet Board of Directors and Executive Management held a strategy workshop, with the intention to review and discuss the following:
  - Transnet's operating model;
  - key issues; and
  - Way forward
- One of the key resolutions was the dissolution of the current Group Leadership Team (GLT) and its replacement by an interim Executive Committee.
- One of the key focus areas is to stabalise the business and enable decision making to continue while the organisation develops the strategy and design an organisational structure moving forward.
- A key success factor to achieve this is to minimise confusion in the business as it relates to the interim governance and approval authorities.
- The Board resolved that a revised Delegation Of Authority ("DOA") and interim governance structure will be developed and implemented accordingly.
- A Lean process was followed to review, streamline and strengthen the DOA. The output of this process, together with the Board's input was used as the base for the proposed DOA.

THREE CORE CAPABILITIES REQUIRED FOR EFFECTIVE GOVERNANCE WHICH INFORMED THE PROPOSAL



Governance Principles

TRANSNET

ASSIST WITH THE EFFECTIVE DISCHARGE OF EXCO DUTIES

The EXCO Sub-committees are essential in assisting the governing body (EXCO) in fulfilling their duties to the organisation. Allocation of roles and responsibilities to committees allows for the **BREAKDOWN IN THE WORK** and **MORE CONCENTRATED FOCUS** in the committee and therefore making the fulfilment of the governing body duties more effective and efficient.

PROMOTE INDEPENDENT JUDGEMENT

Chairman and members of the EXCO Sub-committees have a duty to act with **INDEPENDENCE OF MIND** in the best interest of the Transnet and not purely to achieve line or functional outputs and objectives.

ACHIEVE BALANCE OF POWER

Functional expertise are able to chair the sub-committee, however it requires additional EXCO members to form part of the membership base to ensure ability to **"SPEAK TRUTH TO POWER"**, provide **DIVERSE EXECUTIVE VIEWS** and ensure full decision powers does not remain in the functional delivery domain.

APPLIED INTEGRATED ASSURANCE

The specific EXCO sub-committees are set up in line with the Integrated Assurance Model of Transnet. Each sub-committee will perform the **DUTY OF DISCIPLINE / FUNCTIONAL OVERSIGHT IN AN ASSURANCE CAPACITY AS 4TH LINE OF DEFENCE.**

LIMIT DUPLICATION OF MANDATE

Encourages collaboration between EXCO sub-committees whilst minimising duplication of mandates, therefore delegation powers, as well as competing strategic initiatives / approaches.

Proposed Delegation Of Authority Design Principles

TRANSNET

- Support the strategic direction of the Company and drive internal alignment of purpose
- Avoid duplication, overlaps and uncertainties of powers and functions

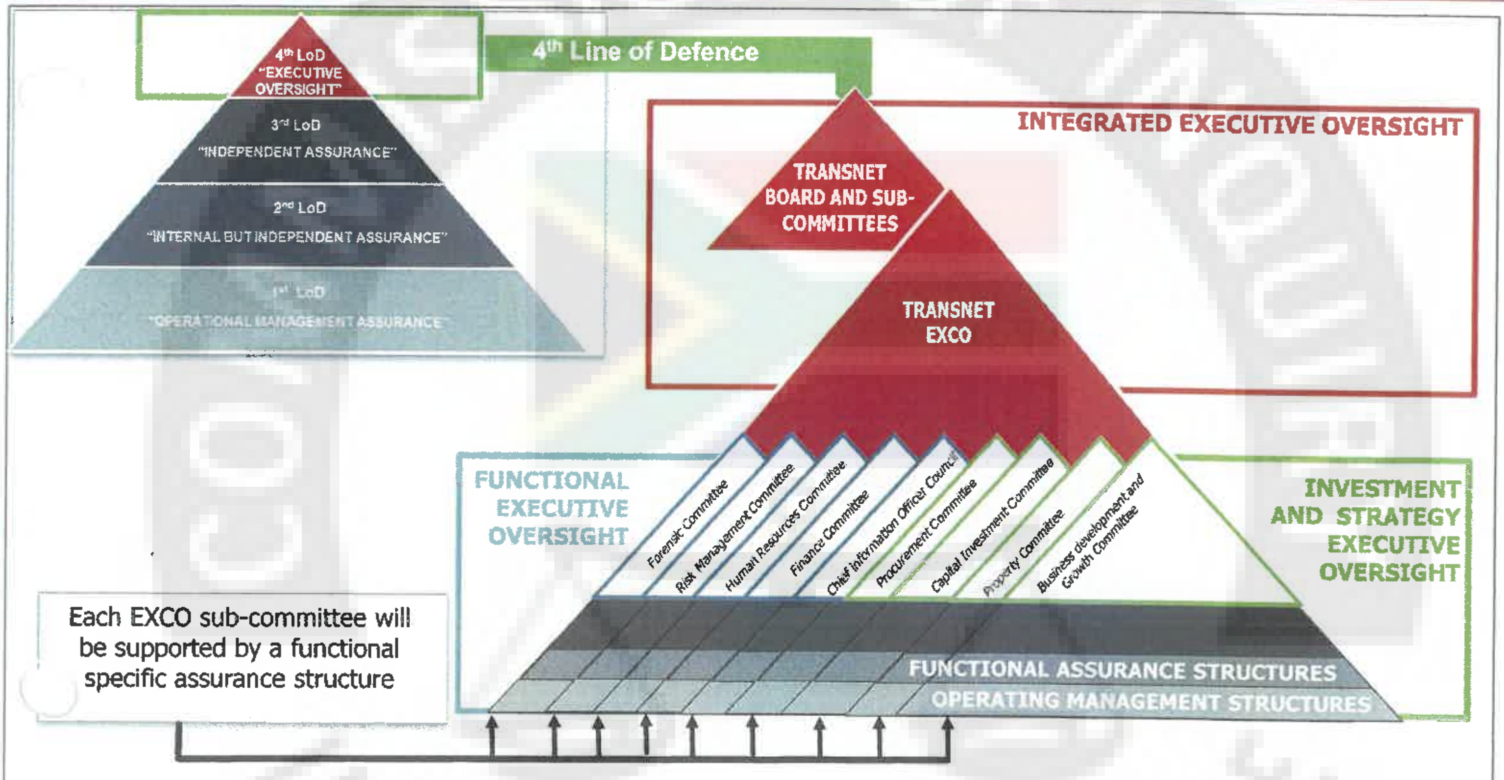
- Clarify lines of authority and lines of accountability for all core functions
- Governance committees is the default approval authority to achieve balance of power to individuals
- Where individual approvals are necessary, unambiguous and distinct accountability is stated and does not give options between individual or committee approval

- Give comfort to all stakeholders on integrity, ethics, accountability, transparency of decision-making
- Improved reporting requirements to improve transparency

- The Board critically reviewed state capture in Transnet and concluded that the Delegation of Authority (DOA) in many instances enabled state capture through giving DOA for key transactions to individuals. The proposed DOA allocates this responsibilities back to Governance Committees oppose to individual approvals.

Integrated Assurance Principles To Inform Governance Structures

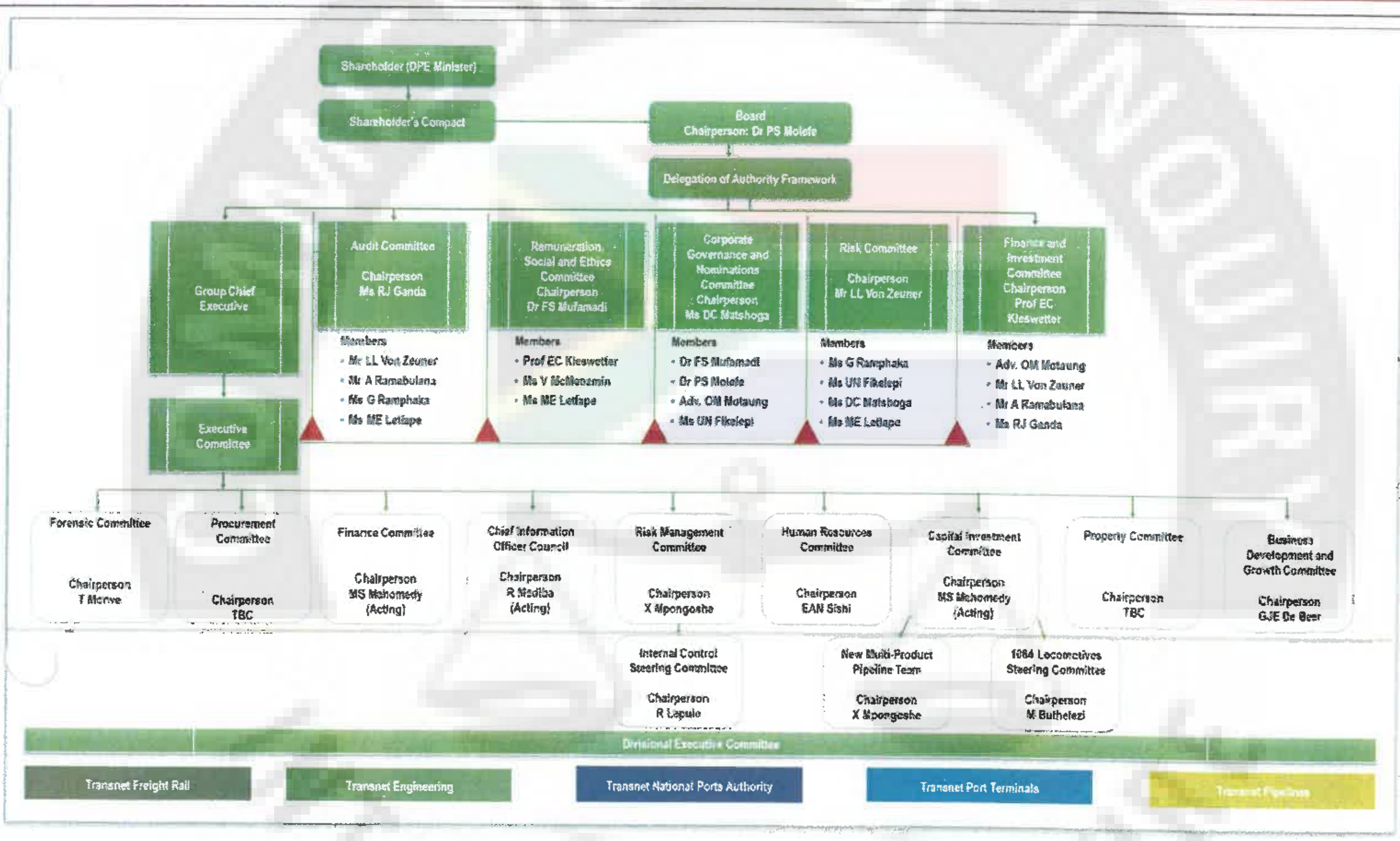
TRANSNET



Note: Investment and Strategy oversight committees will be chaired independent of functional accountability to promote independent judgement on key investment and strategy decisions. Membership of the committees needs to be aligned to this principle.

Proposed Transnet Corporate Governance Structure

TRANSNET



* All Capital Programmes Steering Committees will be chaired by the Chief Operations Officer

Proposed Interim EXCO composition

TRANSNET

- The interim Delegation governance structure incorporates the following key decisions taken by the Board:
  - The Chief Executives of the Operating Divisions – TFR, TNPA, TPT, TPL and TP report directly to the Acting Group Chief Executive
  - A key implication of this is that the Operations Leadership Team will be integrated into the Interim Executive Committee
- Membership of the Interim Executive Committee will be:
  - The Group Chief Executive (Chairperson)
  - The Chief Operating Officer;
  - The Chief Business Development Officer;
  - The Chief Capital Officer;
  - The Chief Corporate and Regulatory Officer;
  - The Chief Financial Officer;
  - The Chief Human Resources Officer;
  - The Chief Information Officer,
  - The Chief Customer Officer,
  - The Chief Executives: Transnet Freight Rail, Transnet National Ports Authority, Transnet Port Terminals, Transnet Pipelines and Transnet Engineering
  - Attendees: The Chief Audit Executive, Group Executive: Strategy, Chief Executive: Transnet Property, Chief Legal Counsel, Head of Group Communications, Chief Executive: Transnet International Holdings and the General Managers of the GCE and Board Chairman will attend all EXCO's. All other attendees will be invited as required.
- All members of the EXCO is deemed Prescribed Officers of Transnet.
- The Group Chief Executive will chair the interim EXCO. All sub-committees of the Interim EXCO will be chaired by an identified individual as recommended by the interim EXCO. This is to ensure independent oversight between the interim EXCO Chairman and that of sub-committees. (Exception being the Forensic Committee which is chaired by the GCE)

ANNEXURE PM 2

public enterprises
Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

TRANSNET
delivering freight reliably

2017-2018

SHAREHOLDER'S COMPACT

Entered into by and between

THE GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA, HEREIN REPRESENTED BY THE MINISTER OF PUBLIC ENTERPRISES

("The Shareholder Representative")

And

TRANSNET SOC LTD, HEREIN REPRESENTED BY THE CHAIRPERSON OF THE TRANSNET BOARD OF DIRECTORS

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1. **INTERPRETATION**

1.1 "Accounting Authority" means the Board of Directors of Transnet as appointed from time to time;

1.2 "Accounting Officer" means the Director-General of the Department of Public Enterprises;

1.3 "Board" means the Board of Directors of Transnet;

1.4 "Company" means Transnet;

1.5 "Companies Act" means the Companies Act No. 71 of 2008, as amended and includes any regulation issued thereunder;

1.6 "Corporate Plan" means the three year plan of Transnet as contemplated in the PFMA and Treasury Regulations document which Transnet is required in terms of section 52 of the PFMA, to submit to the Accounting Officer and the National Treasury before the start of its financial year, which gives effect to the Strategic Intent Statement and Shareholder's Compact;

1.7 "Founding Documents" means the Memorandum of Incorporation of Transnet and its operating divisions as the case may be;

1.8 "Parties" means the Shareholder and Transnet collectively, and Party shall mean any one of them as the context requires;

1.9 "PFMA" means the Public Finance Management Act No. 1 of 1999, as amended and includes any regulation issued thereunder;

1.10 "Shareholder's Compact" means this agreement including the annexures hereto, which sets out the key performance areas and indicators (measures) to be attained, in support of the Strategic Intent Statement and to the extent necessary seeks to clarify the objectives of Transnet in the context of the Strategic Intent Statement, entered into in accordance with the provisions of the PFMA;

1.11 "Shareholder" means the Government of the Republic of South Africa as represented by the Shareholder Representative (and his/her successor in law) in his/her capacity as the representative of the Government and the executive authority (as defined in the PFMA) of the Company, or if any other Minister is designated as being the representative of the Government or the executive authority, then that Minister acting in such capacity;

1.12 "Shareholder Representative" means the Minister of Public Enterprises;

1.13 "Strategic Intent Statement" means the document which sets out the agreed mandate and strategy for Transnet;

1.14 "Subsidiary" means a subsidiary of Transnet or any of its operating divisions over which it exercises ownership control as defined in terms of the PFMA;

1.15 "Transnet" means Transnet SOC Ltd, a public company registered and incorporated as such in accordance with the laws of the Republic of South Africa and pursuant to the Legal Succession to the South African Transport Services, 1989 (Act No. 13 of 1989) with registration number 1990/000900/30, and having its registered head office at 47th Floor, Carlton Centre, Commissioner Street, Johannesburg;

1.16 "Treasury Regulations" means the regulations issued by the National Treasury of the Republic in terms of section 76 of the PFMA and any amendment thereof or substitution therefor from time to time.

2. PURPOSE OF SHAREHOLDER'S COMPACT

The purpose of this Shareholder's Compact is to align Transnet's performance to the Strategic Intent Statement which sets out the Shareholder's expectation of Transnet for the 2017/18 reporting period and to confirm:

2.1 Transnet's Mandate;

2.1.1 The strategic objectives to be attained by Transnet; and

2.1.2 The key performance areas and key performance indicators to measure Transnet's performance during the period of the Shareholder's Compact.

3. FOUNDING DOCUMENTS AND GOVERNANCE FRAMEWORK

3.1 The governance framework, *inter alia* includes the enabling legislation, the Founding Documents, the Strategic Intent Statement, this Shareholder's Compact, Significance and Materiality Framework and the Corporate Plan.

3.2 The Parties agree that the Founding Documents of Transnet shall be reviewed and amended, where required, to ensure that agreed principles and enduring rights and obligations regarding the relationship between the Parties are incorporated and that the Founding documents are comprehensively consistent with the provisions of the Companies Act, PFMA, Legal Succession to South African Transport Services Act, Treasury Regulations and Transnet's Mandate.

3.3 The Board shall ensure that Transnet and its operating divisions comply with the provisions of the Companies Act, the PFMA and any other legislation, including regulations and consider guidelines issued by the National Treasury and/or the Shareholder Representative.

3.4 Transnet shall set performance targets with its operating divisions that are comprehensively and consistently compliant with the spirit, rights, obligations and undertakings stipulated in the Shareholder's Compact.

3.5 If there is any conflict or inconsistency among the provisions of this Shareholder's Compact and the other governance framework documents (stipulated in clause 3.1 above), the Parties shall take whatever steps that may be necessary to amend the documents to remove the conflict or inconsistency. For so long as the conflict exists, the PFMA, Companies Act and the Memorandum of Incorporation shall take precedence and thereafter the Strategic Intent Statement.

3.6 This Shareholder's Compact is agreed in the context of the Department of Public Enterprises Logical Planning Framework, which requires that Shareholder's Compacts are agreed prior to the completion of a new Corporate Plan.

4. MANDATE

The Parties agree that:

4.1 The underlying mandate for Transnet remains as determined in the company Founding Documents, prevailing legislation and this Shareholder' Compact.

4.2 Transnet's key role is to assist in lowering the cost of doing business in South Africa, enabling economic growth and security of supply through providing appropriate ports, rail and pipeline infrastructure as well as operations in a cost effective and efficient manner within acceptable benchmark standards.

4.3 The Board shall ensure that Transnet and its subsidiaries comply with the provisions of the Companies Act, the PFMA and any other legislation, including applicable regulations and guidelines issued by the National Treasury and or the Shareholder Representative.

5. STRATEGIC OBJECTIVES

5.1 The Parties agree that the strategic objectives of Transnet fall into five main areas, namely:

5.1.1 Reduce the total cost of logistics as a percentage of transportable GDP;

5.1.2 Effect and accelerate modal shift by maximising the role of rail in the national transport task;

5.1.3 Leverage the private sector in the provision of both infrastructure and operations where required;

5.1.4 Integrate South Africa with the region and the rest of the world; and

5.1.5 Optimise the social and economic impact of all interventions undertaken by the SOC in the achievement of these objectives.

5.2 The Parties acknowledge and agree that the focus of Transnet shall be on the following Key Performance Areas:

5.2.1 Measure Transnet's contribution to reducing the total cost of logistics as a percentage of transportable GDP;

5.2.2 Implement integrated transport and industry logistics solutions, with particular emphasis on ports productivity and increasing Rail Addressable Market Share (RAMS) across the entire general freight business;

5.2.3 Provide a sustainable capital investment approach characterised by intelligent investment decisions, financial prudence and commercial sustainability to meet industry and customer needs over the medium to long term;

5.2.4 Provide a platform and basis for collaborative best practice encompassing interoperability across all modes and in partnership with other industry and private sector participants; and

5.2.5 Ensure on-going compliance with best environmental, social and economic norms and standards including adherence to economic transformation, job creation, safety, skills and economic development objectives. That is, demonstrate active leadership in support of government policies including programmes such as the Medium term Strategic Framework (MTSF); Industrial Policy Action Plan (IPAP) and National Development Plan.

6. KEY PERFORMANCE INDICATORS AND EVALUATION

The Parties agree that:

6.1 Transnet's performance in relation to the strategic objectives will be measured with reference to both qualitative and quantitative Key Performance Indicators (KPIs) as set out in the format, content and coverage of Annexures A, B, C, D and E;

6.2 Transnet shall report annually on all the Shareholder's Compact KPIs, and results achieved by the Company and its operating divisions in the Integrated Report, Annual Financial Statements and Sustainability Report;

6.3 Quarterly Reports shall be provided by Transnet in respect of the KPIs specified in Annexures A, B, C, D, and E;

6.4 Transnet shall report on KPIs in addendum 1, as and when requested;

6.5 Department of Public Enterprises will provide Transnet with a comprehensive framework which includes guidelines, templates and timelines for quarterly reporting on items listed in 6.3 and Addendum 2;

6.6 The Key Performance Indicators and their associated targets must be read in conjunction with the KPI Dictionary (attached to this Shareholder's Compact as

Addendum 4) to obtain a much more comprehensive and meaningful understanding; and

6.7 Transnet shall develop a Corporate Plan and shall align such Corporate Plan to the Shareholder's Compact.

7. PERIOD OF SHAREHOLDER'S COMPACT

7.1. In accordance with Treasury Regulations 29.2.1, the Parties shall negotiate and conclude the Shareholder's Compact annually. Consequently, this Shareholder's Compact is valid for a period of one (1) year.

7.2. Subject to the provisions of clause 7.1, the process for the annual conclusion of a new Shareholder's Compact may be initiated by any one of the Parties through written notice. Upon receipt of such notice by the other Party, the Shareholder Representative and the Board shall commence negotiation.

8. ALIGNMENT TO PERFORMANCE

8.1. Transnet's remuneration policies and philosophy must set out clear gatekeepers for the payment of incentives. The Parties acknowledge that there should be alignment between the achievements of strategic objectives, KPIs as specified in this document and the payment of incentives to executive directors and prescribed officers. The annual performance scorecards of executives and prescribed officers must be aligned to the Shareholder's Compact and clearly reflect the targets to be achieved.

8.2. The Parties further agree that where there is anticipated material deviation from agreed targets Transnet will timeously advise the Minister.

9. SIGNIFICANCE AND MATERIALITY

9.1. In accordance with the provisions of Treasury Regulations 28.3, the Accounting Authority and Executive Authority must develop and agree on the framework for acceptable levels of materiality and significance. The Parties are in the process of negotiating a Significance and Materiality Framework, which shall as soon as is completed, be attached to this Shareholder's Compact as Addendum 3.

10. NO AMENDMENT

10.1. This Shareholder's Compact constitutes the whole agreement between the Parties relating to the subject matter hereof and supersedes any other discussions, agreements and/or understanding regarding the subject matter hereof.

10.2. Subject to the provisions of clause 10.3 of this Shareholder's Compact, it is recorded, acknowledged and agreed that no Party shall be entitled to amend the key performance areas and/or key performance indicators as detailed in Annexures "A" through "E" of this Shareholder's Compact for the duration of this Shareholder's Compact stipulated in clause 7.1.

10.3. Notwithstanding the provisions of clause 10.2 of this Shareholder's Compact, the agreed key performance areas and/or key performance indicators as detailed in Annexures "A" through "E" of this Shareholder's Compact may be modified or amended by the Parties subsequent to the budgeting and volume validation process to be conducted by Transnet, it being recorded and agreed that the Shareholder's Compact and/or its Annexures shall only be revised or amended no later than 28 February 2017, after which date, no further amendments or revision shall be allowed.

Signed: ______________________

L. BROWN, MP

Minister of Public Enterprises

Shareholder Representative

Date: 27/03/2017

Signed: ______________________

L. C MABASO

Chairperson

Transnet SOC Ltd

Date: 26/04/2017

ANNEXURE A: FINANCIAL SUSTAINABILITY

Key Performance Area	Key Performance Indicator	Unit of Measure	2017/18 FY Target
Financial Sustainability	EBITDA Margin	%	≥41.5
	Cash Interest Cover (CIC)	Times	≥2.5
	Gearing	%	≤50
	ROTA Rail (Excluding Developmental Projects)	%	≥5.2
	ROTA Port operations (Excluding Developmental Projects)	%	≥12.4
	Average Tariff Increase (TPT Containers)	%	≥6.4
	Average Tariff Increase (TPT Automotive)	%	≥6.4

ANNEXURE B: CAPACITY CREATION

PROJECT NAME	Key Performance Indicators	Milestone Targets			
		Q1	Q2	Q3	Q4
INFRASTRUCTURE PROJECTS IN EXECUTION					
1. New Multi-Product Pipeline Phase 1	Completion of the project execution milestone	• All punch lists completed • Procurement of an Accumulator Tank and SAPREF R Tank construction contractor	• Mechanical Completion at the Coastal Terminal (Tightlining) and Inland Terminal	• All replacement valves delivered to the terminals, pipeline work closed out	• Ability to operate both the Coastal Terminal (Tightlining) and Inland Terminal – multi-product operation at 1080m³/h.
2. Manganese Rail Phase 1	Completion of the project execution milestone	• Final Supplier Development key date achieved (Consultant)	Completion of: • Modderrivier Loop • Modderrivier - Heuningneskloof up line	Completion of: • Re-railing Graspan-Belmont • Perdevlei-De Aar Loop • Southern Section of Orange River-De Aar	Completion of: • Northern Section of Kimberly-Orange River • Witput-Oranje • Construction project Complete
3. Coal 81 mtpa	Completion of the project execution milestone	Completion of: • Electrical overlaps in Vryheid East Yard. • Dumbe substation	Completion of: • Woestalleen New DC Sub Station • Sheepmoor Build New Traction Substation • Vryheid East Yard • Vryheid substation	Completion of: • Mahulumbe – Rehabilitation of Borrow Pits • 80% of Saaiwater Consolidation Yard	Completion of: • Halfgewonnen North to Midpoint Feeder wire • Bosmanskop New DC Sub Station. • Rietvleirus to Ermelo Substation Feeder Wire • Saaiwater Consolidation Yard • Broodsnyersplaas-Gelukplaas Feeder
4. DCT Berth construction, deepening and lengthening	Completion of the project execution milestone	• Marine Package Issued to Market	• Marine Tender Adjudication - commence	• Marine Tender Adjudication progress • Issue tender to market - Temporary Facilities	• Commence Tender Evaluation and Acquisition Report Marine Package and Temporary Facilities

PROJECT NAME	Key Performance Indicators	Milestone Target Q1	Q2	Q3	Q4
INFRASTRUCTURE PROJECTS IN EXECUTION					
5. Reconstruction Of Sheet Pile Quay Walls At Maydon Wharf	Completion of the project execution milestone	• Completion of Berth 3 & 4 Piling • Berth 12 -Deepening & Scour Commence	• Completion of Berth 3 & 4 Stormwater infrastructure. • Berth 12 - Deepening & Scour progress	• Completion of: • Berth 3 & 4 Cope construction and Backfill • Berth 12 Hand-over to Client	• Completion of Berth 3 & 4 Dredging & Scour
INFRASTRUCTURE PROJECTS IN PLANNING					
6. Manganese - Rail Phase 2	Completion of the engineering milestone	• Develop execution strategy for FEL2/3 inclusive of FEL4 considerations for optimised scope	• Conduct specialist studies for optimised engineering scope (Topography -, site- and cadastral surveys, environment baseline, GI, EA, social impact study, land acquisition, level crossings, stakeholder engagement) • Conduct FEL2/3 engineering design for optimized scope		• Independent technical review and Gate review of FEL3 – optimized scope • Finalise revised scope FEL
7. Manganese – Port	Completion of the engineering milestone	• Develop execution strategy for FEL2/3 inclusive of FEL4 considerations for optimised scope.	• Conduct specialist studies (Topography -, site-, cadastral and seismic surveys, environment baseline, geotechnical investigations, EIA process, social impact study, air emissions licencing, water use licencing, additional land acquisition requirements, stakeholder engagements, bulk power requirements, etc.) • Conduct FEL2/3 engineering design for optimized scope		• Independent technical review and Gate review of FEL3 – optimized scope • First tranche payment to CDC for port terminal land as per 5th Supplementary Agreement. • Finalise revised scope FEL3
ROLLING STOCK PROJECTS					
8. 1064 Projects	Capex Spend on 1 064 Locomotives projects (R'million cumulative)	1 750	3 500	5 250	7 000
OPERATION PHAKISA PROJECTS					
9. Offshore Supply Base Facility	Completion of the planning milestone	• Operator attends to suspensive conditions and commences initial operational services	• Operator attends to suspensive conditions and ramps up operational services	• OSSB operational at the committed service mix and service levels	• OSSB Facility fully operational

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ANNEXURE C: OPERATIONAL EXCELLENCE

Key Performance Area	Key Performance Indicator		Unit of Measure	2017/18 FY Target
Business Growth	Volume Growth	Total TFR	Million Tons	≥228
		General Freight	Million Tons	≥91
		General Freight	NTK	≥51 936
		Eskom Coal	Million Tons	≥15.1*
		Natcor - Containers	TEUs	≥380 000
		Capecor - Containers	TEUs	≥47 500
		Intermodal (Automotive)	Units	≥202 857
		TPL Volumes	Billion Litres	≥17.564
	External Revenue	TE Cross Border Sales	R'million	≥1 250
		Cross Border Volumes	Million Tons	≥9.17
Operational Efficiency and productivity	Rail Efficiency	General Freight	GTK/Routekm	≥5.80
		Natcor	GTK/Routekm	≥11.10
		Capecor	GTK/Routekm	≥6.20
		Southcor	GTK/Routekm	≥5.75
	Efficiency	Locos	NTK/Locos in active fleet	≥3 450 000
		Wagons	NTK/Wagons in active fleet	≥76 350
	Container moves per ship working hour	DCT Pier 1	Number	≥50
		DCT Pier 2		≥64
		CTCT		≥56
		NCT		≥66
	Train turnaround time	DCT Pier 1	Hours	≤4
		DCT Pier 2		≤4
		CTCT		≤4
		NCT		≤4
Operational Efficiency and productivity	Average anchorage waiting time	DCT Pier 1	Hours	≤28
		DCT Pier 2		≤36
		CTCT		≤28
		NCT		≤28
	Average Ship turnaround time	DCT Pier 1	Hours	≤55
		DCT Pier 2		≤53
		CTCT		≤27
		NCT		≤28
	Market Share Growth	GFB	**RAMS % NTK	≥31
		Intermodal (Containers and Automotive)	RAMS % NTK	≥15
	Maritime Connectivity		Index	≥37.1

**Transnet's contribution to reducing the cost of logistics:
Tonnage moved from road to rail (differential of the cost).
Emissions related to the volume migration from road to rail.
* DPE indicates ESKOM has agreed to this number

ANNEXURE D: SOCIO ECONOMIC DEVELOPMENT OUTCOMES

Key Performance Area	Key Performance Indicator	Unit of Measure	2017/18 FY Target
Skills Development	Artisan trainees	Number of trainees	≥160
	Engineering trainees		≥80
	Technician trainees		≥160
	Sector specific		≥764
	Headcount trained	%	≥26
Health & Safety	DIFR	Total Ratio	≤0.75
Integration (Regional, Continent and Global)	Number of cross border transactions concluded	Number	≥5
Community Development	CSI spend	R'million	≥225
Environmental Stewardship	Group Weighted Energy Efficiency (electricity & fuel) YOY improvement (%)	%	≥0.83
	Carbon emission intensity (kgCO2/ton) reduction YOY improvement	%	≥0.85
Investment leveraged	Number of Branch Lines transactions concluded	Concluded Transactions	≥2
	Number of PSP transactions concluded	Concluded Transactions	≥3

ANNEXURE E: INDUSTRIALISATION

Key Performance Area	Key Performance Indicator	Unit of Measure	2017/18 FY Target
Industrial Capability Building	Research and Development spend	R'million	≥216
	Skills development	% of contract value subject to SD	≥4
	Local content	% of Total spend	≥75
	SD value	% of contract value subject to SD	≥39
	Technology Transfer / IP	% of SD value	≥1.25
	Investment in plant	% of SD value	≥5
Transformation	Black Women Owned	% of TMPS	≥5
	Black Owned	% of TMPS	≥15
	Black Youth Owned	% of TMPS	≥2
	QSE	% of TMPS	≥5
	EME	% of TMPS	≥7
	People Living with Disability	% of TMPS	≥0.125
	BBBEE	% of TMPS	≥70

SD = Supplier Development
QSE = Qualifying Small Enterprise (Annual turnover 10m - 50m)
EME = Exempted Micro Enterprise (Annual turnover of < 10m)
TMPS = Total Measurable Procurement Spend

ADDENDUM 1: SCHEDULE OF ADDITIONAL KPIs (FOR QUARTERLY REPORTING)

Key Performance Area	Key Performance Indicator		Unit of Measure	2015/16 FY Actual	2016/17 FY Estimate
Financial Sustainability	Group Return on Total Average Asset (ROTA)		%	3.6	4.0
	EBIDTA (excluding claw backs)		R billion	26.1	28.0
	Revenue per employee (excluding claw backs)		R million	1.1	1.2
Capacity Creation	1064 Locomotives	Number of 22E Locomotives accepted into operations	Number	0	80
		Number of 23E Locomotives accepted into operations	Number	0	57
		Number of Class 45 Diesel Locomotives accepted into operations	Number	0	23
		Number of Class 44 Diesel Locomotives accepted into operations	Number	0	109
	Number of wagons acquired for MDS		Number	2 100	100
	Number of General Freight Business wagons upgrades		Number	2 972	8 192
	Completion of project execution milestone for Waterberg Expansion to 27 mtpa – Stage 2		Milestone (previously measured using % completion)	3%	3%
Volume Growth	Bulk	Export Coal	mt	72.09	73.3
		Export Iron Ore	mt	59.08	57.2
		Eskom Coal	mt	14.59	14.24
		Export Manganese (DBN)	mt	0.61	0.68
		Export Manganese (PE)	mt	5.73	6.90
		Domestic Coal	mt	6.45	5.74
	Intermediate Manufacturing	Agriculture	mt	2.58	2.63
		Iron and Steel	mt	0.38	0.99
		Cement	mt	6.97	6.61
		Bulk Liquids	mt	1.41	1.43
		Automotive	units	238 439	207 834
	TPT Volumes (Containers)		TEU's (000)	4 366	4 308
	Customer Satisfaction Survey		%	26	56
Operational Efficiency and productivity	Asset Utilisation	Container & Automotive	Gtkm/Ntkm	3.28	3.27
		Export Coal	Gtkm/Ntkm	1.56	1.55
		Export Iron Ore	Gtkm/Ntkm	1.38	1.38
	Density	Saldanha	Tonkm/Routekm	60.7	60
		RBaycor	Tonkm/Routekm	39.3	39.7
		NEastCor	Tonkm/Routekm	8.7	9.7
		NWestcor	Tonkm/Routekm	4.3	4.1
		Eastcor	Tonkm/Routekm	2.6	3.0
		Northcor	Tonkm/Routekm	1.3	1.2
	Average anchorage waiting time	Port Elizabeth	Hours	16	27
		Richard's Bay		42	22
	Average ship turnaround time (Containers)	Port Elizabeth	Hours	17	16
		Port of East London		74	65
		Richards Bay		67	59
	Average ship turnaround time (Dry Bulk)	Coal (RBCT)	Hours	41	41
		Iron ore (Saldanha)		47	45
		Manganese (P.E)		69	86
	Berth Occupancy	Cape Town	%	61	60
		Durban		69	71
		Port Elizabeth		33	53
		Ngqura		40	45
	Berth Utilisation	Cape Town	%	71	74
		Durban		89	89
		Port Elizabeth		67	85
		Ngqura		84	79
	Dwell Time DCT Pier 1	Imports	Days	2.2	2.7
		Exports		4.7	4.6
		Transshipments		5.3	5.5
	Dwell Time DCT Pier 2	Imports		1.8	2.2
		Exports		5.1	5.5
		Transshipments		5.5	5.6

LCW

ADDENDUM 1: SCHEDULE OF ADDITIONAL KPIs (FOR QUARTERLY REPORTING)....cont.

Key Performance Area	Key Performance Indicator		Unit of Measure	2015/16 FY Actual	2016/17 FY Estimate
Operational Efficiency and productivity	Dwell Time CTCT	Imports	Days	2.0	2.1
		Exports		4.4	4.0
		Transshipments		6.5	6.5
	Moves per gross crane hour	DCT Pier 1	Number	25	25
		DCT Pier 2		26	24
		CTCT		32	33
		NCT		30	31
	Lean Six Sigma Impact on Business Efficiency		Value add per employee (R'000)	426	305.7
	NMPP & DJP Actual Usage: Capacity at the time (Ml/week)		Ratio	110:152	120:152
Service Reliability	Net Volume lost due to traction	GFB	mt	0.21	4.86
		Export Coal		0.36	8.28
		Export Iron Ore		0.07	2.17
	Train cancellations due to traction	GFB	%	1.7	0.52
		Export Coal		2.8	1.5
		Export Iron Ore		0.3	0.17
	Traction delays	GFB	%	6.11	2.05
		Export Coal		14.55	20.81
		Export Iron Ore		15.67	16.35
	On-time departure	GFB	Average deviation from scheduled times (minutes)	-38.06	-203.21
		Export coal		-43.37	-42.62
		Export Iron Ore		-5.44	-210.86
	On-time arrival	GFB	Average deviation from scheduled times (minutes)	86.90	-66
		Export coal		195.23	-90
		Export Iron Ore		146.62	-186
	Train turnaround time	Saldanha	Hours	108	113
		Richards Bay		8.3	8
		Port Elizabeth		9.3	10
	Truck turnaround time (in terminal)	DCT - Pier 1	Minutes	37	39
		DCT - Pier 2		40	75
		CTCT		18	20
		Ngqura		32	32
		Richards Bay		23	26

ADDENDUM 2: LIST OF MANDATORY REPORTING ITEMS*

Reportable Item	Frequency
Workplace skills plan and quarterly training reports	Quarterly
BBBEE level improvement report, including report to the BBBEE Commissioner	Annually
CSI progress reports in the identified streams(Education, Health, Sports and cooperatives and youth community based programmes)	Quarterly
EE Plan and report and Income differential report submitted to the Department of Labour	Quarterly
Social, Ethics and Transformation Board Committee reports	Quarterly
NSF Report	Quarterly
TVET support	Quarterly
List of CCS skills and functions, vacancy rate and movement report	Quarterly
Workforce plans/ manpower plan and progress report	Annually
Bursaries beneficiaries per Province and EE profile.	Annually
Restructuring plan and progress report	Annually
Progress report on NIPP obligations	Annually
Enterprise/Suppliers Development Plans & SMME programmes (Financial and Non-Financial Reports)	Quarterly
Reports of Suppliers' socio economic commitment and performance results in line with the BBBEE elements	Quarterly
R& D participation plans and report	Quarterly
Localisation baseline report:	Quarterly

ADDENDUM 3: SIGNIFICANCE AND MATERIALITY FRAMEWORK (To be updated)

PFMA	Description	Exemption from Section 54 of the PFMA
S54(2) (d)	Acquisition or disposal of a significant asset	1. If acquisition does not exceed 2% of the 31/3/2016 audited asset base value (amount to be quantified based on quarter 2 report), however the Department should receive a detailed notification for all acquisition and disposal of assets above R 7.1 billion.
S54(2) (b)	Acquisition or disposal of a significant partnership, trust, joint ventures, etc.	1. If partnership is specified in business plan. 2. If participation is not specified in corporate business plan but risk is R500m or below.
S54(2) (c)	Acquisition or disposal of a significant shareholding in a company.	1. If participation or disposal is specified in corporate business plan. 2. If participation or disposal is not specified in corporate business plan but capital risk is R500m or below.
S4(2) (e)	Commencement of cessation of a significant business activity.	1. If such commencement/cessation is specified in corporate business plan. 2. If such commencement/cessation is not specified in corporate business plan but capital at risk is R500m or below.

ADDENDUM 4: KEY PERFORMANCE INDICATOR DICTIONARY*

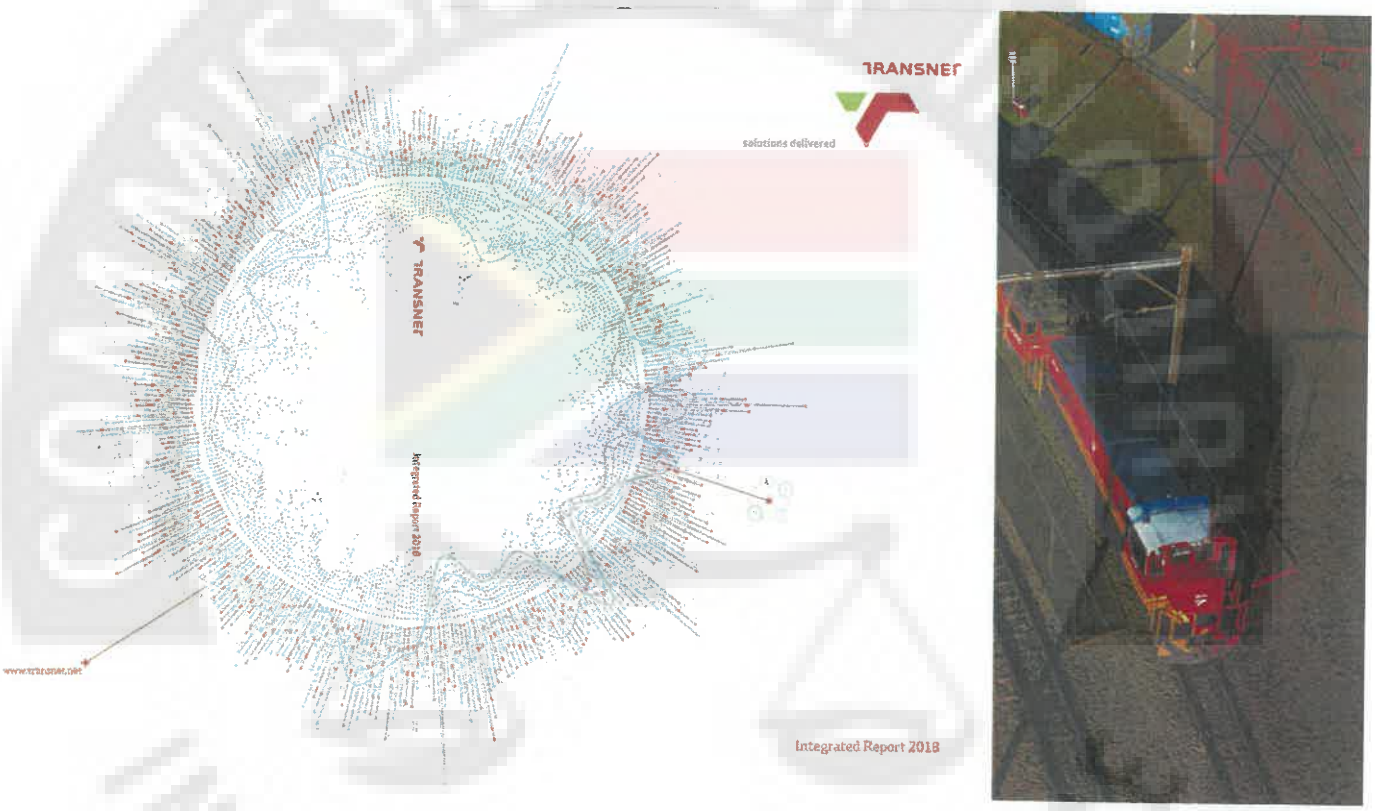
Column	Description
SC Annexure/Addendum	Shareholder Compact Annexure/Addendum number if applicable
Corporate Plan heading	Corporate Plan heading if applicable
OD / TCC	The Operating Division / Transnet Corporate Centre unit the KPI are reported by
Strategic focus	Links the KPI to the strategic focus area to be achieved as per the Shareholder's Compact/Corporate Plan.
Key Performance Area	Key Performance Area the KPI relates to as per the Shareholder's Compact/Corporate Plan.
Key Performance Indicator	Identifies the title of the indicator
KPI Further breakdown	Further breakdown of the KPI (OD/Corridor/Location/Area/Commodity/etc.)
KPI Type	Identifies whether the indicator is measuring inputs, activities, outputs, outcomes or impact, or some other dimension of performance such as efficiency, economy or equity
Definition	Provides a brief explanation of what the indicator is, with enough detail to give a general understanding of the indicator
Purpose	Explains what the indicator is intended to show and why it is important
Formula	Describes clearly and specifically how the indicator is calculated
Worked example	Practical example of a calculation using the formula
Terminology Clarification	Provides clarity on any technical terminology included in the definition and formula.
Unit of measure	Identifies the unit of measure applicable to the indicator
Target	The agreed target for the financial year
Desired performance	Identifies whether actual performance that is higher or lower than targeted performance is desirable
Aggregation type (YTD, YOY or Latest Actual Value)	Indicates how the KPI value is aggregated (YTD, YOY or Latest Actual Value)
Reporting cycle	Identifies if an indicator is reported weekly/quarterly/annually or at longer time intervals
Data Source System	Identifies the source data system to be used for reporting purposes
Owner	KPI owner who reports on the KPI performance
Data limitations	Identifies any limitation with the indicator data, including factors that might be beyond Transnet's control

*Table indicative of elements that will be covered by the dictionary detailed dictionary to be submitted separately once concluded

List of Acronyms

ACRONYM	DEFINITION
1. Capecor	Cape Corridor
2. CO2	Carbon Dioxide
3. CSI	Corporate Social Investment
4. CTCT	Cape Town Container Terminal
5. DCT	Durban Container Terminal
6. DPE	Department of Public Enterprises
7. EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
8. EME	Exempted Micro Enterprise
9. GFB	General Freight Business
10. GTK/Routekm	Gross ton kilometer per route kilometer
11. MTSF	Medium Term Strategic Framework
12. Natcor	Natal Corridor
13. NCT	Ngqura Container Terminal
14. NIPP	National Industrial Participation Programme
15. NTK	Net Ton Kilometer
16. PSP	Private Sector Participation
17. QSE	Qualifying Small Enterprise
18. RAMS	Rail Addressable market Share
19. ROTA	Return On Total Assets
20. SD	Supplier Development
21. SouthCor	South Corridor
22. TEUs	Twenty-Foot Equivalent Unit
23. TE	Transnet Engineering
24. TFR	Transnet Freight Rail
25. TMPS	Total Measurable Procurement Spend
26. TNPA	Transnet National Port Authority
27. TPL	Transnet Pipeline
28. TPT	Transnet Port Terminals
29. YOY	Year-on-year

ANNEXURE PM 3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Integrated Report 2018
www.transnet.net

N... ting this report

The list of the 17 King IV Principles can be found in Annexure 3

Reporting formats

The 2018 Annual Financial Statements

Forward-looking information

Feedback on this report

Dedication

Integrated Report 2018

Contents

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About this report

Reporting philosophy and approach

Transnet SOC Ltd (Transnet or the Company) has been an active participant in the International Integrated Reporting Council (IIRC) Pilot Programme since its inception and has followed the development and application of the Integrated Reporting Framework. [illegible]

Reporting boundary

The 2018 Integrated Report covers the financial reporting period from 1 April 2017 to 31 March 2018. The boundary of this report (Figure 1) encompasses the Transnet Group, its Operating Divisions and Specialist Units. The boundary further extends to include factors that impact Transnet's ability to create value.

[illegible]

The Transnet Integrated Report is published annually and approved by the Board of Directors (Board). The previous Integrated Report was approved by the Transnet Board on [illegible] June 2017.

Reporting frameworks and guidelines

Primary framework

This report was compiled according to the guidance of the International Integrated Reporting Framework, as adopted by the Transnet Board.

Secondary frameworks, guidelines and standards

[illegible]

- International Financial Reporting Standards (IFRS);
- The Companies Act, No 71 of 2008 (Companies Act);
- The Public Finance Management Act, No 1 of 1999 (PFMA);
- United Nations 2015 Sustainable Development Goals;
- The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard prescribed by the Carbon Disclosure Project;
- AA1000 Stakeholder Engagement Standard; and
- Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice.

Governance terms of reference for the 2018 Integrated Report are contained in Annexure A.

Statement of stakeholder commitment

[illegible]

Integrated approach to assurance

The Board and management have applied Transnet's Integrated Assurance Plan to the integrated reporting process to enhance the value-creation narrative, and to provide an independent perspective on the transparency and accountability of our disclosures. Our Integrated Assurance Plan encompasses the assurance provided by management, internal specialists, internal audit, external audit, external advisers and service providers. The Board serves as the last line of defence.

Integrated Reporting Assurance framework

Content	Assurance providers	Outcome	Framework/Standard
Annual Financial Statements (consolidated and summary)	• SizweNtsalubaGobodo	• Qualified opinion • Material findings on usefulness and reliability of certain performance information	• PFMA • Companies Act • IFRS • Shareholder's Compact
[illegible] ted Report (in full)	• Transnet Board • Audit Committee • Remuneration, Social and Ethics Committee	• Directors' approval	• International Integrated Reporting (IR) Framework
Review of internal controls and risk management	• Transnet Internal Audit (TIA) • National Occupational Safety Association (NOSA) • International Standards Organisation (ISO) accreditation bodies • Legal firms	• Financial controls: Requires improvement • Operational controls: Requires improvement • Legislative assessment • Functional risk management and compliance maturity assessment	• Committee of Sponsoring Organisations • PFMA • NOSA standards • ISO standards relating to safety and environment including ISO 9000 and ISO 14000 • Legislative requirements • Enterprise risk management ISO 31000 standard
BEE contributor level	• TIA • Beever Agency CC	• Level confirmed as Level 2	• B-BBEE Act and Charters • Rail sub-sector scorecard • Marine sub-sector scorecard
Corporate Governance	• TIA	• Maturity assessment: Fully established • Assessment of controls: Requires improvement	• King IV • PFMA • Companies Act
Selected information in the Transnet Sustainability Outcomes Report 2018 and contained in summary form in this report	• SizweNtsalubaGobodo	• Conclusion: Selected sustainability information has been prepared in all material respects in accordance with Transnet's reporting criteria	• Transnet's sustainability reporting criteria

Materiality in our reporting

The 2018 Integrated Report [illegible]

Read more

The impact and relevance of material issues

Process for identifying, validating and approving material issues

[illegible]ified opinion

The external auditors issued a qualified opinion relating to the completeness of the identification and reporting of irregular expenditure, including a material uncertainty relating to going concern in the year under review.

Going-concern status

The Board reviewed the Group's performance for the year and [illegible]

The directors have also assessed the going-concern ability of the Group as a result of the qualified audit opinion.

[illegible]

The Board and management have engaged these lenders [illegible]

To date, half of the lenders granted waivers and/or reserved rights to immediate acceleration to allow Transnet the opportunity to implement remedial actions to improve the control environment around the prevention and detection of irregular expenditure. Transnet is confident that an agreement will be reached with all affected lenders to the satisfaction of all parties.

A funding strategy has been developed to ensure that the Company is able to successfully fund its capital investment plan without breaching the set financial parameters. [illegible]

the difficult economic conditions that continue to prevail. Transnet will continue to aggressively pursue [illegible]

Further, the Board [illegible]

Integrating sustainability reporting

The 2018 Integrated Report aims to communicate the full value of the Group and draws on the interdependencies between financial and non-financial information. We have integrated performance information relating to Transnet's commercial outcomes with that of the nine Sustainable Developmental Outcomes (SDOs) in our discussion on value creation (p10) and our performance disclosures (p77).

The Board has reviewed Transnet's sustainability performance [illegible] 2018 Integrated Report for the year ended 31 March 2018 [illegible]

Read more

Transnet Sustainability Outcomes Report online at [illegible]

Statement of precautionary approach

Human health and well-being

Our operating [illegible]

Balancing stakeholder interests

We recognise that [illegible]

Environmental health

Water

Some of our operations are in water-stressed catchments with [illegible]

Waste

Our operations generate a variety of waste materials [illegible] contaminated areas in our operations using scientific methods and visual site assessments. Management plans are developed for areas contaminated by asbestos and hydrocarbon waste.

Pipeline spills present a challenge for the Company and surrounding communities, and we continue to educate property owners and contractors on safe and responsible work procedures; remedial activities include revegetation of sites, excavation of contaminated soil, monitoring of groundwater and backfilling of soil.

Modal shift from road to rail

Transnet's programme to accelerate the modal shift from road to rail is a flagship carbon mitigation programme for South Africa. Rail transport is three to four times more efficient than road transport, offering cleaner, safer, cheaper and reliable freight mobility through improved road safety, reduced road congestion and carbon emissions, and ultimately a lower cost of doing business.

Governance and ethics

[illegible]

Directors' approval

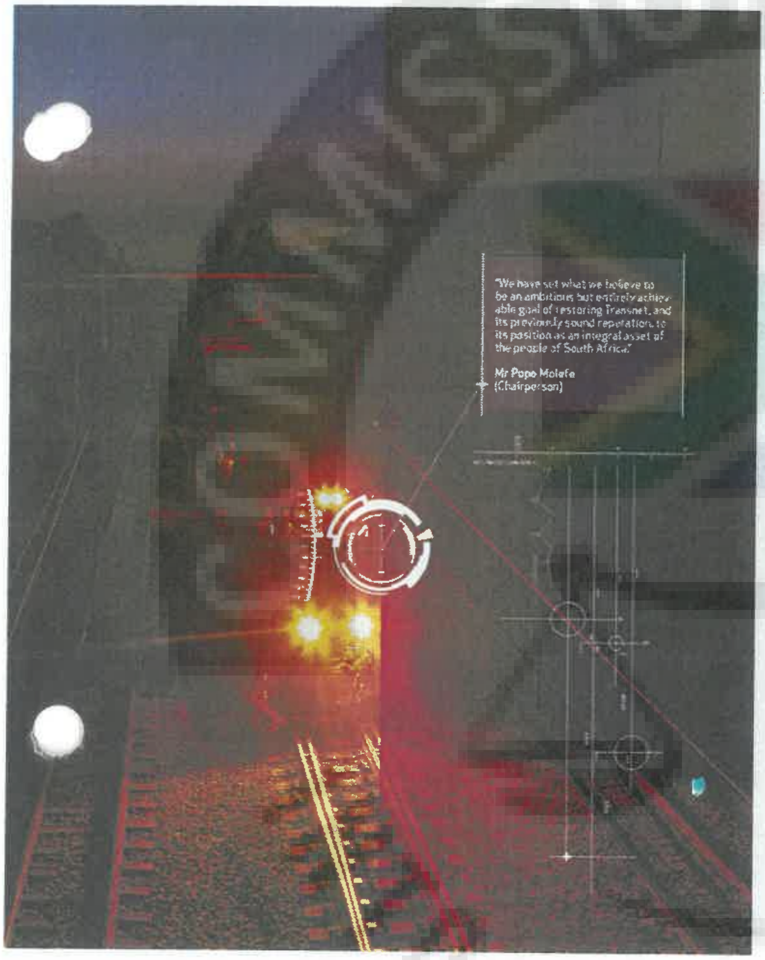
The Board [illegible]

The 2018 Integrated Report was approved by the Board and signed on its behalf by:

P.S. Molefe

PS Molefe
Chairperson

10 August 2018
Johannesburg



"We have set what we believe to be an ambitious but entirely achievable goal of restoring Transnet, and its previously sound reputation, to its position as an integral asset of the people of South Africa."

Mr Popo Molefe
(Chairperson)

Chairperson's foreword

The current Board of Directors (Board) of Transnet SOC Ltd was appointed on 24 May 2018, approximately two months after the end of the year under review. Its appointment coincided with the new epoch defined by the President of the Republic of South Africa as the "New Dawn".

Dr Popo Molefe
Chairperson

Condolences

Appreciation

Our deep appreciation to our regulators, including ministries with which we work closely, as well as various committees in Parliament, provincial governments, and municipalities that contribute their oversight responsibilities and partnership commitments. To community partners across the country, we are privileged to serve as the custodians of South Africa's largest infrastructure state-owned company. We look forward to partnering with you in our various enabling projects.

PS Molefe

PS Molefe

10 August 2018

Johannesburg

"The erosion of trust in SOCs and public institutions has negatively affected our social licence to operate ...

... investors and Government. The only way to do this is to demonstrate unwavering commitment to good corporate governance."

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Executive summary

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

We are actively leveraging technological advancements to improve operational efficiencies. Technologies such as the Internet of Things, Machine Learning and Artificial Intelligence (AI) will provide valuable insights into improving operations reliability and service delivery to customers; whereas blockchain technology will modernise legacy systems and offer new customer service platforms. The eCTTS system – serving as an industry-wide service platform – will help to generate relevant transportation and logistics data from multiple sources across the entire transport eco-system, thereby radically enhancing our customers' experiences across the logistics value chain.

[illegible]

We are committed to improving coordination, oversight and sustainability of the business.

Mr Siyabonga Gama
Group Chief Executive

Mr Mohammed Mahomedy
Acting Chief Financial Officer

[illegible]

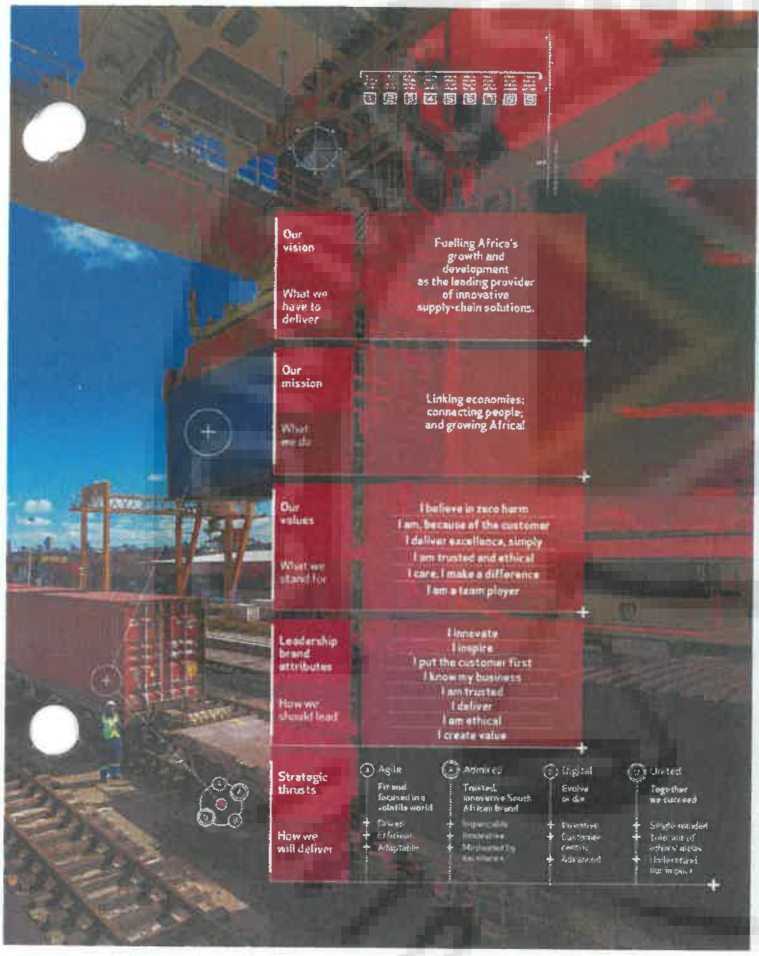
S.I. Gama

SI Gama
Group Chief Executive

M.S. Mahomedy

MS Mahomedy
Acting Chief Financial Officer

10 August 2018
Johannesburg



Organisational overview

Our mandate

Governance context

Broad-Based Black Economic Empowerment (B-BBEE)

Transnet Group's B-BBEE performance per pillar for the 2018 review period

Element	Actual score	Target
Equity ownership	N/A	N/A
Management control	8,54	11
Employment equity	14,17	18
Skills development	19,56	25
Preferential procurement	28,31	33
Enterprise development	15,00	15,00
Socio-economic development	3,0	5,0
Total	90,83	107

Employee profile

Total employees 55 666

Black 73,9% Indian 3,4% Coloured 9,7% White 13%

Total employees represented by collective bargaining as a % of total headcount 83,0%

People with disabilities 2,4%

Permanent employees 51 324

Male 36 683 Female 14 641

Permanent employees represented by collective bargaining as a % of total headcount 81,4%

Non-permanent employees 4 342

Integrated Supply-Chain Management function

Optimises inbound supply-chain activities

Enables efficient and reliable outbound services to the end customer

As we enter the 4th Industrial Revolution, opportunities for suppliers include:

- Internet-based service provider platform for suppliers working in the 'Gig-economy';
- Mentoring network of industry leaders to guide small, medium and micro-enterprises (SMMEs) in sector changes due to digital trends;
- Transnet 'Mega Hubs' to support SMME suppliers;
- Market access to SMMEs through revenue-sharing model; and
- 'Common purpose' technology platforms for SMME collaboration (tools and templates).

As Transnet expands regionally, we will spearhead regional supply-chain opportunities for South African-based SMMEs and expand Transnet's Enterprise and Supplier Development Strategy to support regional supplier development in countries where we operate.

Enterprise and supplier development (ESD)

- Guided by Government's Competitive Supplier Development Programme
- Informed by the B-BBEE Codes of Good Practice
- Aims to increase the competitiveness, capacity and capability of black-owned suppliers through financial and non-financial support
- Targeted ESD initiatives support localisation and industrialisation, and provide opportunities for black people, youth, women, small businesses, people with disabilities and people living in rural communities

Our integrated Enterprise and Supplier Development Strategy supports the rise of young black entrepreneurs through the various developmental levels – from high-school innovation programmes through business case development and business incubation to our Black Industrialist Programme and our regional and global exporting and trade programmes.

Operating context[1]

Figure 2

Freight Rail

- Operates 30 400 km of rail track across South Africa
- ... ports bulk, ... bulk and ... erised freight
- ... ght Rail network and rail services provide strategic links between mines, production hubs, distribution centres and ports, and connect with cross-border railways of the region

Total employees:
Permanent employees:
Fixed-term contract employees:

29% Female employees
2.7% People with disabilities

Engineering

- Provides advanced manufacturing, maintenance and refurbishment of rolling stock and specialised equipment to Freight Rail, the National Ports Authority, Port Terminals and external clients
- Houses Transnet's Research and Development (R&D) unit
- Delivers customer-centric products and services as a growing hub and systems integrator of rail in the AMEA region

Total employees:
Permanent employees:
Fixed-term contract employees:

77% Male employees
23% Female employees
1.6% People with disabilities

National Ports Authority

- Services eight commercial seaports in South Africa
- Core functions include the planning, provision, maintenance and improvement of port infrastructure
- Provides marine-related services, port services and navigation aids to assist the navigation of vessels within port limits and along the coast

Total employees:
Permanent employees:
Fixed-term contract employees:

66% Male employees
34% Female employees
People with disabilities

Port Terminals

- Provides cargo handling services to a wide spectrum of customers, including shipping lines, freight forwarders and cargo owners
- Operates 16 terminals in seven ports spread along the South African coastline
- Operations are divided into four major business segments: containers, bulk, break-bulk and automotive

Total employees:
Permanent employees:
Fixed-term contract employees:

72% Male employees
28% Female employees
1.3% People with disabilities

Pipelines

- Transports fuel from coastal refineries and crude oil imports to the inland market
- Transports gas from Secunda to industrial users in Durban and Richards Bay
- The New Multi-Product Pipeline (NMPP) enables the increase in liquid fuels volume throughput to meet forecast demand

Total employees:
Permanent employees:
Fixed-term contract employees:

Male employees
33% Female employees
2.4% People with disabilities

Read more

Freight Rail	Engineering	National Ports Authority	Port Terminals	Pipelines
Revenue	Revenue	Revenue	Revenue	Revenue
[illegible]	[illegible]	R11.7 billion	R12.4 billion	[illegible]

Customer profile

Large mining, shipping, manufacturing, agricultural, industrial, retail and energy contributors to the South African economy

Specialist Units

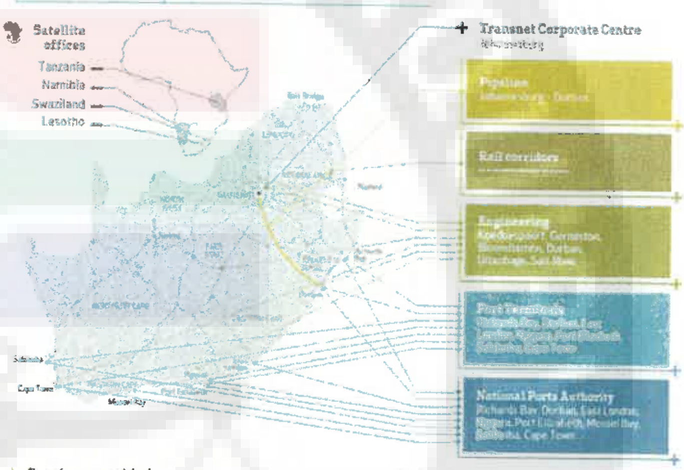
Transnet Group Capital | Transnet Property

Where we operate

Five Operating Divisions spread throughout South Africa

Four satellite offices in Lesotho, Tanzania, Namibia and Swaziland

Three joint operating centres in Mozambique, Botswana and Zimbabwe



Services provided

Outbound services (South African businesses moving products to international markets) and inbound services (bringing products to South African markets)

Commodities transported: mining exports, general freight and petroleum products

General freight: containerised cargo, local manganese, minerals, local coal, local iron ore, chrome and ferrochrome, agricultural products, iron and steel, fertilisers, cement, fast-moving consumer goods, bulk liquids, wood and wood products, industrial chemicals, intermediate products and automotive products

Sub-saharan Africa's estimated regional growth is 3.1%

Petroleum products: crude oil, refined petroleum products, aviation turbine fuel and methane-rich gas products

Strategic context

Transnet is transitioning from the Market Demand Strategy (MDS) – first implemented in 2012 – to a new blueprint for growth and diversification, the Transnet 4.0 Strategy (Transnet 4.0).

The MDS has largely achieved its objective of closing the market demand capacity gap for freight logistics infrastructure, with approximately R1[illegible] billion invested in the previous six years. Transnet 4.0 provides a framework for Transnet's growth and diversification within the context of the 4th Industrial Revolution.

Main growth thrusts of Transnet 4.0 include:

- Extending Transnet's footprint in Africa, the Middle East and South Asia;
- Product and service innovation; and
- Expanding Transnet's advanced manufacturing business, with leading technologies to enhance new and existing products, and improve business processes.

Market context

Global growth of 3,9% estimated for 2018, with 4,9% growth forecast for developing and emerging markets.

Continued strong growth in emerging Asia and Europe, and a modest upswing in commodity exports after three years of weak performance.

International Monetary Fund forecasts South Africa's economy to grow by 1,5% in 2018, an improvement on the 1,3% growth rate of 2017. Business confidence improved following a period of political uncertainty, with the growth rate set to keep improving beyond 2018.

Sub-saharan Africa's estimated regional growth is 3,4%.

Still unclear whether projected improvements in GDP and business confidence will provide sufficient relief from the effects of South Africa's sovereign credit-rating downgrade in 2017.

The new presidential dispensation should help buy growth in private consumption and fixed investment. Higher prices for commodities will sustain growth in the mining sector.

The 4th Industrial Revolution ushers in a fusion of technologies poised to disrupt every industry, with major economic and technological ramifications and systemic transformation of civil society, production, governance structures and human identity. Transportation and communication costs are likely to reduce, and logistics and global supply chains will become more effective. The cost of trade is rapidly diminishing to drive new markets and economic growth.

Transnet's primary focus remains volume growth of the core business, while seeking new growth paths to compensate for low growth expectations and instability in traditional markets. Organic growth in the current freight transport and handling divisions will account for the bulk of this growth as we improve connectivity, density and capacity of an increasingly integrated port, rail and pipeline network.

Strategic private-sector partnerships in the freight logistics sector will accelerate new business ventures and new revenue growth.

Regulatory context

The Company operates in compliance with 201 regulations. Tariffs charged by the National Ports Authority and Pipelines [illegible] determined by independent economic regulators, namely [illegible] Ports Regulator of South Africa (Ports Regulator) and the [illegible] Energy Regulator of South Africa (Nersa) respectively.

The Railway Safety Regulator regulates the safety of the rail operations of the Company, issues safety permits (for a fee), and conducts inspections and audits on the Company. Transnet also operates within a policy context determined by the Department of Public Enterprises and the Department of Transport respectively.

Financial context

Funded through reserves and borrowings with no subsidies or guarantees received from Government.

Remain within the medium-term target – Gearing <50% and cash interest cover of >2,5 times.

Legacy Government-guaranteed debt amounts to R3 500 million comprising Eurorand bonds under the Euro Medium-Term Note Programme maturing in 2028 (R2 000 million) and 2029 (R1 500 million) respectively.

Socio-economic context

Transnet's strategic focus is guided by the Statement of Strategic Intent issued by the Minister of Public Enterprises and the Shareholder's Compact, which stipulate medium-term strategic objectives, including:

- Reducing the total cost of logistics as a percentage of transportable gross domestic product (GDP);
- Accelerating the modal shift by maximising the role of rail in the national transport task;
- Leveraging the private sector in the provision of both infrastructure and operations where required;
- Integrating South Africa with the region and the rest of the world; and
- Optimising the social and economic impact of all interventions undertaken by the Company in the achievement of these objectives.

Endorsement of external charters and frameworks (not limited to)

Generic Transport Public Sector Charter
Rail Charter
Maritime Charter
Property Charter
United Nations Global Compact (since 2012)
International Integrated <IR> Reporting Framework

Membership of associations (not limited to)

New Partnership for Africa's Development (Nepad)
South African Railways Association
International Union of Railways
Association of American Railroads
Railroad Association
Union of African Railways
Maputo Corridor Logistics Initiative
International Association of Marine Aids to Navigation and Lighthouse Authorities

Operating structure

Office of the Group Chief Executive

Group Internal Audit – Internal Audit

Group Company Secretariat – Governance

Group Strategy
- Strategy

Group Finance

Group Capital

Corporate Governance and Regulatory
- Risk
- Legal

Group Operations
- Rail operations
- Port Terminal operations
- Port Authority operations
- Pipeline operations
- Property management

Business Development
- Branding
- Market intelligence

Advanced Manufacturing
- Research and development

Information and Communications Technology (ICT)

Group Human Resources

Summary performance

	2018	2017
Revenue	R72,5 billion	R65,5 billion
Operating expenses	R40,4 billion	R37,9 billion
Savings against planned costs	R3,1 billion	R2,4 billion
EBITDA	R32,5 billion	R27,6 billion
Profit	R4,9 billion	R2,6 billion
Gearing	45,4%	44,2%
Cash interest cover	3,0 times (within loan covenant requirements)	2,9 times (within loan covenant requirements)
Cash generated from operations	R34,9 billion	R31,0 billion
Borrowings raised	R20,9 billion	R17,0 billion
Borrowings repaid	R11,0 billion	R24,9 billion
Capital investment [illegible]	R21,3 billion	R21,4 billion
Locomotives accepted into operations	[illegible]	452
% of personnel costs invested in training	[illegible]	3,1%
Disabling injury frequency rate (DIFR)	0,78	0,69
B-BBEE spend	R25,8 billion	R37,0 billion
B-BBEE spend as % of total measured procurement spend	84,9%	103,1%
Spend with black-owned enterprises	R12,47 billion (42,0% of total measured procurement spend)	R12,2 billion (34,0% of total measured procurement spend)
Spend with black women-owned enterprises	R9,34 billion (31,4% of total measured procurement spend)	R4,6 billion (12,8% of total measured procurement spend)
Transnet's B-BBEE level	Level 2	Level 2
Corporate social investment	R219 million	R234 million
Number of patients treated on board the Phelophepa trains	157 416	173 016
Number of individuals benefiting from community outreach services	435 352	438 807

Our business model

Figure 3

Our value proposition

As a state-owned company, our overarching value proposition is founded in our Shareholder Mandate:

- The modernisation and renewal of South Africa's transport and logistics infrastructure through strategic investment in rail, ports and oil and gas pipeline infrastructure;
- Cost-effective logistics value chains;
- Value-added services; and
- Advanced engineering solutions.

What we do

Main activities facilitated through five Operating Divisions

Statement of Strategic Intent

- Provide cost competitive logistics
- Grow rail market share
- Integrate South Africa with the region, the continent, and the rest of the world
- Leverage private sector investment in infrastructure and operations
- Optimise sustainable economic, social and environmental outcomes of all business activities

Freight solutions

- World class, competitive and customer centric end-to-end freight solutions [illegible]
- Added capabilities and partnerships to enhance general freight positioning (4PL)
- Africa Expansion – port and rail concessions
- Foster regional trade

Freight Rail

Infrastructure and spatial solutions (local and regional)

- Creating and enhancing logistics ecosystems to enable and accelerate economic growth
- Port and inland hubs
- Optimise local, national and regional freight logistics networks
- Core and leveraged partnerships

National Ports Authority

Port Terminals

Advanced manufacturing

- Africa's premier rail, ports and transport OEM
- Customer-focused packaged asset lifecycle solutions (design, finance, build, maintain and replace)

Engineering

Liquids and gas

- Facilitate integrated and reliable access and distribution of liquid and gas energy resources
- Liquefied natural gas (LNG) opportunity
- Energy opportunities

Pipelines

Digital

- Leveraging and monetising freight and infrastructure-related digital capabilities (e.g. [illegible] data solutions and information [illegible])
- Creation of digital and value-added services (e.g. [illegible] other chain participants)

Key freight system challenges / Opportunities for long-term competitiveness

Key freight system challenges	Opportunities for long-term competitiveness
Slow rates of global and local economic growth and volatile commodity prices impact freight volumes and revenue; Fewer small freight players in SA's logistics sector	New value-added services (e.g. customs clearing, warehousing, financing); Africa and international growth opportunities; Transnet can enable smaller freight players
An imbalance in road-rail market share leads to high costs, high carbon intensity and vulnerability to the fluctuations of oil prices	A large-scale modal shift from road to rail to address costs, congestion and carbon emissions; A low-carbon, energy efficient freight system that will reduce vulnerability to volatile oil prices
Global and regional maritime connectivity is poor	Creation of international hub ports; Increased maritime connectivity between regional ports
The regional freight system is not well integrated and displays poor performance	A high performing core transport network in the region that will enable growth in intra-regional trade
Demand for transport infrastructure across all modes will rise significantly based on forecast freight demand	A robust infrastructure funding model able to ensure capacity ahead of demand; Digital integration of logistics value chains
Shortage of specialist skills across most areas of the freight system, particularly in new digital platforms	Targeted skills development strategies, particularly in digital programming, engineering and project management skills
Cybersecurity threats; Reliability of digital infrastructure and data in [illegible] markets	Commercialise digital opportunities; Customer-centric digital products and services (e.g. advanced diagnostic systems on locomotives)
Supplier innovation for all transport modes are underdeveloped	Unitary and rational control of the integrated network; Supplier development plan linked to long-term infrastructure investment plan
Pace of technological growth to disrupt industries and transform systems of production, management and governance	Asset-light products and services (e.g. volume aggregators using third party assets for shipments)
Climate change adaptation and energy and water supply challenges	Access and distribution of liquid and gas energy; R&D in renewable energy and desalinated water plants (e.g. at the ports to assist in cost control)

Revenue streams

Commodity-based revenue from commodities transported:

Coal	Forestry products	Refined petroleum products
Iron ore	Automotives	Crude oil
Manganese	Fast moving consumer goods	Aviation turbine fuel
Chrome	Containerised cargo and crude oil	Methane-rich gas
Steel		Petrochemicals
Cement		
Agricultural products		

Non-commodity revenue from:

- Engineering
- Transnet Property
- Other revenue of Freight Rail, National Ports Authority, Port Terminals and Pipelines

Funding sources

- International and domestic capital markets
- Loan markets (public and private)
- Development finance institutions (domestic and international)
- Export credit markets
- Structured financing
- Partial ownership by customers and/or interested parties that are part of Transnet's investment plan
- Project-specific funding

Cost considerations

- Fuel and electricity costs
- Asset depreciation
- Personnel costs
- Investment in infrastructure projects and equipment
- Regulatory and compliance costs
- Complex tariff and support services
- Borrowing costs
- Inflation
- Materials and maintenance costs

Top 10 risks

[illegible]

Creating value through the capitals

Inputs

Manufactured capital

Intellectual capital

Human capital

Natural capital

Key outputs of our business

Outcomes

Value created for Transnet

Ensure long-term financial stability in a tough economy

Value created for others

Employment

Skills development

Industrial capability building

Investment leveraged

Regional integration

Transformation

Health and safety

Community development

Environmental stewardship

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Creating value through the capitals
Financial capital
1. Inputs
2. Structuring our capital
3. Approaches to managing financial capital outcomes
4. Influences/risks
8. Key outputs
7. Trade-offs
Financial capital impacts on other capitals
6. Financial value created
5. Mitigation strategies

Manufactured capital +

1. Inputs

Property, plant and equipment R313,4 billion

Rail track 30 400 km

...troleum and gas pipelines infrastructure 3 800 km

...t, rail and pipelines infrastructure

ICT systems, digital platforms and cloud services

Information and communications technology (ICT)

2. Key factors impacting manufactured capital

Capital projects: Deterioration in the macroeconomic environment > renders certain infrastructure capital projects unviable. Reprioritise capital projects to ensure capital investment affordability

Delivering rolling stock: Market challenges > Freight Rail to review delivery of rolling stock in line with validated demand

The current aged fleet is being retired > reduces locomotive capitalised maintenance

ICT infrastructure: Adapt to rapid advancements in digitalisation > explore 3D printing, drone technology, big data and advanced analytics

Future security models > move from a 'closed loop' system to an interconnected networked system with other cloud data centres

3. Approaches to managing manufactured capital outcomes

A 'cradle-to-grave' solutions Specialist Unit [Group Capital] > advises Transnet and clients on capacity solutions

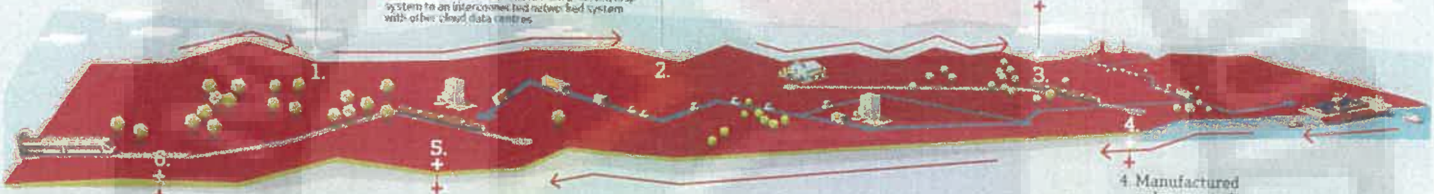
Integrated Capital Projects/Programme > integrated view of the capital portfolio

TVCC > transparency of projects in the capital pipeline

Robust business case validation > test project viability

The Assurance Framework (ICPAF) > augments the assurance and control framework around capital projects

Programme prioritisation > allocates resources to programmes best aligned with strategy



4. Manufactured value created

Critical logistics ...

Freight Rail > ...

Engineering > ...

Port Terminals > ...

Pipelines > ...

ICT > ...

6. Key outputs

Transnet concluded a locomotive acquisition contract in 2014 which resulted in the acquisition of 1 064 new locomotives for General Freight and Coal businesses

492 locomotives accepted into operations

15 locomotives delivered and undergoing acceptance testing

Port expansion

Lengthening and deepening of Durban Container Terminal berths 203 to 205

Capacity expansion for manganese

Expanded beyond 5,5 mt

Export coal expansion

...panded to 81 mtpa

...erberg upgrade

...ge II

NMPP project

The 24" main pipeline and 16" inland pipelines are fully commissioned and operational, and transported 109,40 billion litres of diesel from Durban to the inland region since commissioning

Wagon modernisation plan

80 new SCL wagons for the automotive business

340 CR wagons to be used within the mining sectors to transport ore from shafts to processing plants and for servicing the automotive market

5. Trade-offs

Manufactured capital impacts on other capitals

Value

Generated from operations

R89,4 million

Total value of revenue generated through waste management initiatives

Infrastructure requirements to meet the 4th Industrial Revolution

12

Significant environmental incidents in 2018

80

Running line derailments

damage to infrastructure (e.g. trains) | loss of revenue and paths of oncoming trains | cost of infrastructure repairs and maintenance

140

Shunting derailments

damage to infrastructure (e.g. trains) | cost of infrastructure repairs and maintenance

61

Safety incidents in operations

safety incidents and payable public fatalities | safety incidents and payable public fatalities > reputational damage

Human capital

1. Inputs

Skilled and motivated employees as at 1 April 2017 year-end: 58 828

Responsible leadership structure (Governance and Ethics) > Leadership structure

2. Approaches to managing human capital outcomes

- Training and development > improve capability and capacity
- Policies and procedures > improve HR service delivery
- Establish solid labour relationships
- Performance and talent management within Transnet > reward excellent performance
- Embed desired culture and safety behaviours (policies, systems, roadshows, procedures) > safety-conscious and responsive workforce
- Develop critical skills and succession planning > achieve long-term strategic objectives

3. Key factors impacting human capital

Two recognised trade unions represent 81,4% of bargaining unit employees: United National Transport Union (UNTU) and the South African Transport and Allied Workers Union (Satawu)

81,4%

Due to recent high retirement rates*, Transnet has improved its race and gender profile: black, coloured and Indian employees represent 86,1% of the Transnet workforce as compared to the NEAP average of 87,7%

Transnet has a disproportionately high representation of male employees (71,6%) relative to female co-workers (28,4%)

28,4% Female

71,6% Male

Female employees have more than doubled in the past 10 years

Our remuneration philosophy and framework underpins the human resources strategy

6. Key outputs

- Total headcount: 55 668 (2017: 58 828)
- Permanent employees: 51 324 (2017: 53 661)
- Non-permanent employees: 4 342 (2017: 5 167)
- Labour cost on skills development: R741 million (2017: R746 million)

5. Trade-offs

Human capital impacts on other capitals

Training and development > build competencies and collective values around safety, operational excellence and innovation

Remuneration and rewards strategies > entrench a performance-driven culture which supports productivity and cost optimisation

"Transnet 4.0 offers exciting opportunities to reskill our people, to give them the skills that the future requires of them."

Ms Nonkululeko Sishi
Chief Human Resources Officer

4. Human capital value created

- Direct employer
- Facilitator of indirect and induced employment opportunities nationally
- Talent management and development programmes > ensures succession plans for critical positions
- Leadership programmes > target all management levels to build strong leaders
- Reshape the operational core > support long-term strategic objectives
- Implement Lean Six Sigma principles

Intellectual capital

1. Inputs

Research and development (Engineering) – Research

Standard operating procedures – Procedures

Policies, frameworks and processes – Frameworks

Responsible leadership principles and practices – Leadership

2. Approaches to managing intellectual capital outcomes

Research and development › emerging digital technologies as a key enabler of innovation – Digital Transnet

Attract and retain key skills › enable our strategy and add value through innovation

Create customer-centric business solutions › enhance customer relationship management and business intelligence

Partner with academic institutions › empower growth-oriented entrepreneurs (business education and mentorship)

Ensure protection of intellectual capital › copyrights and patents

3. Key factors impacting intellectual capital

Rapid decline in revenue from traditional markets › invest heavily in achieving OEM status in passenger trains (Engineering)

Large investments remain critical in research and business intelligence development › increase revenue in niche markets

6. Key outputs

Transnet's first in-house designed traction motor

Transnet's first in-house designed CMS using satellite, 3G, WiFi and GPS for real-time condition monitoring of stationary and mobile assets

Transnet's first in-house designed IRIS

Transnet's first standard gauge wagon bogie – currently undergoing manufacturing

Transnet's own port hauler, which is a truck-like vehicle for the ports

Deployed an in-house developed maintaining tool for locomotives (TransAfrica Locomotive) – an application to connect to Transnet's in-house designed central system for advanced diagnostics and monitoring

5. Trade-offs

Learning from the traction motor prototype › used to manufacture full-scale prototypes

new infrastructure equipment | building and selling new product lines | develop learning and innovation | employ more skills as production grows

The Condition Monitoring System (CMS) › tracks stationary and mobile assets

improved maintenance of equipment | saving on repair and maintenance | better diagnostics | improved decision-making

Our real-time Advanced Data Analytics and Machine Learning platform (IRIS) › enables predictive maintenance, which improves reliability and productivity

new infrastructure equipment | new products and services + new revenue streams | new skills and innovation | reputational gain as world-class rolling stock OEM

Intellectual capital impacts on other capitals

Operate as a multi-faceted, manufacture-driven, service-led Company in the 4th Industrial Revolution › some current technical skills may become obsolete, while other yet unknown competencies will be required

Some existing skills may be replaced by technological innovations › balance our requirement for specialist technical advancements, and our mandate to create and sustain broad-based employment for the Company and the wider economy › maintain this balance by investing in upskilling of people and appropriate redeployment of skills

4. Intellectual value created

Engineering (internationally accredited OEM of freight wagons) › our research and innovation hub › expanding its offerings to narrow gauge operators worldwide

Our investment in research and development › leads to an expanding range of rolling stock products designed to suit various user-specific conditions

"Even with the best infrastructure, if our people and our thinking are not aligned, the customer will not reap the benefits."

Mr Gert de Beer
Chief Business Development Officer

Social and relationship capital

1. Inputs

Transaction relationships with customers and suppliers – Transaction relationships

Constructive and equitable engagements with government and regulators – Engagements

A positive relationship with employees and organised labour – Employee relationships

Proactive interaction with communities, citizens, institutions, media and pensioners – Corporate citizenship

Collaborative relationships with the Shareholder and funders – Collaboration

2. Approaches to managing social and relationship capital outcomes

Reputational value and market visibility > attract vital competencies at all levels of operations

CSI programmes > provide support for communities within and around operations

Transnet's supply chain > support manufacturing and services sectors of South Africa > quality of supplier relationships impact customer service

Overall responsibility for stakeholder engagement rests with the Board > delegates authority to the Group Chief Executive

Enterprise and Supplier Development > support SMMEs

Consistent and transparent investor engagements > align collective understanding of value creation and expectations around long-term targets

Forge and strengthen partnerships with OEMs > enhance skills and create new market opportunities

Partner with private-sector logistics partners > create end-to-end solutions for clients

Streamline contract management activities across the Company > ensure compliance with legal and contractual terms, while maximising value

3. Key factors impacting social and relationship capital

Our large infrastructure development projects pose a risk in terms of ethical and transparent procurement practices and 'rent-seeking' behaviour

Transnet relies heavily on foreign investment, and perceptions of anti-competitive behaviour and corruption negatively impact international foreign direct investment

Sound and ethical corporate governance can attract local and foreign investment and deter unethical business practices that hamper the image of SOCs

6. Key outputs

Total CSI spend [illegible] (2017: R234 million)

Committed Supplier Development [illegible] (2017: R62,6 billion)

Enterprise Development spend [illegible] (2017: R39,6 million)

30 black-owned SMMEs incubated and provided with entrepreneurial skills over a three-year period

Patients treated at the health, dental, eye, psychology and pharmacy clinics [illegible] (2017: 173 016)

Individuals who benefited from community outreach services [illegible] (2017: 438 807)

Health and hygiene workshops implemented in [illegible] (2017: nine provinces)

Ongoing academic support was provided for [illegible] (2017: 52 enrolled in our programmes)

5. Trade-offs

Social and relationship capital

Partner with private-sector logistics partners > creates end-to-end infrastructure logistics solutions for customers and new revenue streams

develop new private-sector partnerships

shared skills and competencies

new shared commercial opportunities + new revenue streams

Supplier and enterprise development

develop new entrepreneurs in the wider economy

develop new logistics skills to apply to Transnet business

Impacts on other capitals

Community investment

goodwill created through sound community relationships + responsible corporate citizenship

Transparent and ethical reporting

good corporate citizen + sound reputation management

4. Social and relationship value created

Private-sector participation > provide investment into South Africa's freight logistics system beyond levels currently committed by Transnet

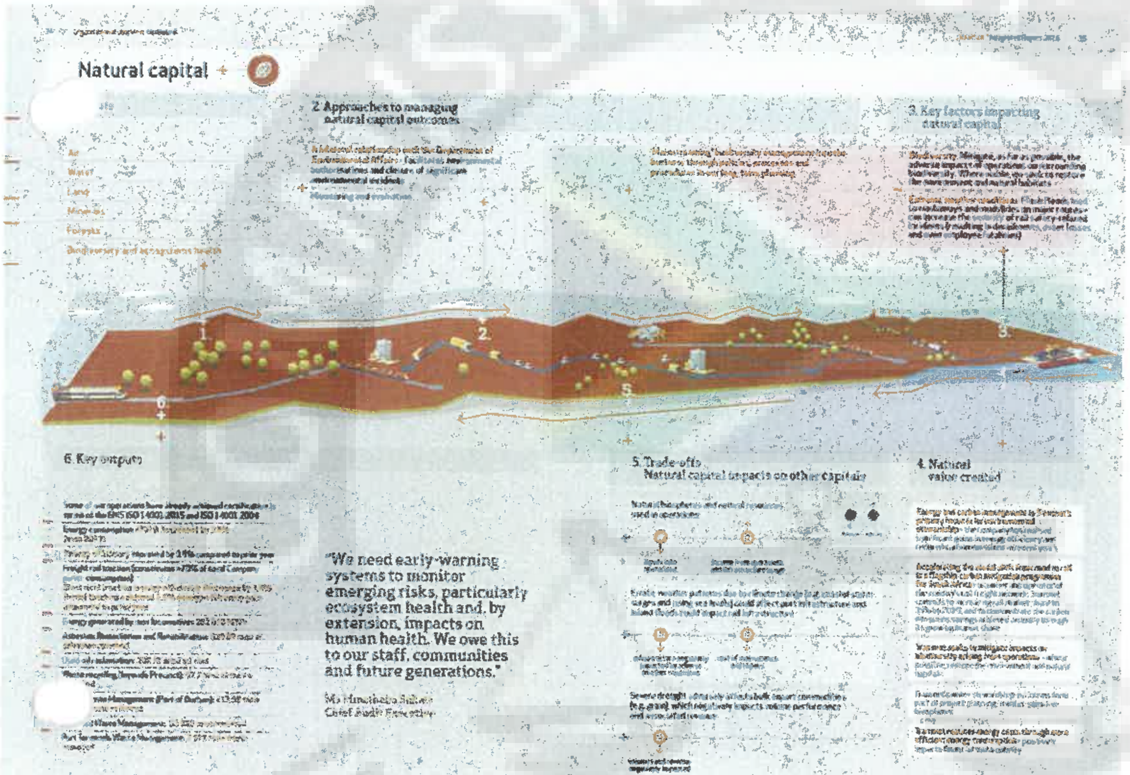
Integrated Supply Chain Management (ISCM) > support much-needed national [illegible]

Transnet Foundation's socio-economic programmes > [illegible] South African local communities

CSI initiatives from Operating Divisions > respond proactively to the needs of [illegible]

"Innovation doesn't mean much if it doesn't matter to our customers. Disruptive innovation is about doing more for customers than anyone else will."

Mr Mlamuli Buthelezi
Chief Operating Officer


Natural capital
Air
Water
Land
Minerals
Forests
Biodiversity and ecosystems health
2 Approaches to managing natural capital outcomes
3. Key factors impacting natural capital
6. Key outputs
5. Trade-offs
Natural capital impacts on other capitals
4. Natural value created
"We need early-warning systems to monitor emerging risks, particularly ecosystem health and, by extension, impacts on human health. We owe this to our staff, communities and future generations."

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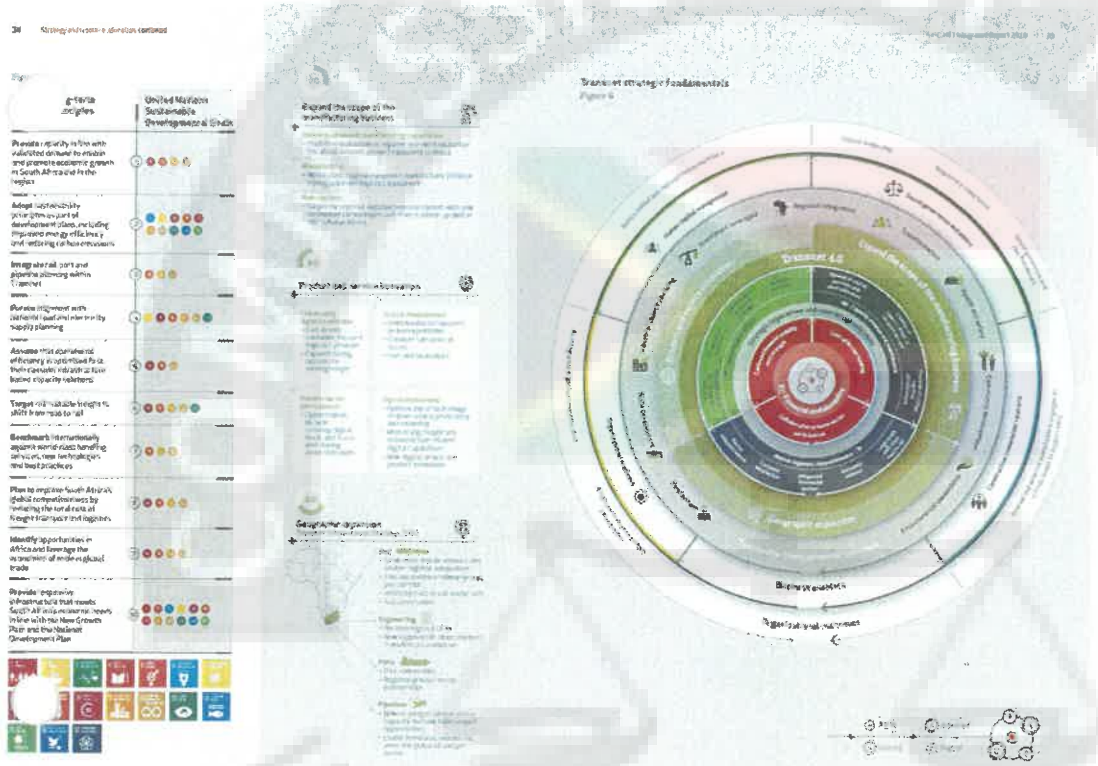
Strategy and resource allocation

Strategic planning

Transnet planning hierarchy

Figure 4


United Nations Sustainable Development Goals
Expand the scope of the manufacturing business
Product and service innovation
Geographic expansion
Transnet strategic fundamentals
Transnet 4.0
Business enablers

…nected elements of the strategy

…tegic thrusts	Financial sustainability	[illegible]	[illegible]	Market segment competitiveness
Agile	[illegible]	[illegible]	[illegible]	[illegible]
Admired	[illegible]	[illegible]	[illegible]	[illegible]
Digital	[illegible]	[illegible]	[illegible]	[illegible]
United	[illegible]	[illegible]	[illegible]	[illegible]
Commercial outcomes	[illegible]	[illegible]	[illegible]	[illegible]
…imperatives	[illegible]	[illegible]	[illegible]	[illegible]

Sustainable developmental outcomes

Employment
Measurable direct, indirect or induced employment

Skills development
Enhanced or improved human capabilities
Productive capacity of people within and outside the Company

Industrial capability building
Industrial development for South Africa
Improved competitiveness

Investment leveraged
Private-sector investment in the country's freight logistics system

Regional integration
Improved freight logistics connectivity on the continent

Transformation
Employment equity within the Company
Black economic empowerment within supplier entities

Health and safety
Improved physical and mental health and safety of employees
Improved physical and mental health and safety of communities

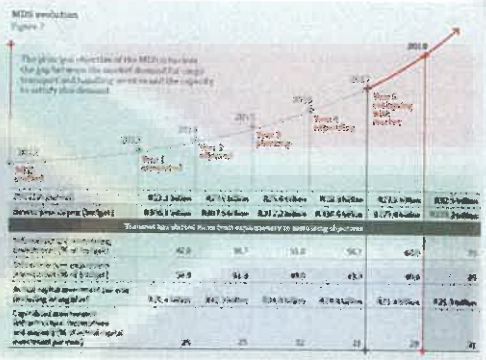
Community development
Measurably improved economic, social, cultural and environmental well-being of communities

Environmental stewardship
Enhanced capacity of the natural environment to meet the resource needs of future generations

...S to Transnet 4.0

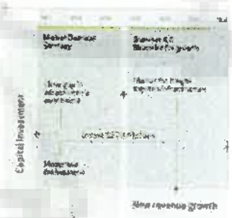
MDS evolution

Figure 7

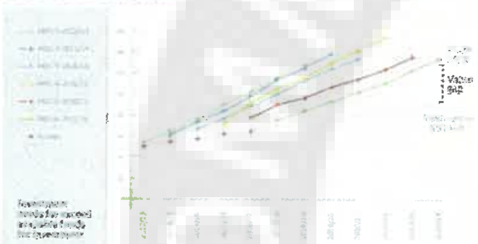


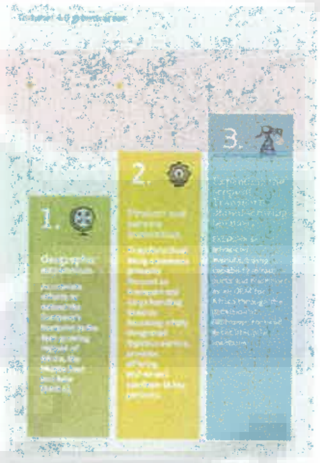
Post-MDS – closing the gap and transitioning to Transnet 4.0

Figure 8



The Industry 4.0 environment invites us to familiarise ourselves with the unknown.





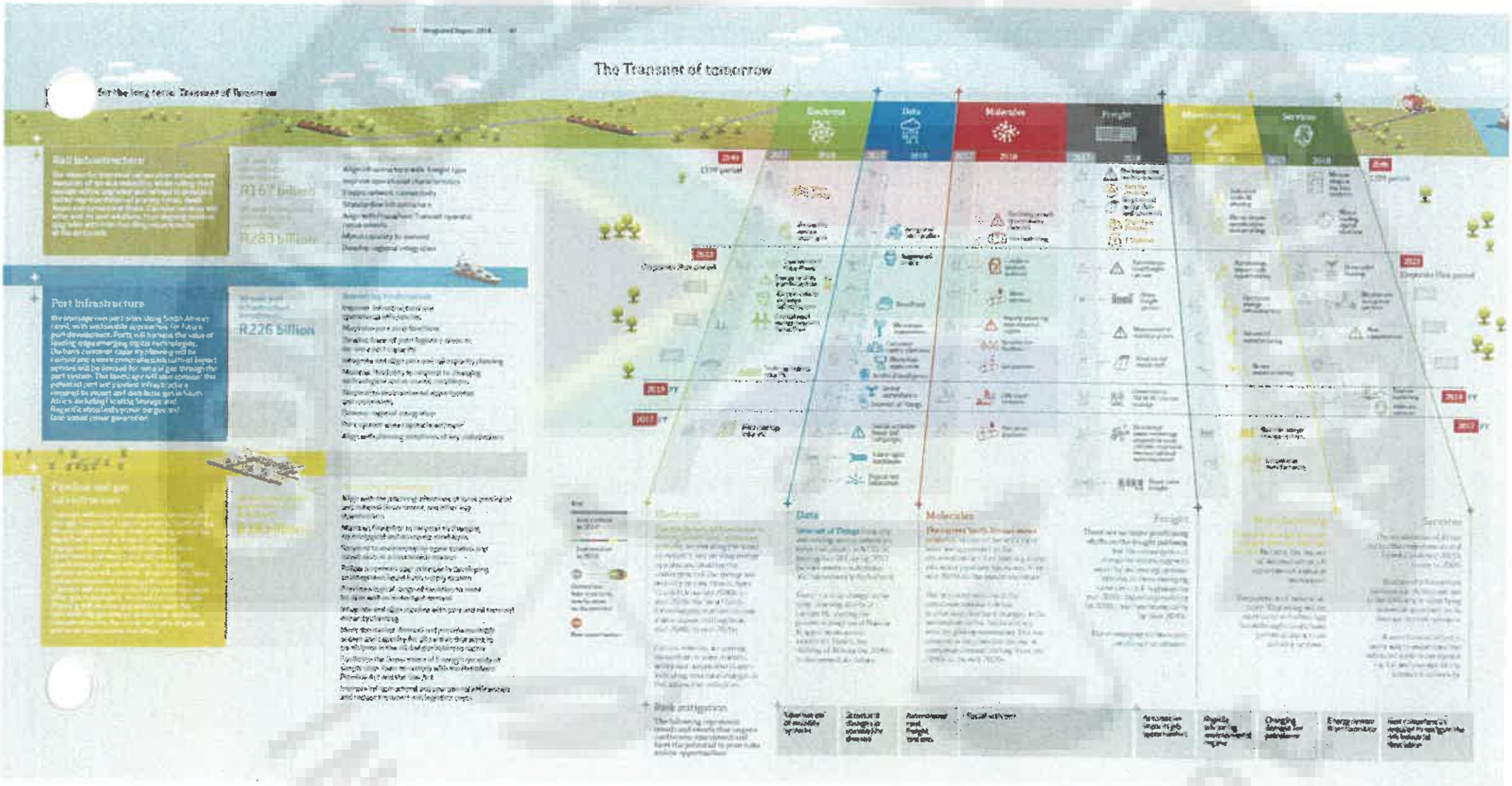
Transnet International Holdings (TIH) focus areas

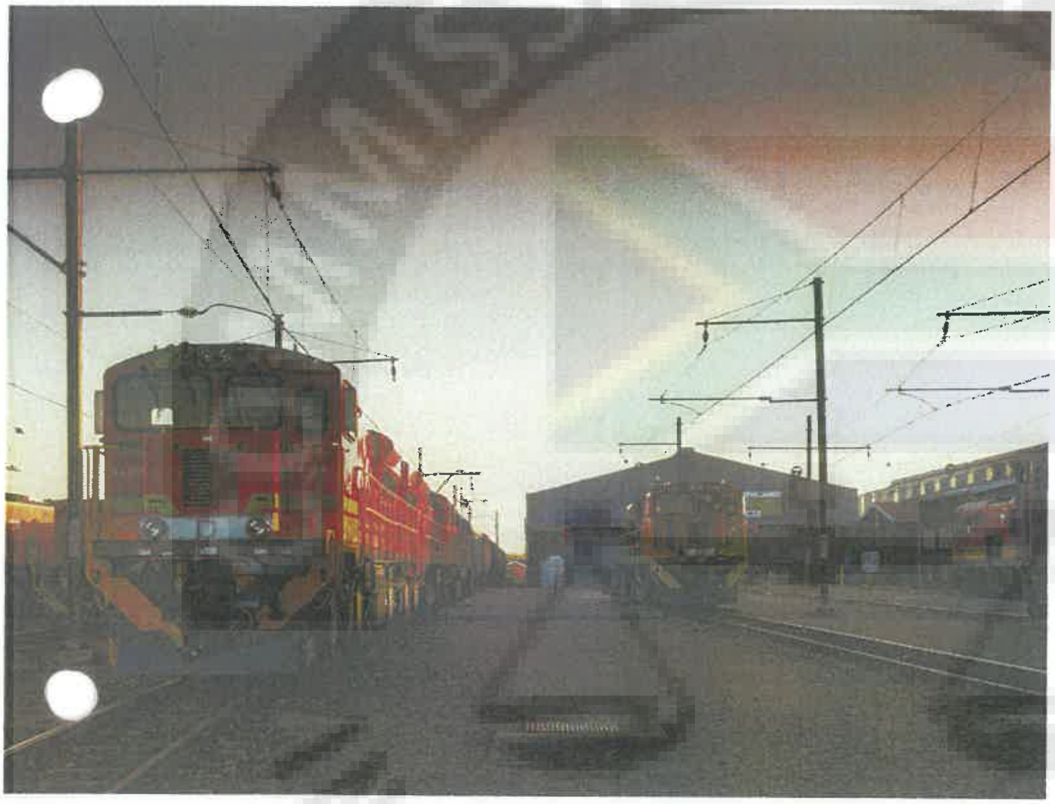
[illegible]

Rail	Engineering	Ports	Pipelines
[illegible]	[illegible]	[illegible]	[illegible]

Our point of departure: long-term sustainability

[illegible]


The Transnet of tomorrow
Rail infrastructure
R167 billion
R283 billion
Port infrastructure
R226 billion
Electrons
Data
Molecules
Freight
Services
Risk mitigation



Managing our stakeholder relationships

Transnet's Stakeholder Engagement Policy and Process Control Framework

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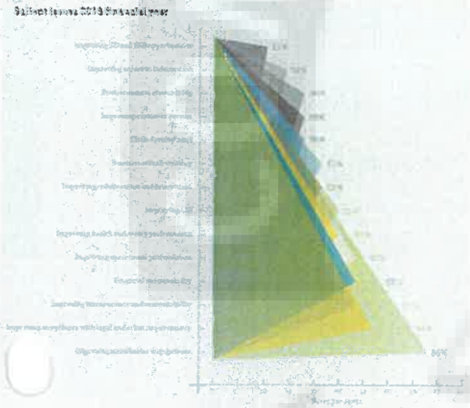
Multi-stakeholder Perception Survey

Results of the 2017 Multi-stakeholder Perception Survey

Key issues/concerns affecting stakeholders during the reporting period

Salient issues 2018 financial year



Addressing key stakeholder concerns

Key issues arising from our Multi-stakeholder Perception Survey

Key issues/concerns affecting stakeholders

Improving stakeholder engagement — Transnet's response

Ensuring financial sustainability — Transnet's response

Improving operational performance — Transnet's response

Transnet's overall strategy: Clarity in terms of the transition from the MDS to Transnet 4.0

Transnet's response

Communication of the strategy

Improving Enterprise Development (ED) and Supplier Development (SD)

Transnet's response

"We are very conscious of the link between reputation and the organisation's capacity to execute its strategy."

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Material aspects impacting our strategy

Levels of accountability for determining material aspects

Validating material issues

Changes to reporting on material aspects

Directors' approval of material aspects

The levels of accountability for identifying, validating and approving Transnet's material issues

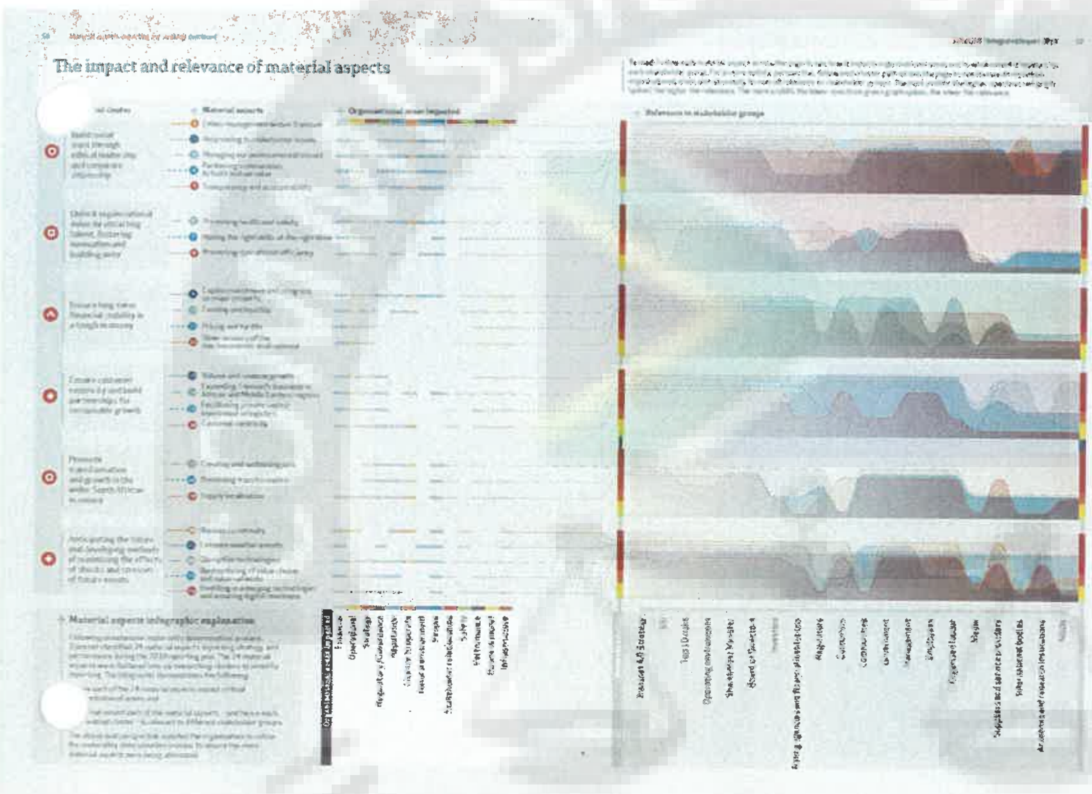
Figure 10

Stage 1 Identification

Stage 2 Validation

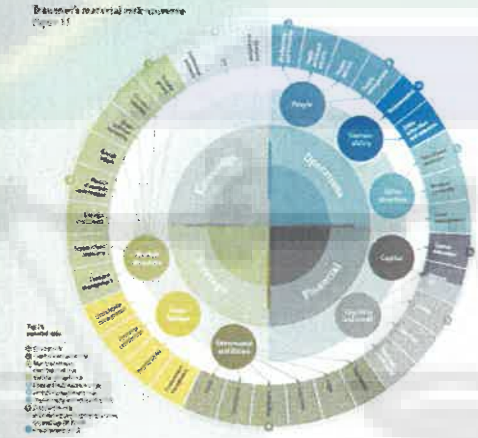
Stage 3 Prioritisation

Stage 4 Approval


The impact and relevance of material aspects

Opportunities and risks

Transnet's top risks for 2018



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... 10 material risks for 2018 and ... statement of the top 10 risks ... year

Figure 18

Figure 18 shows ... top 10 material risks for the 2018 financial year ...

Risks and opportunities arising from material matters

Residual risk rating key

... financial stability in a tough economy

Ensure customer centricity and build partnerships for sustainable growth

Promote transformation and growth in the wider South African economy

Anticipating the future and developing methods of minimising the effects of shocks and stresses of future events

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...t's risk control and
...ce environment

The governance of risk

Management of risk

Integrated Assurance Model for capital projects and programmes

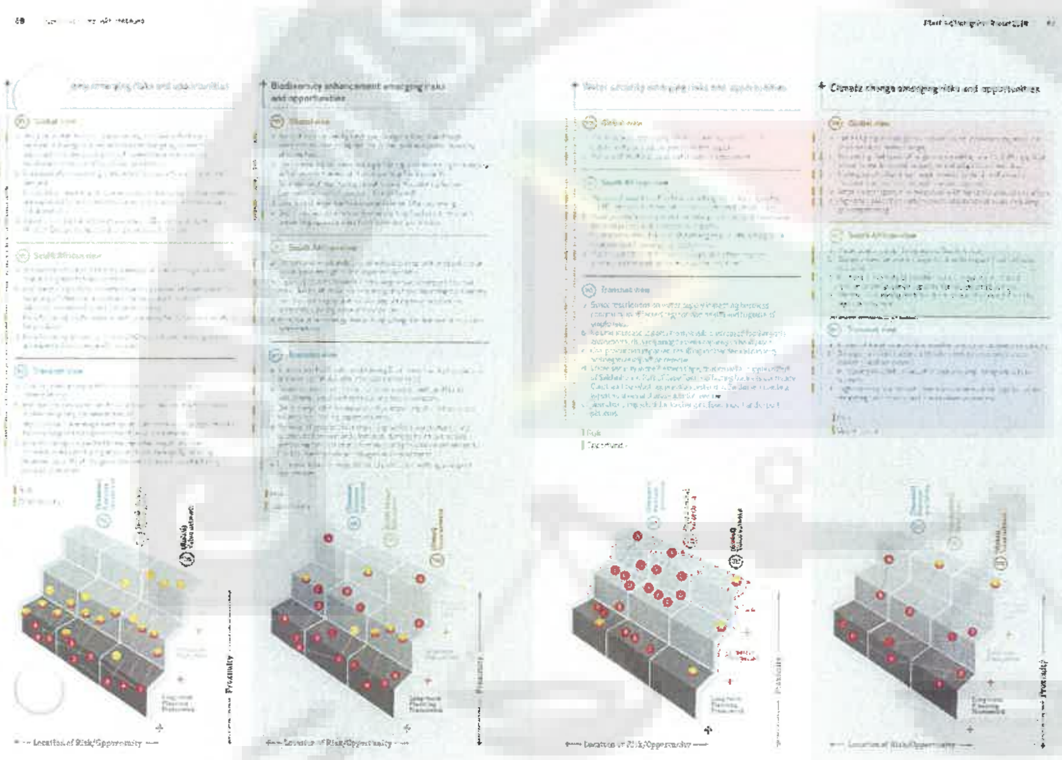
Fraud and Corruption Risk Management Strategy

Key themes of the Fraud and Corruption Risk Management Strategy

Figure 13

Emerging risks

Risk event proximity


Biodiversity enhancement emerging risks and opportunities

Climate change emerging risks and opportunities

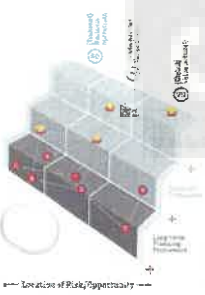
...ging risks and opportunities

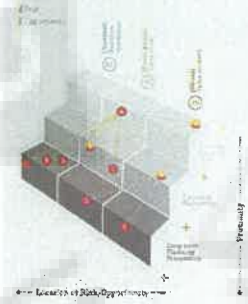
Disruptive technology emerging risks and opportunities

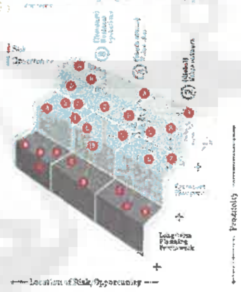
Global view

Social inequality emerging risks and opportunities

Global view







Governance and compliance are becoming more embedded throughout the transaction lifecycle ...

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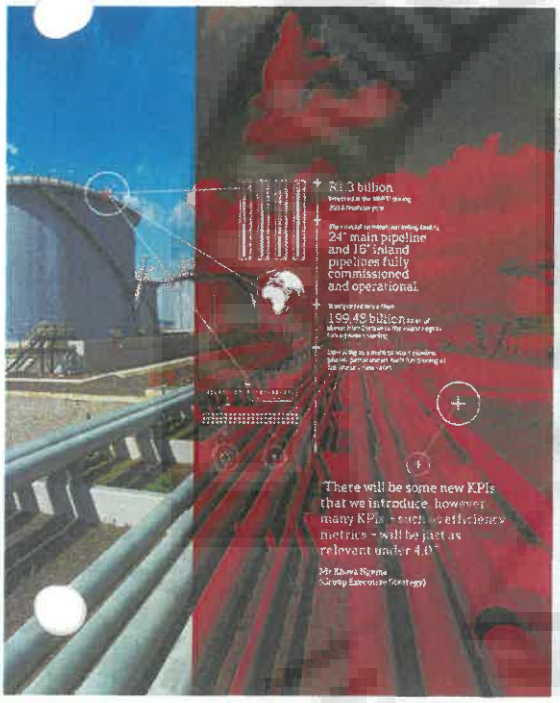


Our performance

Financial sustainability

[illegible] statement

(in R million)	Audited 31 March 2018	31 March 2017
Revenue	72 887	[illegible]
[illegible]	(40 372)	[illegible]
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)	32 515	[illegible]
[illegible]	(13 686)	[illegible]
Profit from operations before items listed below	18 829	[illegible]
[illegible]	(1 442)	[illegible]
[illegible]	(268)	[illegible]
Fair value adjustments	410	[illegible]
[illegible]	9	[illegible]
Profit from operations before net finance costs	17 538	[illegible]
[illegible]	(10 211)	[illegible]
[illegible]	302	[illegible]
Profit before tax	7 629	[illegible]
[illegible]	(2 778)	[illegible]
Profit for the year	4 851	[illegible]

Statement of financial position

(in R million)	Audited 31 March 2018	Restated 31 March 2017
Assets		
Non-current assets	357 333	[illegible]
Property, plant and equipment	335 498	[illegible]
[illegible]	11 225	[illegible]
Intangible assets	1 158	[illegible]
[illegible]	155	[illegible]
[illegible]	2 807	[illegible]
[illegible]	19	[illegible]
[illegible]	1 481	[illegible]
Current assets	17 490	[illegible]
Inventories	3 182	[illegible]
Trade and other receivables	9 088	[illegible]
[illegible]	49	[illegible]
[illegible]	561	[illegible]
[illegible]	4 380	[illegible]
[illegible]	130	[illegible]
Total assets	369 823	[illegible]
Equity and liabilities		
Capital and reserves	158 874	[illegible]
[illegible]	12 661	[illegible]
[illegible]	146 213	[illegible]
Non-current liabilities	158 036	[illegible]
[illegible]	2 054	[illegible]
[illegible]	93 593	[illegible]
[illegible]	2 430	[illegible]
[illegible]	2 258	[illegible]
[illegible]	50 911	[illegible]
[illegible]	5 990	[illegible]
Current liabilities	54 913	[illegible]
[illegible]	21 280	[illegible]
[illegible]	20 957	[illegible]
[illegible]	14	[illegible]
[illegible]	25	[illegible]
[illegible]	1 059	[illegible]
[illegible]	3 578	[illegible]
Total equity and liabilities	369 823	[illegible]

[illegible]nt of comprehensive income

[illegible] 31 March 2018

(in R million)	Audited 31 March 2018	Restated 31 March 2017
Profit for the year	4 852	[illegible]
Other comprehensive income/(loss)	10 236	[illegible]
Gains on revaluation	11 878	[illegible]
Cash flow hedges	(1 471)	[illegible]
[illegible]	39	[illegible]
Tax relating to [illegible]	(2 859)	[illegible]
Other comprehensive [illegible]	7 377	[illegible]
Total comprehensive income for the year	12 229	[illegible]

Headline earnings

for the year ended 31 March 2018

(in R million)	Audited 31 March 2018	Audited 31 March 2017
Profit for the year attributable to the equity holder	4 851	[illegible]
Profit on the disposal of property, plant and equipment	(1)	[illegible]
Loss on the disposal of intangible assets	1	[illegible]
Loss on the disposal of investment property	6	[illegible]
[illegible]	84	[illegible]
Investment property fair value adjustments	(697)	[illegible]
Impairment of property, plant and equipment	760	[illegible]
Impairment of intangible assets	1	–
Total tax effect of adjustments	(59)	[illegible]
Headline earnings	4 862	[illegible]

Segment information

for the year ended 31 March 2018

(in R million)	[illegible] Audited 31 March 2018	[illegible] Audited 31 March 2017	[illegible] Engineering Audited 31 March 2018	[illegible] Engineering Audited 31 March 2017	[illegible] Audited 31 March 2018	[illegible] Audited 31 March 2017
External revenue	42 709	[illegible]	1 467	[illegible]	10 313	[illegible]
Internal revenue	1 000	[illegible]	9 783	[illegible]	1 586	[illegible]
Total revenue	43 709	[illegible]	11 250	[illegible]	11 899	[illegible]
Earnings before interest, tax, depreciation, amortisation [illegible]	20 673	[illegible]	(138)	[illegible]	7 396	[illegible]
Total assets	192 964	[illegible]	20 245	[illegible]	94 359	[illegible]
Total liabilities	123 823	[illegible]	18 713	[illegible]	43 872	[illegible]
Capital expenditure	17 598	[illegible]	275	[illegible]	1 054	[illegible]
Cash generated from operations after working capital	20 793	[illegible]	(3 978)	[illegible]	8 908	[illegible]

(in R million)	[illegible] Audited 31 March 2018	[illegible] Audited 31 March 2017	[illegible] Audited 31 March 2018	[illegible] Audited 31 March 2017	Total reportable segments Audited 31 March 2018	Total reportable segments Audited 31 March 2017	Other Audited 31 March 2018	Other Audited 31 March 2017	Total Transnet Audited 31 March 2018	Total Transnet Audited 31 March 2017
External revenue	12 306	[illegible]	4 484	[illegible]	72 159	[illegible]	728	[illegible]	72 887	[illegible]
Internal revenue	[illegible]	[illegible]	4	[illegible]	11 380	[illegible]	(11 380)	[illegible]	–	[illegible]
Total revenue	[illegible]	[illegible]	4 488	[illegible]	83 539	[illegible]	(10 652)	[illegible]	72 887	[illegible]
Earnings before interest, tax, depreciation, amortisation [illegible]	4 172	[illegible]	3 197	[illegible]	34 894	[illegible]	(2 379)	[illegible]	32 515	[illegible]
Total assets	17 853	[illegible]	43 873	[illegible]	369 294	[illegible]	399	[illegible]	369 693	[illegible]
Total liabilities	6 579	[illegible]	23 375	[illegible]	216 356	[illegible]	(3 407)	[illegible]	212 949	[illegible]
Capital expenditure	1 365	[illegible]	1 544	[illegible]	21 836	[illegible]	(55)	[illegible]	21 781	[illegible]
Cash generated from operations after working capital	4 463	[illegible]	9 423	[illegible]	32 919	[illegible]	(165)	[illegible]	32 754	[illegible]

[1] Other includes other segments, [illegible] and [illegible] adjustments.
[2] [illegible]
[3] [illegible]

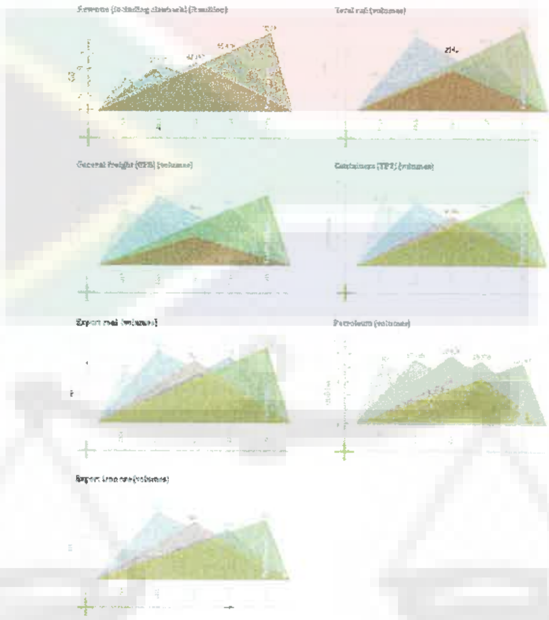
...ent of cash flows

...ded 31 March 2018

(in R million)		Audited 31 March 2018	31 March 2017
Cash flows from operating activities		22 958	[illegible]
[illegible]	1	34 915	[illegible]
[illegible]		(2 161)	[illegible]
Cash generated from operations after changes in working capital		32 754	[illegible]
[illegible]		(8 330)	[illegible]
Finance income		261	[illegible]
Tax paid		—	[illegible]
[illegible]		(180)	[illegible]
[illegible]		(947)	[illegible]
Cash flows utilised in investing activities		(24 891)	[illegible]
[illegible]		(16 726)	[illegible]
[illegible]		(8 096)	[illegible]
[illegible]		(69)	[illegible]
Cash flows utilised in financing activities		(109)	[illegible]
Borrowings raised	[illegible]	40 920	[illegible]
Borrowings repaid	[illegible]	(41 029)	[illegible]
[illegible]		(2 042)	[illegible]
[illegible]		6 422	[illegible]
Total cash and cash equivalents at the end of the year		4 380	[illegible]

Five year review: Business growth through volume performance

Revenue and volume performance



Ports

Pipelines

"Freight Rail recorded a record 77.0 mt of export coal ..."

"Transnet 4.0 is a response to transformations and mega-trends in the market, ... however, largely based on servicing changing customer needs and demands."

Port – truck turnaround time

Port – train turnaround time

Port – anchorage waiting time

Port – average ship turnaround times

Capacity creation and maintenance

Investment perspective

Capital investment by operating segment (%)

2018

Rail

Ports

Pipelines

Capital investment by commodity (%)

Our infrastructure projects not only create capacity 70 to 80 years into the future but many jobs are created

Market segment competitiveness

…rformance in support of the SDGs

Transnet employees*		
2017 (%)	Categories	2018 (%)
[illegible]	[illegible]	[illegible]

Skills development

Engineering bursaries and other bursaries

The following DIFP figures were recorded per Operating Division/Specialist Units

2017	Operating Divisions	2018
[illegible]	Freight Rail	[illegible]
[illegible]	Engineering	[illegible]
[illegible]	[illegible]	[illegible]

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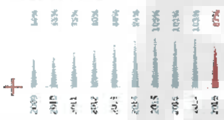
…pabilities building and transformation

B-BBEE spend

% B-BBEE spend of TMPS



B-BBEE categories spend	Investment value	% of TMPS
Qualifying small enterprises	R2,69 billion	9,1
Exempted micro-enterprises	R2,47 billion	8,3
Black-owned enterprises	R12,47 billion	42,0
Black women-owned enterprises	R9,34 billion	31,4
Black youth-owned enterprises	R224,69 million	0,80
Enterprises owned … people	R24,55 million	0,08

Creating resonance with your people, in an organisation of just under 60 000, is key

Operation Phakisa projects

Section 56 agreement	Invested
Oil Tanking Grindrod Calulo Liquid Bulk Terminal	R3 billion
Off-shore supply base	R1,8 billion
Sunrise Energy	R1,1 billion
Burgan Cape	R590 million
Durban Cruise Terminal	R215 million
Cape Town Cruise Terminal	R179 million

Nigerian railway project

National Railways of Zimbabwe

Swaziland Rail Link

Kenya LAPSSET Corridor – Lamu Port

Community development

Heritage preservation

Managing Transnet heritage assets for future generations

Transnet Integrated Report 2018

Carbon mitigation results from road-to-rail gains up to March 2018

Commodity groups		
Agriculture and bulk liquids	[illegible]	[illegible]
Coal	[illegible]	[illegible]
Containers and automotive	[illegible]	[illegible]
Iron ore and manganese	[illegible]	[illegible]
Mineral mining and chrome	[illegible]	[illegible]
Steel and cement	[illegible]	[illegible]
Total	13 305 274	859 228

Not all business success requires disruption

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...ve compliance

Pension and post-retirement benefit obligations

Historical view

2018 update

PFMA reporting

Category of reportable items	2018 R million	2017 R million
Fruitless and wasteful expenditure	23,5	21,8
Losses through criminal conduct	59,1	43,1
Irregular expenditure – spent in current year	3 427,4	142,4
Irregular expenditure – spent in prior year	4 695,7	550,3
Total irregular expenditure	8 123,1	692,7
[illegible]	(0,2)	(293,3)
[illegible]	—	(158,6)
[illegible]	—	(240,8)
Remaining irregular expenditure awaiting condonation	8 122,9	
Irregular expenditure under investigation	507,3	32,8

State capture allegations

T-Systems and Gijima

Contracts for purchase of 1 064 locomotives

Operating Divisions' review

Freight Rail

2018	2017

Engineering

2018	2017

National Ports Authority

2018	2017

Port Terminals

2018	2017

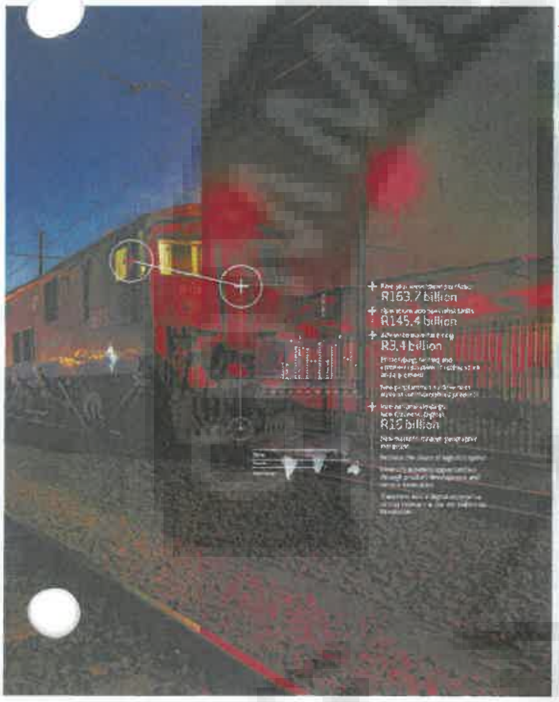
Pipelines

2018	2017

Commentary

Key

Opportunities in the short to medium term



Outlook

Strategic considerations

'Transnet 4.0 brings with it opportunity, challenge and change ...'

Megatrends affecting the logistics sector
Figure 15

Digitisation of operations

The tuberisation of freight

Global Industry 4.0' megatrends
Figure 16

Five growth clusters will drive Transnet 4.0, with the potential for significantly increasing revenue over the next five years:
Figure 17

Five-year investment portfolio R163,7 billion
1
Operations and Specialist Units
R145,4 billion
Five key functional portfolios
2
Advanced manufacturing
R3,4 billion
End-to-end logistics
3
International Holdings
4
New Business
5
Digital
R15 billion

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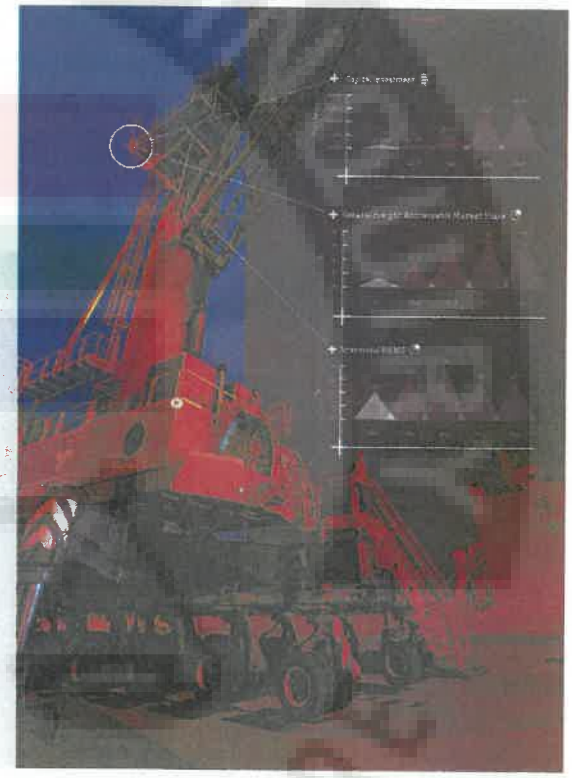
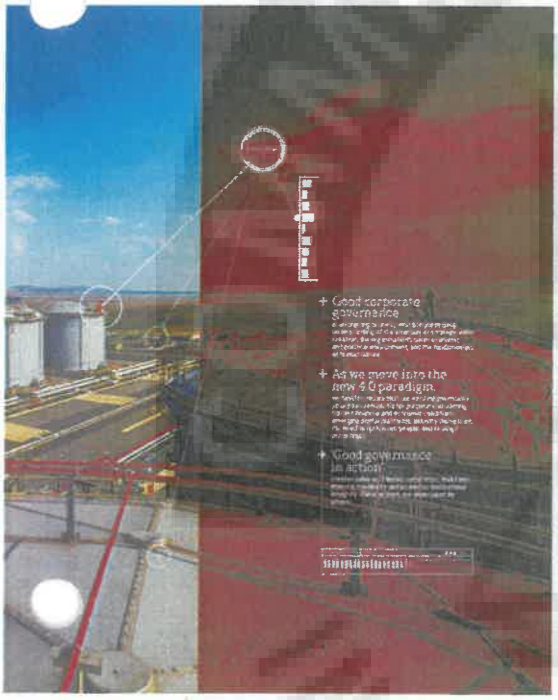
Conclusion and medium-term planning horizon

[illegible]

Medium-term planning horizon: Transitioning to Transnet 4.0 (Critical KPIs)

Financial sustainability	2017 Performance	2018 Performance	2019 Year ahead	2021 Short term	2023 Medium term
Revenue (million)	65 478	72 867	86 048	101 153	[illegible]
EBITDA (million)	27 557	32 515	37 806	44 421	53 676
Net profit after tax (million)	2 769	4 851	5 916	8 633	[illegible]
Gearing (%)	44.2	43.4	47.5	43.7	41.0
Cash interest cover (times)	2.7	3.8	2.5	2.9	3.3
Cash flow from operations (million)	25 104	32 958	[illegible]	30 915	37 759
Capacity creation and maintenance	**2017 Performance**	**2018 Performance**	**2019 Year ahead**	**2021 Short term**	**2023 Medium term**
Freight Rail (million)	15 737	17 599	16 387	[illegible]	14 576
National Ports Authority (million)	2 020	1 054	2 436	[illegible]	7 295
Port Terminals (million)	1 378	1 365	2 722	4 083	7 082
Pipelines (million)	1 736	1 544	1 338	2 941	365
Engineering / Advanced Manufacturing (million)	945	275	746	764	415
Overall capital investment (million)	[illegible]	21 781	25 645	33 275	[illegible]
Market segment growth	**2017 Performance**	**2018 Performance**	**2019 Year ahead**	**2021 Short term**	**2023 Medium term**
Addressable Market Share (RAMS) (%)	29.4	31.4	34	35	35
Intermodal RAMS (%)	22.1	23.6	24	23	23
Operational excellence	**2017 Performance**	**2018 Performance**	**2019 Year ahead**	**2021 Short term**	**2023 Medium term**
General Freight (mt)	88.1	90.77	104.2	117.5	125.3
Export coal (mt)	73.8	77.0	77.0	77.0	[illegible]
Export iron ore (mt)	57.2	58.5	60.0	60.0	60.0
Total volumes (mt)	219.1	226.3	241.2	254.6	264.0





Abridged governance

Ethical and effective leadership and corporate citizenship

Public Finance Management Act (PFMA)

Companies Act

A strong theme for us in the Capital space is going back to basics

Governance instruments

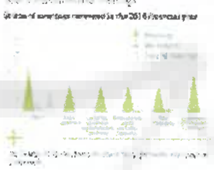
Independent performance evaluation of the Board, its committees and directors

2018 Board evaluation

Directors' induction and continuous development

Board independence

Core responsibilities of the Board




g value through Transnet's governance structure
Appropriate governance committee structures
Principles of Transnet's governance structure
Comprehensive risk management, compliance and assurance systems
Value created by Transnet's governance function

of critical matters during the 2017/18 financial year

Chairperson

Members:

Most material matters arising during the year

Main undertakings and considerations

Non-executive directors

Group Company Secretarial function

Board committees

Audit Committee

Chairperson and Group Chief Executive

Management of potential conflicts of interest

Benchmarking

"At Transnet Internal Audit we are getting involved in Company initiatives early on.

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Board members
Mr Sipho Maseko
Group Chief Executive
Dr Rapu Molefe
Chairperson
Acting Chief Financial Officer
Ms Ursula Fikelepi
Ms Rachel Kalidass
Ms Mpho Lethoko
Ms Vivian Mahlangu
Adv Cupa Mokwena
Dr Roland Maharaj
Mr Lewis van der Zonn
Group Company Secretary
100%
0%

...tive memberships on other boards

1. Dr Popo Molefe
Chairperson

Membership/Shareholding

Aberdeen Offshore Engineering (Pty) Ltd

2. Mr Siyabonga Gama
Group Chief Executive

Directorship/Trusteeship/Shareholding

3. Mr Mohammed Mahomedy
Acting Chief Financial Officer

4. Ms Ursula Fikelepi

Directorship/Shareholding

Directorship

5. Ms Bonisile Gama

Directorship/Shareholding

6. Prof Edward Kieswetter

Directorship/Shareholding

GEMS Education Africa

7. Ms Mpho Letlape

Directorship/Trusteeship/Shareholding

Standard Bank Tutuwa Community Foundation NPC

South African Women in Dialogue

8. Ms Dinnah Matabogo

Directorship/Shareholding

9. Ms Vivien McMenamin

Directorship/Trusteeship

10. Adv Oupa Motaung

Directorship/Shareholding

11. Dr Pholisani Mufamadi

Directorship/Shareholding

National Bank of Commerce (Tanzania)

12. Mr Aluwani Ramabulana

Directorship/Shareholding/Trusteeship

13. Ms Gratitude Ramphaka

Membership

14. Mr Louis von Zeuner

Directorship/Trusteeship

Absa Group

Summary of the main undertakings and considerations during the year*

Audit Committee

- Total number of meetings held during the year: ...
- Executive directors
- Independent non-executive directors

Chairperson

Members

Most material matters arising during the year	Main undertakings and considerations
[illegible]	[illegible]
Fraud ...	[illegible]

[illegible] Disposals Committee

[illegible]

Summary of the main undertakings and considerations during the year*

The Acquisitions and Disposals Committee

[illegible]

Chairperson:

[illegible]

Members:

[illegible]

Additional director attendees during the year

[illegible]

Most material matters arising during the year

[illegible]

Main undertakings and considerations

[illegible]

Corporate Governance and Nominations Committee

[illegible]

Summary of the main undertakings and considerations during the year*

Corporate Governance and Nominations Committee

[illegible]

Chairperson:

[illegible]

Members:

[illegible]

Most material matters arising during the year

[illegible]

Main undertakings and considerations

[illegible]

Summary of the main undertakings and considerations during the year*

Risk Committee

Chairperson

Members:
- Mr BS Bosyman? [illegible]
- Mr [illegible]
- Mr [illegible]
- Mr [illegible]

Most material matters arising during the year

Main undertakings and considerations

Remuneration, Social and Ethics Committee

Summary of the main undertakings and considerations during the year*

Remuneration, Social and Ethics Committee

Chairperson

Members:
- Ms [illegible]
- Ms ZA Mag[illegible]
- Mr SD Shane [illegible]

Most material matters arising during the year

Main undertakings and considerations

Leadership Team (GLT)

Group Chief Executive

Acting Chief Financial Officer

Chief Human Resources Officer

Chief Information Officer

Mr Gert de Beer
Chief Business Development Officer

Chief Operating Officer

Qualifications: BSc (Mechanical Engineering) (Tulane University), Higher Diploma Mechanical Engineering (Durban University of Technology), MBA

Black females: 3
Black males: 5
Indian males: 2
White males: 1

Group Executive: Strategy

Chief Audit Executive

Acting Chief Corporate and Regulatory Officer

Chief Officer: Advanced Manufacturing

Chief Capital Officer

...ration philosophy

Guaranteed pay

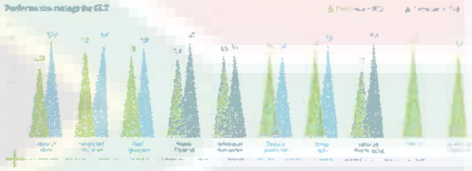
Annual increases vs CPI

Benefits

V... pay

Individual performance management

Performance management for the Group Leadership Team (GLT)



Remuneration for the GLT

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...ve remuneration – variable

Short- and long-term incentive payments

Remuneration structure for non-executive directors

Our control environment

[illegible] environment

[illegible]

Regulatory compliance

[illegible]

Governance of sustainability

[illegible]

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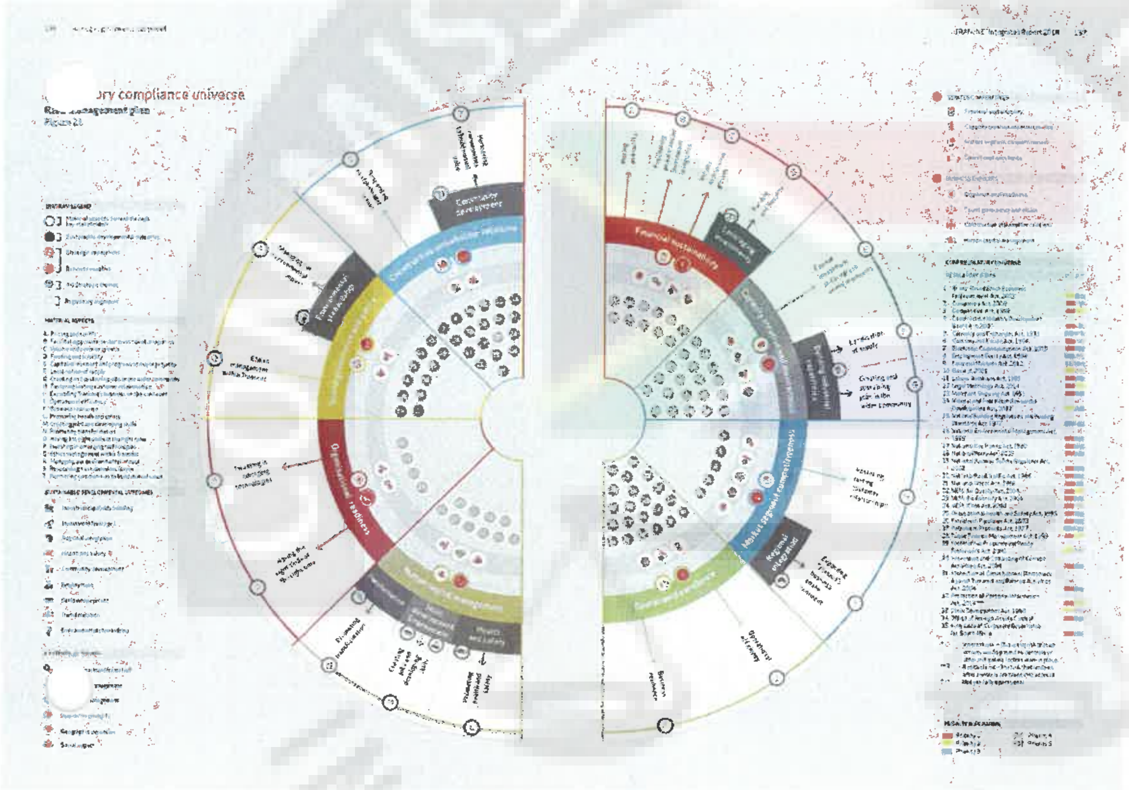

...exure A: Governance terms of reference for the Integrated Report

Integrated reporting element	Mandate/Terms of reference	Sub-committees of the Group Executive Committee	Committees of the Board
Stakeholder engagement and relationships	[illegible]	[illegible]	[illegible]
Risks and opportunities	[illegible]	[illegible]	[illegible]
Strategy and resource allocation	[illegible]	[illegible]	[illegible]
Performance and outlook	[illegible]	[illegible]	[illegible]
Remuneration	[illegible]	[illegible]	[illegible]
Governance	[illegible]	[illegible]	[illegible]

Annexure B: Remuneration report

Introduction

Terminology

Remuneration philosophy

Guaranteed pay

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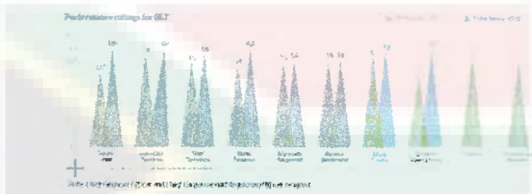
Benefits

Individual performance management

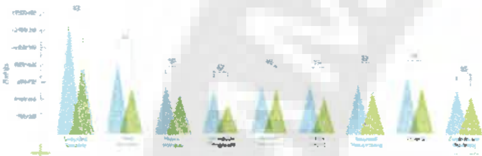
Performance management for the GLT



Remuneration for the GLT

[illegible]

Market median vs actual guaranteed remuneration



[illegible]

Guaranteed pay of Transnet GLT

GLT member	Salary R'000	Post-retirement benefit fund contributions R'000	Other contributions R'000	Other payments R'000	Total 2018 R'000	Total 2017 R'000
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Variable pay

[illegible]

Short-term incentive scheme

[illegible]

Long-term incentive scheme

[illegible]

GLT member	LTI 2018 R'000	LTI 2017 R'000	STI 2018 R'000	STI 2017 R'000
[illegible]	1 862	[illegible]	5 661	[illegible]
[illegible]	896	[illegible]	—	[illegible]
[illegible]	980	[illegible]	3 658	[illegible]
[illegible]	—	—	3 452	[illegible]
[illegible]	1 145	[illegible]	3 086	[illegible]
[illegible]	—	[illegible]	—	[illegible]
[illegible]	716	[illegible]	2 766	[illegible]
[illegible]	—	—	2 261	[illegible]
[illegible]	687	[illegible]	2 729	[illegible]
[illegible]	335	[illegible]	838	[illegible]
[illegible]	—	[illegible]	—	[illegible]
[illegible]	—	[illegible]	—	[illegible]
[illegible]	—	[illegible]	—	[illegible]
[illegible]	—	[illegible]	—	[illegible]
[illegible]	—	[illegible]	—	[illegible]
[illegible]	—	[illegible]	—	[illegible]
[illegible]	—	[illegible]	—	[illegible]
[illegible]	—	[illegible]	—	[illegible]
[illegible]	—	[illegible]	—	[illegible]
Total	8 620	[illegible]	24 445	[illegible]

Remuneration structure for non-executive directors

Name of Board member	Fees R'000	Other payments R'000	Total 2018 R'000	Total 2017 R'000
[illegible]	[illegible]	—	1 350	[illegible]
[illegible]	[illegible]	—	656	[illegible]
[illegible]	[illegible]	—	550	[illegible]
[illegible]	[illegible]	—	642	[illegible]
[illegible]	[illegible]	—	581	[illegible]
[illegible]	[illegible]	—	642	[illegible]
[illegible]	[illegible]	—	197	[illegible]
[illegible]	[illegible]	—	829	[illegible]
[illegible]	[illegible]	—	[illegible]	[illegible]
[illegible]	[illegible]	—	260	[illegible]
[illegible]	[illegible]	—	192	—
Total	[illegible]		5 595	[illegible]

Remuneration, Social and Ethics Committee of the Transnet Board

[illegible]exure C: Subsidiaries, associates and joint ventures

for the year ended 31 March 2018

Subsidiaries

	Effective holding 2018 %	Effective holding 2017 %	Voting power held 2018 %	Shares at cost 2018 R million	Shares at cost 2017 R million	Interest of holding company net profit/(loss) 2018 R million	Interest of holding company net profit/(loss) 2017 R million	Interest of holding company indebtedness 2018 R million	Interest of holding company indebtedness 2017 R million	Accumulated impairment and losses 2018 R million	Accumulated impairment and losses 2017 R million
Subsidiaries held by Transnet											
Local subsidiaries											
Environmental responsibility											
[illegible]	100	[illegible]	100	–	–	7	[illegible]	–	[illegible]	–	[illegible]
Social responsibility											
[illegible]	100	[illegible]	100	–		–		–	–	–	
International business activities											
[illegible]	100		100	–		–		–		–	
Foreign subsidiaries											
Transport logistics											
[illegible]	57	[illegible]	57	–		–		–	[illegible]	–	[illegible]
				–		7		–	[illegible]	–	[illegible]

[illegible]

Equity-accounted investees

	Principal activity	Effective holding 2018 %	Effective holding 2017 %	Shares at cost 2018 R million	Shares at cost 2017 R million	Interest of holding company indebtedness 2018 R million	Interest of holding company indebtedness 2017 R million	Accumulated impairment and losses 2018 R million	Accumulated impairment and losses 2017 R million	Share of post-acquisition reserves 2018 R million	Share of post-acquisition reserves 2017 R million	Total 2018 R million	Total 2017 R million
Associates													
[illegible]	[illegible]	30	[illegible]	–	–	1		–	–	10	[illegible]	11	[illegible]
[illegible]	[illegible]	32	[illegible]	[illegible]	[illegible]	8		21		–	–	[illegible]	–
[illegible]	[illegible]	11		–	–	–		–		–	–	–	–
[illegible]	[illegible]	20	[illegible]	–	–	1		–	–	115	[illegible]	117	[illegible]
Joint ventures													
[illegible]	[illegible]	35		6	[illegible]	–	–	–	–	21	[illegible]	27	[illegible]
				[illegible]		10		21		147	[illegible]	155	

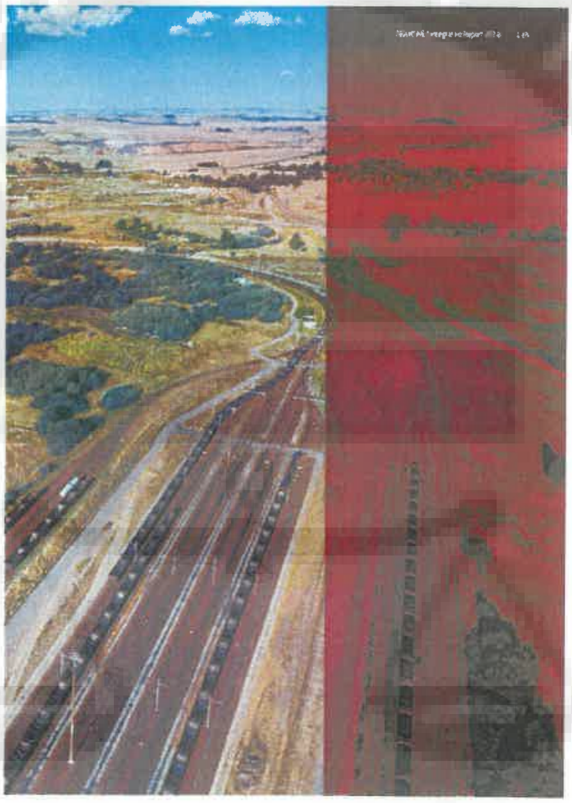
[illegible]

Summarised financial information of equity-accounted investees

	Commercial Cold Storage (Ports) (Pty) Ltd R million	RainPerp (Pty) Ltd R million	Gateway Container Terminal R million
[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Results of operations			
[illegible]			
[illegible]		[illegible]	[illegible]

PSM-139
130

.exure D: Material risk taxonomy



Abbreviations and acronyms

Glossary of terms

Asset turnover (times)

Cash interest cover (times)

Debt (for gearing calculation)

EBITDA

EBITDA margin

Equity

Issued capital and reserves

Gearing

Headline earnings

Operating profit

Operating profit margin

Return on total average assets

Total assets

Total average assets

Total debt

…orate information

Transnet SOC Ltd

[illegible]

[illegible]
150 Commissioner Street
Johannesburg
2001

Executive directors

[illegible]

Independent non-executive directors

[illegible]

Group Company Secretary

[illegible]
150 Commissioner Street
Johannesburg
2001

[illegible]
2122

Auditors

[illegible]
2191

[illegible]

[illegible]

ANNEXURE PM 4

Nkosenhle Mzinyathi

Subject: FW: Transnet chairperson - staff address

From: Corporate & Public Affairs Transnet Corp JHB
Sent: 02 July 2018 08:54 AM
To: DistGroup-TN-All Transnet SOC LTD <All-Transnet-SOC-LTD@transnet.net>
Subject: Transnet chairperson - staff address

TRANSNET

Dear colleagues,

I am pleased to write to you on behalf of the Board of Directors (BOD) of Transnet.

On 24 May 2018 the Minister of Public Enterprises, Mr Pravin Gordhan, announced the new Board of Directors for this important company following the cabinet meeting of the Government of the Republic of South Africa. I am privileged to have been appointed the Chairperson. It is a fairly balanced, strong and robust BOD.

My fellow Directors and I are delighted and excited at the opportunity to work with all of you towards carrying out the mandate of Transnet, restore its integrity and win back public confidence which was undermined by sustained negative reportage by the media on the company.

In proceeding collectively along this exciting journey, we are informed by the perspective that Transnet is an asset of the people of South Africa as a whole which the Government of the Republic South Africa hold on their behalf. The Government has in turn entrusted this family to the BOD, Management and the entire workforce to grow further and take good care of. It belongs to South Africans because it was created and sustained with their taxes. We too, as employees and Directors continue to pay taxes to sustain this business. That is why it is rightfully called the people's asset.

In ways, more than one, we are privileged to have been chosen amongst millions of South Africans for this prestigious and place of honour which many amongst our fellow compatriots envy. Accordingly, they rightfully expect all of us do our best to work together and protect this asset against any damage and preserve it for generations to come.

Following our appointment as the BOD, we have been and continue to acquaint ourselves with the Transnet business, organisational structure, strategy and its operations.

We are also beginning to appreciate the dedication and persistence that this kind of job requires from all of you.

Delivering goods across the country and beyond our borders requires special skills and a deep understanding of multiple supply chain processes. We are delighted that that such dedicated individuals exist in our country.

As the new board we are certain that we learn a lot in the course discharging our responsibilities to the people of South Africa through their Government. We are open to learning as much as we can about this business.

We recognize that we start this journey under a dark cloud that has engulfed the company for a number of years. To say therefore, that we can already see the light at the end of the tunnel will be short-sighted and simplistic, as we are only at the beginning of the tunnel.

Transnet has, for the past three years, been faced with a number of serious allegations of corruption, maladministration and mismanagement of procurement processes. The seriousness of these allegations cannot and must not be ignored. They need to be dealt with urgently. In dealing with transgressions it is imperative that we demonstrate that ours is a constitutional democracy in which the rule of law must reign supreme.

The Transnet board believes in ethical leadership and good corporate governance articulated eloquently by President Cyril Ramaphosa in his inaugural State of the Nation Address in February this year.

In his address the President pointed out that there has been a massive destruction of state institutions over the past few years. This dark and ruinous period has left many institutions, especially the State Owned Enterprises in dire straits. He called for the rebuilding and cleaning up of institutions. This was a clarion call to our nation to return to the time honoured values, ethical standards and principles which inspired and sustained it.

Steps taken since the Board's appointment

- We have set up committees in the following order:
  the *Risk, Audit, Finance* and *Investments, Remuneration, Social and Ethics, Corporate governance and Nominations* committees. The finance and investments committee will review all major investments and advise the board of directors.

- The board has done away with the *Acquisition and Disposal Committee,* we believe that directors should not be involved in the acquisition processes.

- We have also met with the Special Investigating Unit, which briefed us on its work as set out in the Presidential Proclamation announced earlier this year.

- The Board has received presentations from the chair of the audit committee, Internal Audit Section and external auditors

On the 1064 Locomotives Contract

At hand, is the much talked-about 1064 Locomotive contract, where Transnet was accused of mismanaging the supply chain management process contract resulting in the costs associated with procurement increasing from approximately R38 Billion - R54 Billion.

On 13 June 2018, the BOD received detailed presentations on both the Werksmans' Report and Preliminary Report by MNS Attorneys on their investigations of the procurement of the one thousand and sixty four (1064) Locomotives.

Both firms' reports called for a range of actions:

(1) Disciplinary action to be taken against executives involved in the 1064 locomotive transaction.

(2) Transnet former executives be criminally charged and that funds be recovered.

The BOD has established ***a Special Sub-Committee*** comprising the chairpersons of the sub-committees above. This committee will advise the board on implementing some of recommendations set out in these reports and other related matters.

The board will seek legal advice on uncoupling and implementing the civil, criminal and disciplinary matters while taking account of all other processes under way.

Processes underway include the *SIU* and *Hawks* investigations and *the Zondo Inquiry* into State Capture. There is great alignment to be undertaken in this regard.

In addition to the afore-going, the board will deal with other matters relevant to organisational progress in the short to medium-term and long-term basis.

In this regard the BOD will review various policies and structures within the organisation informed by the strategy of the Transnet. The Company will prepare in anticipation of it being required to appear before the Judicial Commission headed Justice Zondo.

T-Systems and Gijima

The dispute on the IT service contract involving Transnet on one hand and the T-Systems and Gijima on the other, is receiving our attention. The focus is on getting Transnet to transition from the current data centre service and others related thereto in a manner that will enable Transnet to assume control of these services. Coupled to the transitioning process is the challenge of building and enhancing internal Transnet ICT capacity.

This matter is now before the court; therefore, all issues relating to this matter will be ventilated through this process unless an amicable resolution is agreed amongst the parties involved in the matter.

The board has received a full report from management on matters relating to the IT services contract. We would like to use this opportunity to assure Transnet's customers that a process to transition all services currently performed by T-Systems to Transnet (known as insourcing) until the legal process has been concluded is well under way. These are not the only issues at hand, but we need time to deal with each matter.

Way Forward

We are mindful of the anxiety and distress experienced by Transnet's workforce especially on issues relating to corruption and mismanagement. As I mentioned earlier on, our sleeves are rolled up and we are ready to tackle all challenges coming our way.

We would like to assure Transnet employees that we are here to work with them and not against them. We are focused on changing the management culture of working in silos. We want to introduce a manageable open door policy that will afford everyone mutual respect. We encourage staff to be active participants in changing the company for the better. We want you to ask management difficult questions and demand answers.

None of us at Transnet should tolerate corruption of any sort. Rotten elements, if they exist, must be relentlessly exposed.

However, we will not rush legal matters and end up having to withdraw some of our decisions because we acted in haste and did not follow processes. We believe in the rule of law and will be guided by this principle as we clean up Transnet.

We are looking forward to further engagements with you and hope that each and every one of you will corporate with us as we take this great company forward.

Regards,

Dr Popo Molefe

Transnet Chairperson

ANNEXURE PM 5

CONFIDENTIAL

MINUTES OF THE SPECIAL BOARD OF DIRECTORS MEETING NO. 8-18/19FY HELD AT 11:30 ON 5 SEPTEMBER 2018 AT BOARDROOM 4901, 49TH FLOOR, CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG

Resolution No/ For attention

1 CONSTITUTION OF MEETING AND APOLOGIES

1.1 Present

Dr PS Molefe	Chairperson
Adv O Motaung	Non-Executive Director
Ms UN Fikelepi	Non-Executive Director
Ms M Mosidi	Acting Group Chief Executive *(on behalf of Mr Gama)*
Ms RJ Ganda	Non-Executive Director
Prof EC Kieswetter	Non-Executive Director *(through video-conference)*
Ms ME Letlape	Non-Executive Director
Mr M Mahomedy	Acting Chief Financial Officer
Ms DC Matshoga	Non-Executive Director
Adv O Motaung	Non-Executive Director
Ms V McMenamin	Non-Executive Director *(through video-conference)*
Dr FS Mufamadi	Non-Executive Director
Mr AP Ramabulana	Non-Executive Director
Ms G Ramphaka	Non-Executive Director
Mr LL von Zeuner	Non-Executive Director

1.2 In attendance

Mr N Silinga	Acting Chief Corporate and Regulatory Officer
Mr KL Mosia	Company Secretary
Ms NE Khumalo	Group Company Secretary

1.3 Partial attendance

Mr C Mkiva	Bowman and Gilfillan
Mr D de Klerk	Bowman and Gilfillan
Mr SI Gama	Group Chief Executive

1.4 Apologies

Ms CS Shiceka	General Manager: Office of the Group Chief Executive

1.5 Welcome

1.5.1 The Chairperson welcomed all Members and Attendees present. Having observed quorum, the Chairperson declared the meeting duly constituted. He noted an apology from Ms Ganda who will join the meeting at a later stage. The Attendance Register was circulated for signature.

1.5.2 The Chairperson indicated that the purpose of the meeting was to discuss the feedback from the Lenders, and the tabling of written responses to the suspension letters and to approve the ICBC Loan Facility Agreement.

1.6 Adoption of Agenda

1.6.1 The Agenda was adopted as tabled.

2 SAFETY BRIEFING AND EVACUATION PROCEDURE

2.1 The Safety briefing, and evacuation procedure for the 49th Floor was conducted through a safety video.

3 DECLARATION OF INTERESTS

3.1 Declaration of Interest for the meeting

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

4 MATTERS FOR APPROVAL/RECOMMENDATION

4.1 Feedback from Lenders

4.1.1 Management took the Board through the submission as contained in the meeting pack. The submission was taken as read. The purpose of the submission was to request the Board to note the update.

Resolution No/ For Attention

4.1.2 Management indicated that the facilities amounted to R15 8bn and were affected by the audit qualification event of default, and that the unused facilities amounted to R4bn. The triggering of the event of default created the entitlement to acceleration of the repayment of the loans. If the entitlement is implemented, it would create a cross default affecting the entire Company debt portfolio. In June 2018 Group Treasury started early negotiations with the affected lenders to obtain agreement that Lenders waive their rights to accelerate repayments of the loan facilities. On 18 July 2018 the Chairperson and the Audit Committee Members met the Lenders to discuss the impending audit qualification. Lenders subsequently raised a number of questions about the remedial plans, governance, risk and control framework in the Company which Management has been responding to. The detailed list of items making up the PFMA violations, and the associated remedial plan, has not yet been submitted to the Lenders pending Board approval. Management indicated that 8 out of the 10 Lenders were granted waivers. A response is awaited from *Futuregrowth* and *French Development Bank* following the Company's responses to their questions. All the waivers have terms and conditions. Mainly Lenders want to be appraised on the remedial plan, the progress of the remediation, disciplinary, civil and criminal proceedings to be taken against implicated Employees. The Company should consider the terms and conditions before signing the waiver letters. Lender engagements will be regular and adherence to the waiver conditions were onerous as they require executive management and the Board's oversight and resources to monitor and report progress, manage engagements and reporting to the Lenders.

5.1 **Board of Directors Mandate**

5.1.1 The Board noted the Board of Directors' Mandate as contained in the meeting pack.

6 **CLOSING**

6.1 The Chairperson thanked the Board of Directors for their participation and valuable contributions in the meeting. The Chairperson declared the meeting closed at 18:17.

CHAIRPERSON
DATE: 2018/11/07.

GROUP COMPANY SECRETARY
DATE: 07/11/2018

ANNEXURE PM 6

Overall Report Classification	Not Rated

Operating Division	: Transnet Corporate Centre
Engagement Name	: Ethics Risk and Climate Assessment
Engagement number	: 1011
Period of review	: 1 April 2015 – 31 August 2016
Issue date	: 30 November 2016
Report Status	: Draft Report

30/11/2016

Ms. Sithokozile Moropa
General Manager Group Forensics
Transnet Corporate Centre
Carlton Centre, Commissioner Street
Johannesburg
2001

Dear Ms. Moropa

We have completed our Ethics Risk and Climate Assessment of Transnet Corporate Centre in accordance with the Engagement Scope Letter signed and dated 08/09/2016. The results of the Ethics Risk and Climate Assessment are presented in this report.

We value the opportunity to work with you and sincerely appreciate the cooperation and assistance provided to us during the course of this engagement. We will be pleased to further discuss any aspect of our procedures or this report with you or other members of management at your convenience. If you have any questions, please contact me on 083 441 8196 or Sizakele Bophela on 072 849 7395.

Please note that this report is intended solely for the information and use of the Transnet Audit Committee, Transnet Management, and any other similar governance structures.

Yours faithfully

Karthi Naicker
FRM Competency Leader

Date

Emma Mashilwane
Nkonki Account Lead

Date

MANAGEMENT'S REPORT ACCEPTANCE AND ACTION PLAN COMMITMENT

We as management of Transnet Corporate Centre have agreed to the scope of the audit as included in the Engagement Scope Letter dated 08/09/2016.

We have provided all the information requested and attended to the queries raised by internal audit.

We are committed to an improved system of risk, governance and internal controls.

We agree with the findings raised and have developed appropriate sustainable action plans to mitigate the weaknesses identified. The action plans include containment of the findings (if required), in addition root causes for the findings and the related risk impacts have been considered during the development of the mitigating action plans.

We accept the report rating and will monitor progress on the implementation of the actions plans.

On behalf of management

Recommended by

Sithokozile Moropa
General Manager Group Forensics

Date

Mmathabo Sukati
Chief Audit Executive

Date

Contents

TRANSNET

Distribution List

Business category	Name	Designation
Transnet Group	Sithokozile Moropa	General Manager: Group Forensics
Transnet External Audit	SizweNtsalubaGobodo	Transnet External Auditors
Transnet Internal Audit	Mmathabo Sukati	Chief Audit Executive

Section 1: Executive Summary

1.1 Introduction

The implementation of Transnet's Market Demand Strategy (MDS) continues to bring about fundamental changes to Transnet's current business processes and its internal control environment. MDS initiatives have introduced significant emerging risks to the business environment. This has necessitated Transnet to ensure that these risks are properly addressed.

The Ethics Risk and Climate Assessment has been conducted as part of the Fraud Risk Management Plan 2016/2017.

1.2 Background to the Engagement

The Ethics Risk and Climate Assessment consisted of the following phases:

(1) document review;
(2) interviews and focus groups; and
(3) an ethics survey.

The first two phases were reported on in an Interim Report, titled "TCC Ethics Risk Assessment: Interim Report" and was issued on 11 February 2016. This engagement relates to the final phase of the assessment, namely the ethics survey.

The survey consisted of questions that were designed to be common amongst Operating Divisions, as well as TCC specific questions that were drawn from the data in the Interim Report. The online survey was distributed by TCC Corporate Communications on 16 September 2016 to all TCC staff with e-mail addresses. The survey was closed on 28 September 2016.

The survey consisted of the following features:

- ✓ It was conducted in the form of an online survey (web-based);
- ✓ The survey was entirely anonymous. The survey software does not allow visibility of names, e-mail addresses, IP addresses or other identifying information;
- ✓ It took respondents on average 20 minutes to complete. We noted that the initial average was 10 minutes, however the average time spent increased in the last days that the survey was running; and
- ✓ Out of a possible 984 respondents, the survey was completed by 248 employees. Therefore, the response rate was noted to be 25%.

1.3 Engagement Objective(s)

In accordance with the Engagement Scope Letter issued on 08 September 2016, the objective(s) of this engagement is defined as follows:

- To identify any potential ethics risks;
- To assess the ethical climate; and
- To make recommendations for improvement (as required) to address identified ethics risks.

1.4 Engagement Scope and Approach

As documented in the approved Engagement Notification and Scope Letters, and in line with the approved Fraud Risk Management, this engagement was executed in line with the scope and approach agreed to with management. The following are the key highlights of the agreed engagement scope and approach:

1.4.1 Engagement Scope

- Perused the Code of Ethics, the Whistle-blowing policy, the Gifts and Hospitality policy, and the Declaration of Interests policy;
- Obtained and perused the prior year's interim report on the Ethics Risk Assessment that was conducted as part of the 2015/16 TCC FRMP;
- Conducted a web-based electronic survey that was sent to all TCC staff with e-mail addresses. The survey included general questions as well as ones that were based on the issues identified in the prior interviews and focus groups conducted as part of the Ethics Risk and Climate Assessment;

- Collated survey results with the data from the interim report to finalise an Ethics Risk and Climate report containing recommendations where needed. The draft report will be available for management feedback prior to being finalised.

1.4.2 Engagement Approach

The approach taken in this engagement was based on the Ethics Management Practice Notes of the King III report on Corporate Governance published in 2009, as well as in part on the theoretical foundation of Muel Kaptein and Johan Wempe as contained in "The Balanced Company – A theory of corporate integrity", published by Oxford University Press, 2002.

Details relating to the approach that was followed during the review have been indicated under the Engagement Scope heading.

1.4.3 Scope Exclusions / Limitations

- Conducting investigations where knowledge of misconduct is reported by survey respondents;
- Performing a follow-up review on the recommendations made in respect of ethics risks identified;
- Updating policies and procedures based on the identified ethics risks;
- Verifying the authenticity / validity of the documentation / information / data made available to us;
- Producing an opinion, based on the information / documentation / data obtained;
- Conducting an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements, or relevant national standards or practices. We will base our review on leading industry practices. Consequently, we do not express any audit assurance;
- Transnet employees without e-mail addresses are not be surveyed in this engagement since conducting manual surveys would require additional budget allocations; and
- The response rate to the survey was lower than what is ideal even though the survey time was extended. This means that the results are not fully representative of the entire TCC.

1.5 ecutive Summary of Key Observations

The table below contains key observations from the ethical dimensions surveyed (and are expanded on in Section 2). The response rate to the survey was 25%. The results are therefore not representative of TCC as a whole, but is valuable and highlights issues that require management attention.

Key Observations	
Key observation 1 Dimension: Discussability Issue: Fear	- 184 survey respondents (74%) indicated that there is a culture of fear at TCC. - 174 survey respondents (70%) agreed that fraud and corruption remain hidden because people are afraid to speak up.
Key observation 2 Dimension: Supportability Issue: Lack of trust	- 172 survey respondents (69%) disagree with the statement "there is a culture of trust at TCC". - 129 of survey respondents (52%) indicated that they do not trust their seniors.
Key observation 3 Dimension: Visibility Issue: The role of alliances	- 150 survey respondents (60%) indicated that misconduct remains hidden due to people covering for each other based on political ties and affiliations.
Key observation 4 Dimension: Consistency Issue: Unethical expectations	- 112 survey respondents (45%) indicated that they are expected by their seniors to do things that contravene Transnet values and rules.
Key observation 5 Dimension: Corrective action Issue: Inversion of reward and sanction	- 48 survey respondents (19%) believe that unethical behaviour is rewarded. - 50 survey respondents (20%) believe that ethical behaviour is informally punished. (Refer to the dimension of Sanctionability/Corrective Action)

1.6 Report Close-out with Management

The report will be discussed and closed-out with Ms. Sithokozile Moropa, General Manager: Group Forensics

We wish to inform management that a proper close-out process will be followed and that all the relevant officials have been involved in this process.

1.7 Management Responsibility

Management is responsible for the establishment and maintenance of an effective system of governance to:

- Establish and communicate organisational goals and values;
- Monitor the accomplishment of goals; and
- Ensure accountability and values are preserved.

Management is further responsible for the establishment and maintenance of an effective system of internal controls. The objectives of the system of internal control are, *inter alia*, to provide management with reasonable, but not absolute, assurance that:

- Risks are properly managed;
- An ethical climate is fostered;
- Ethics communication and training are regular and effective;
- Laws, regulations and policies are complied with;
- Management is responsible for drafting an action plan based on the ethics risks and climate issues contained in the Ethics Risk and Climate report and for the incorporation of the action plan into the 2017/2018 FRMP.

1.8 Agreed Next Steps

- All **improvement plans** will be **uploaded onto SAP GRC** for resolution by management
- Management to address all the shortcomings identified and strive to implement the improvement plans within the agreed timelines
- TIA will conduct follow-up audits with the objective of providing management with assurance that the identified shortcomings have been resolved effectively
- It is management's responsibility to update the relevant Process Controls Manuals, Control Frameworks and Control Self Assessments.

1.9 Appreciation

We are pleased to share with both management and the Audit Committee that our execution on this engagement progressed well and in line with the approved Audit Planning Memorandum.

We wish to take this opportunity to express our gratitude to management for the support and co-operation that we received during the execution of this engagement.

TRANSNET

1.10 Dashboard (overview of findings)

High Priority Areas

Dimension:
Discussability of ethical issues

Category: Fear Specify that

- 74%: There is a culture of fear at TCC.
- 70%: Fraud and corruption remain hidden because people are afraid to speak up.

Category: Feeling safe to report misconduct

- 60%: Misconduct remains hidden due to people covering for each other based on political ties and affiliations.
- 48%: feel safe to discuss misconduct with line manager.
- 30%: feel safe to discuss misconduct with senior other than own line manager.
- 48%: feel safe to report to hotline.

Participant comment: "You report, you are the one that is going to be murdered".

Dimension:
Supportability of an ethical climate

Category: Trust

- 69%: there is not a culture of trust at TCC.
- 52%: do not trust their seniors.
- 38%: do not trust their co-workers.

Category: Ethical leadership

- 51%: Employees are encouraged by their seniors to be ethical (30% unsure, 19% disagree).
- 39%: Seniors set a good expample of ethical leadership (36% unsure, 25% disagree).

Participant comments:
"People are being bribed by their seniors"
"I would like to see management take more ownership of Culture Charter values".

Dimension:
Consistency of Ethical Expectations

Category: Expectations

- 45%: Expected by seniors to carry out instructions that contravene Transnet values and rules (55% said "never").
- 36%: Expected by co-workers to do things that contravene Transnet values and rules (64% said never).

Participant comments:
"I do not have any issues with the ethical standards set by Transnet; my issue is when my seniors expect me to do things that do not match the ethics expected of me".

Medium Priority Areas

Dimension:
Sanctionability / Corrective Action

Category: Inversion of corrective action

- 20% Ethical behaviour is informally punished.
- 19%: Unethical behaviour is formally or informally rewarded.

Dimension:
General perception of TCC

Category: Perception

- 45% : TCC is ethical or very ethical.
- 29%: TCC is unethical or very unethical.
- 26% unsure.

Dimension:
Visibility of misconduct and consequences

- 31% agree that seniors are fully aware of misconduct taking place (48% unsure).
- 29%: It is easy to hide misconduct at TCC (40% unsure).

Low Priority Areas

Dimension:
Clarity of Ethical Expectations

- 69%: Clear from Code of Ethics what is expected.
- 43%: Staff that have signed Code of Ethics.

Concern: Lack of awareness of content of Code of Ethics.

Dimension:
Achievability of Ethical Expectations

- 80% of staff agree that Transnet's ethical expectations are reasonable, realistic and achievable.

Concern: Lack of awareness of content of Code of Ethics.

Section 2: Detailed Observations

Based on the survey, the following findings were identified during the engagement:

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
1	**General: Overall perception of whether TCC is generally ethical.** **Observation** In general, as a whole: • 45% of respondents think TCC is ethical or very ethical; • 26% of respondents were unsure; • 29% of respondents think that TCC is unethical or very unethical. In a healthy ethical climate, it is expected that at least two thirds (67%) of staff perceive their organisation as being generally ethical. **Key comments from survey respondents** 9 respondents commented that there is a lack of consistent application of rules and policies, citing the recruitment process, the procurement process, and rules on being frugal. **Potential Risk and Impact** If there is a general perception that TCC is unethical, it sets the norm for staff to engage in unethical behaviour and misconduct, which may include, but is not limited to fraud, corruption and non-compliance to Transnet policies. A perception might exist that behaving unethically is the norm, heightening the chances of all forms of misconduct. **Root Cause**	Management should consider creating a strategy for increasing general awareness of ethics and good governance, creating opportunities for two-way discussion between managers and staff, as well as ensuring consistent application of rules and policies. The recommendations listed further in this table covers these areas.	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date** To be added.

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	Governance; Communication; Corrective Action		
2	**Dimension 1: Clarity of Ethical Expectations** **Observation** Regarding the Code of Ethics, respondents answered as follows: • 69% said that it is clear from the Code of Ethics what is expected of them; • 60% know where to find a copy of it; • 43% of respondents have signed it when they were employed; • 33% have received training or communications regarding the Code of Ethics in the last 12 months. **Key comments from survey respondents** • Six (6) respondents commented that they have never seen the Code of Ethics. • Four (4) respondents expressed a need for training on the Code of Ethics. One respondent also indicated that there are misinterpretations due to language barriers. **Potential Risk and Impact** There is a potential lack of clarity in terms of what ethical behaviour Transnet expects from its staff. Uncertainty as to what Transnet's ethical expectations are may lead to misconceptions of what is expected, accidental misconduct, a lack of reporting on misconduct and difficulty enforcing the Code of Conduct. **Root Cause** A lack of governance oversight.	Management should consider implementing the following practices to increase awareness about the Code of Ethics: ✓ Translate the Code of Ethics into "everyday English" as well as into other official languages; ✓ Re-launch the Code of Ethics, making an event of the Board and Group Leadership team ("GLT") signing the Code of Ethics; ✓ Send out an internal communique to staff reporting on the leadership signing event with photos and request all staff to read and re-sign the Code of Ethics; ✓ Enforce and follow up on the signing to ensure that every member of staff has signed it. This can be monitored by the Company Secretary, Line Management and/or Human Resources ("HR"); ✓ Organise compulsory training workshops on the Code of Ethics; ✓ Send out quarterly/periodic communique to staff highlighting specific Transnet values and what they mean in practice.	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date** To be added.

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	Lack of formal communication and training regarding the Code of Ethics.		
3	**Dimension 2: Consistency of Ethical Expectations** **Observation** • 45% of respondents asserted that they are expected by their seniors to do things that contravene Transnet values and rules at times (ranging between rarely and always); • 36% of respondents indicated that they face such expectations from their peers at times (ranging between rarely and always). **Key comments from survey respondents** • "I do not have any issues with the ethical standards set by Transnet; my issue is when my seniors expect me to do things that do not match the ethics expected of me". • "I agree what is on paper about the ethical standards but that is not the same as what is happening, the senior management think the rules do not apply to them, it is only for other people" • "Executive management continually place undue pressure on staff to deliver whatever it takes. This behaviour exposes Transnet employees to unethical choices to be made. Employees are side-lined when they do not want to act unethically". **Potential Risk and Impact** There are inconsistent expectations placed on employees regarding what the expected ethical standards are, i.e. a senior may request a junior to action something in contravention of Transnet policy. The unethical expectations not only lead to increases in misconduct (which can include committing or being complicit in	Management should consider communicating the following to all staff using different means of communication: ✓ Any member of staff that engages in misconduct based on the instruction of a senior will be held individually responsible for such misconduct; ✓ There should be zero tolerance towards seniors who expect their staff to commit in unethical behaviour. This should be communicated and enforced; ✓ All staff are required to report such instances to the hotline or to the Forensic Champion; ✓ All staff need to be reminded that Transnet values, policies and procedure take precedence over instructions from seniors; and ✓ All staff needs to be made aware of the Transnet Code of Ethics and their roles in ensuring that the code of ethics is upheld all the time.	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date** To be added.

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No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	fraud and corruption), it also severely damages the ethical climate of the organisation. The trust between staff and their seniors is also negatively affected and this hinders the misconducts from coming to light, since people are no longer lone actors in misconduct. The consequences can be varied, including financial loss, damage to reputation etc. *This is a priority risk.* **Root cause** People Management may be cultivating a culture of fear whereby staff are too scared to question unethical instructions. Governance There is a potential lack of knowledge and application of the Code of Ethics as a frame of reference. There is also a potential of inadequate sanctioning of unethical conduct.		
4	**Dimension 3: Achievability of Ethical Expectations** **Observation** Regarding the values and ethical standards that Transnet expects staff to uphold, respondents answered as follows: • 81% agree that it is reasonable (19% unsure); • 80% agree that it is realistic (18% unsure); • 85% feel they can achieve what is expected (14% unsure). The "unsure" answers could be due to a lack of knowledge of what Transnet's expectations are. **Key comments from survey respondents** None noted.	Management should consider implementing the following practices to increase awareness about the Code of Ethics: ✓ Translate the Code of Ethics into "everyday English" as well as into other official languages; ✓ Re-launch the Code of Ethics, making an event of the Board and Group Leadership team ("GLT") signing the Code of Ethics; ✓ Send out an internal communique to staff reporting on the leadership signing event with photos and request all staff to read and re-sign the Code of Ethics; ✓ Enforce and follow up on the signing to ensure that every member of staff has signed it. This can be monitored by the Company Secretary, Line Management and/or Human Resources ("HR");	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date** To be added.

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No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	Potential Risk and Impact There may exist a perception that Transnet's formal ethical expectations are not achievable because they are unrealistic or unreasonable. Staff are happy that expectations are achievable. There is no risk here potential impact foreseen. The recommendations are based on improving knowledge of the Code of Ethics. **Root cause** Governance Lack of formal communication on the Code of Ethics	✓ Organise compulsory training workshops on the Code of Ethics; ✓ Send out quarterly/periodic communique to staff highlighting specific Transnet values and what they mean in practice.	
5	**Dimension 4: Supportability (Whether the work environment supports the formation and maintenance of a healthy ethical climate)** **Observation** *Trust* The data suggests a lack of trust amongst staff: • 52% of respondents do not trust their seniors; • 38% of respondents do not trust their co-workers; • 69% of respondents said there is *not* a culture of trust at TCC This lack of trust was also a main theme arising from interviews and focus groups. *Ethical leadership* Employees indicated that Seniors need to set a better ethical example and encourage ethical behaviour from their staff, with the following quantitative data:	Management should consider implementing the following actions in order to improve the supportability of an ethical climate at TCC: ✓ Transnet should communicate immediately after bad press/media coverage, with the employees to ensure that management sets the tone for the perception which may have been created by the press release; ✓ Management need to undergo training on ethics, ethical leadership and Transnet policies; more so, in relation to how they conduct themselves. Regular refreshers should be conducted to ensure that they collectively set the tone at the top and that they have a duty to lead by example. Furthermore, ethics should be a standard agenda point at key meetings; ✓ It should be communicated to staff that all Transnet policies apply the same all the time, to everyone. Staff should also be encouraged to report breaches of policy by their seniors or teams to the forensic champion or the hotline;	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date** To be added.

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	• 39% of respondents agree that seniors set a good example of ethical leadership; • 51% of respondents agree that employees are encouraged by their seniors to be ethical (i.e. to do the right thing). **Key comments by survey respondents** • "People are being bribed by their seniors". • "Employees think that ethics is about saying the right things but back in the office they do differently". • "My ethical values are no longer aligned to those of the organisation because of the behaviours of some of the management here at Transnet. Bullying managers are overlooked and the employees are worked out of their positions. I would like to see management taking more ownership of Culture Charter values". • "Policies apply to certain people and other get what they want based on their affiliation". • "Employees do not trust this environment" **Potential Risk and Impact** The environment does not support a healthy ethical climate due to a lack of trust, a lack of ethical leadership, and the general 'way things work. If the work environment does not support ethical behaviour, then any training or awareness campaigns becomes futile. Ethical employees may be discouraged and they may also seek alternative employment, which may further damage the ethical climate. In such conditions, misconduct may flourish. **Root cause** Governance and People	✓ Members of the management team who may be found to be in breach of Transnet policies should be subjected to the disciplinary process and sanctioned without fear or favour according to Transnet's disciplinary procedures; and ✓ Management also need to commit to setting a good example to all staff through ethical and upright behaviour. This should be embedded in their performance contracts and/or score cards. Furthermore, management should work toward creating trust amongst their teams through open, honest and regular two-way communication. Team building workshops should be considered, which should be facilitated by external qualified persons in an industrial psychology field.	

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No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	A lack of consistent application of policies, behaviour from seniors and a lack of open communication and discussion of issues that concern staff (also refer to Discussibility below).		
6	**Dimension 5: Visibility of misconduct and consequences** **Observation** • 60% of respondents believe that misconduct remains hidden due to people covering for each other based on political ties and affiliations; • 31% of respondents agree that their seniors are fully aware of unethical behaviour taking place; • 29% of respondents agree that it is easy to hide misconduct at TCC; • 21 % of respondents are aware of their co-workers engaging in unethical behaviour or misconduct. **Key comments from survey respondents** • "Transnet is all over the newspapers about unethical behaviour allegations". • "I just come to work and do what I am required to do and forget about what the next person does". • "Everything is just a secret and only known by the 'Privileged' connected". • "Dissemination of information is at times used as a power tool" • "We rely on people to come through with information rather than having proper effective and efficient systems in place to pick up or flag misappropriation of funds or systems that are able to flag processes that are non-compliant with the	Management should consider implementing the following in order to improve visibility: ✓ Communicate to staff that anyone found covering up misconduct will be liable to disciplinary action according to Transnet's policies and procedures; and ✓ Ensuring that all employees are fully trained and informed on how the hotline works. Emphasis should be made to highlight that there should be no reason to fear using the hotline. All fraud talk articles and related publications should refer to how the hotline works. Furthermore, train the ethics champions on how the hotline works so that they can act as a source of information; ✓ Whenever there has been a breach of ethics or misconduct in a department, the seniors should have open and honest discussions with their staff about it to lay down the facts, stop rumours from spreading and explain what the correct behaviour in the situation would have been. This should be standard operating procedure after negative media attention. In the case of the latter it is recommended that a division or company-wide message be communicated to all staff; ✓ A professional intervention may be considered to assist management in rooting out fear; ✓ Where there may be authentic death threats reported against employees, these should be subject to a full investigation followed by corrective action; and	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date** To be added.

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	procedures whether that processes was completed by a senior or not". **Potential Risk and Impact** Low visibility relating to consequence management of misconduct creates a space for opportunistic behaviour from employees based on the perception that it is unlikely that misconduct will become visible to seniors. **Root Cause** People A lack of open two-way communication relating to ethics, misconduct and moral dilemmas. (Refer to Discussibility dimension) A lack of timely and decisive corrective action. (Refer to Sanctionability dimension).	✓ Line management should be encouraged and expected to have an open-door policy to discuss any issues that their staff face, including ethics. ✓ Corrective action should be instituted against anyone who is guilty of misconduct regardless of seniority, or their affiliations; ✓ The HR department should consider including a rating (e.g. 360 degrees' feedback) relating to ethical behaviour in the annual performance score cards. This rating should be given by the individual, the individual's senior and the individual's peers. ✓ Each department or section should nominate an ethics champion based on consistent and outstanding ethical behaviour. The nominations can be done periodically to ensure that all employees are afforded a chance to participate. The ethical champion should be rewarded formally (e.g. an award or bonus) as well as informally (i.e. an article in One magazine, a handshake from a senior etc.). Management can consider the terms of reference relating to how the awards should be done; and ✓ Regular communication should be sent to employees encouraging them to report any unethical behaviour incidents they may have witnessed or any rewarding of unethical behaviour.	
m/.ppol,,,o x c7	**Dimension 6: Corrective Action** **Observation** Regarding questions about *unethical* behaviour, respondents answered as follows: • 38% of respondents agreed that unethical behaviour is formally p • unished (43% unsure);	Management should consider implementing the following actions in order to address the issue of Sanctionability: ✓ Corrective action should be instituted against anyone who is guilty of misconduct regardless of seniority, or their affiliations. The Transnet zero tolerance approach should be applied at all times. ✓ The HR department should consider including a rating (e.g. 360 degrees feedback) relating to ethical behaviour	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date**

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	• • 30% of respondents agreed that unethical behaviour is informally punished (46% unsure). • 19% of respondents agreed that unethical behaviour is formally REWARDED. • 19% of respondents agreed that unethical behaviour is informally REWARDED. Regarding questions about *ethical* behaviour, respondents answered as follows: • 17% of respondents agreed that ethical behaviour is formally rewarded (42% disagree); • 30% of respondents agreed that ethical behaviour is informally rewarded (26% disagree); • 17% of respondents agreed that ethical behaviour is formally punished; • 20% of respondents agreed that ethical behaviour is informally punished. **Key comments from survey respondents** • "Transnet has a culture of alignments; you will not receive what is due to you if you are not affiliated to an influential individual or persons. As a result, employees are not rewarded fairly, they are not promoted and they are put in a position where they are frustrated and victimised". • "One is side-lined the moment you highlight policy requirements and due diligence and governance that do not support the manner in which the goal is to be achieved by the relevant leadership. Those who do as they are told to do – whether ethically or not – are promoted and protected." • "Some are promoted where as they have done wrongs in the company and those that do good are harassed".	in the annual performance score cards. This rating should be given by the individual, the individual's senior and the individual's peers. ✓ Each department or section should nominate an ethics champion based on consistent and outstanding ethical behaviour. The nominations can be done periodically to ensure that all employees are afforded a chance to participate. The ethical champion should be rewarded formally (e.g. an award or bonus) as well as informally (i.e. an article in One magazine, a handshake from a senior etc.). Management can consider the terms of reference relating to how the awards should be done; and ✓ Regular communication should be sent to employees encouraging them to report any unethical behaviour incidents they may have witnessed or any rewarding of unethical behaviour.	To be added.

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	• "Sometimes, when good ethics is practised, you tend to get marginalised and then pushed aside as you are seen as a 'blocker'. You also get ridiculed by loud conversation without being afforded an opportunity to be heard. It becomes embarrassing when this happens in front of your colleagues". **Potential Risk and Impact** There is a perversion of right and wrong in the sanctioning process in that ethical behaviour is punished and unethical behaviour is rewarded. Misconduct goes unpunished and is even rewarded, which could lead to financial losses, damage to reputation, concealed misconduct and a breakdown of moral and the health of the ethical climate. **Root Cause** Governance There is a potential lack of ethical leadership, weaknesses in the corrective action system and weaknesses in the Dimension of Supportability.		
8	**Dimension 7: Discussibility (the extent to which staff can discuss and report misconduct without fear or favour)** **THIS IS A PRIORITY RISK AREA.** **Observation** • 24% of survey respondents agreed that seniors have open discussions with staff when there have been breaches of ethics;	To improve the current situation, management should consider implementing the following: ✓ Ensuring that all employees are fully trained and informed on how the hotline works. Emphasis should be made to highlight that there should be no reason to fear using the hotline. All fraud talk articles and related publications should refer to how the hotline works. Furthermore, train the ethics champions on how the hotline works so that they can act as a source of information;	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date**

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	• 30% feel safe to discuss unethical behaviour they are aware of with seniors other than their line manager; • 33% agree that staff are held accountable for unethical behaviour; • 33% agree trust that unethical behaviour will be dealt with if reported; • 48% feel safe to discuss unethical behaviour they are aware of their line manager. • 65% agree that hierarchy and bureaucracy are used as an excuse to not be held personally accountable for unethical behaviour; • 70% of respondents believe that fraud and corruption remain hidden because people are afraid to speak up; • 74% of respondent say there is a culture of fear at TCC. The health of the ethical climate at TCC mainly depends on rooting out the fear and improving all aspects of Discussibility. This is a key risk area. **Key CRITICAL comments from survey participants** • "You report, you are the one that is going to be murdered" • "Even if you report, nothing happens, the perpetrators are always protected and you own life becomes in danger" • "They [the hotline] are corrupt. They will tell, which will put your family in danger" • "As long as I am not involved in any unethical behaviour, and I also wouldn't want to put myself in any form of danger, you just hope things will be visible for anyone to see one day". **Potential Risk and Impact**	✓ Whenever there has been a breach of ethics or misconduct in a department, the seniors should have open and honest discussions with their staff about it to lay down the facts, stop rumours from spreading and explain what the correct behaviour in the situation would have been. This should be standard operating procedure after negative media attention. In the case of the latter it is recommended that a division or company-wide message be communicated to all staff; ✓ A professional intervention may be considered to assist management in rooting out fear; ✓ Where there may be authentic, provable death threats reported against employees, these should be subject to full investigation followed by corrective action; and ✓ Line management should be encouraged and expected to have an open door policy to discuss any issues that their staff face, including ethics.	To be added.

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
	Employees do not feel safe to report misconduct and generally feel that ethics is not or cannot be discussed openly. Major misconduct may remain hidden (fraud, bribery, corruption), while the ethical climate is severely damaged. Fear may cripple an environment that could otherwise have maintained a healthy ethical climate. **Root cause** People A culture of fear and a lack of adequate two-way communication.		
9	**TCC specific questions** The questions listed below (with the results) were added to the TCC survey based on information received in the interviews and focus groups: Are you aware of the following taking place at TCC in the last 12 months? • 38% Yes: Bullying and victimisation taking place as a way to silence staff who are aware of misconduct. • 24% Yes: Collusion amongst staff to hide misconduct. • 21% Yes: Conflicts of interests not being declared truthfully and accurately. • 20% Yes: Staff creating inaccurate reports on purpose. • 12% Yes: Staff being influenced by improper gifts and hospitality. • 10% Yes: Bribery and / or kickbacks being paid or received. In your experience, is the following statement true or false at TCC: • 38% Yes: The financial process is manipulated.	Management may consider investigating these issues.	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date** To be added.

No.	Key Survey Dimension	TIA Recommendation	Management Comment and Action
10	**Additional themes arising from survey results** *Recruitment and appointments* • 16% of respondents believe that there is fraud in the recruitment and appointment process (i.e. false CV information or qualifications); • 12 respondents cited concerns regarding the fairness and transparency of recruitment and appointment process. *Handling of confidential information* • 57% of respondents believe that confidential information is not always kept confidential at TCC. • 20 respondents commented on the handling of confidential information.	Management may consider investigating these issues.	**Comment** To be added. **Agreed management action** To be added. **Responsible process owner** To be added. **Implementation date** To be added.

Section 4: Definitions

4.1. Ethical dimensions of an organisation

Muel Kaptein and Johan Wempe have conducted large scale research into workplace ethics and integrity. Their research has highlighted that there are seven dimensions that affect the overall ethical climate in an organisation and they call these dimensions "corporate ethical qualities". For the purpose of this report the corporate ethical qualities will be referred to as "dimensions". The seven dimensions are listed and defined below:

1. **Clarity (of ethical expectations)**: "Clarity refers to how accurate, concrete, and complete the organization's expectations are of the moral conduct of its employees" (Kaptein & Wempe, 2002, p.251). The first step to limiting ethical risk is ensuring that all employees have seen and understood the Code of Ethics. Employees further need to be aware of where they can find a copy to use as a reference if needed. Ideally, there should be training or internal communications on the Code of Ethics regularly to clarify expectations.
2. **Consistency (of ethical expectations)**: Consistency concerns the extent to which the organization's expectations of employee conduct are coherent, univocal, unambiguous, and compatible" (Kaptein & Wempe, 2002, p. 252). This refers to informal expectations placed on employees by their seniors or peers that may or may not be aligned to the formal expectations set out, for example, in the Code of Ethics. There would be a lack of consistency, for instance, if managers expected their staff to contravene the Code of Conduct. A lack of consistency undermines the creation and maintenance of a healthy ethical climate.
3. **Achievability (of ethical expectations)**: "Ethical expectations should also be practicable" (Kaptein & Wempe, 2002, p.252). This dimension is concerned with whether the ethical standards and expectations placed on staff are reasonable, achievable, and realistic.
4. **Supportability (of an ethical climate)**: "The [organisational] context either stimulates or hinders employee commitment [to ethical expectations]" (Kaptein & Wempe, 2002, p.253). This dimension considers whether the organisation adequately encourages and enables ethical behaviour. A major theme in this dimension is trust among workers and

their peers and seniors, and its influence on motivation and morale. "Tone at the top" and leadership example are included in this area since it is the cornerstone issue in building an environment that supports the establishment of an ethical culture.

5. **Visibility (of the effects and consequences of conduct)**: "Visibility concerns the extent to which employee conduct and the effects thereof are manifest [...] visibility concerns the consequences of their actions" (Kaptein & Wempe, 2002, p.253). This dimension explores whether seniors are aware of unethical behaviour by their juniors, and whether staff are aware of unethical behaviour by co-workers. The higher the perception of visibility of misconduct in an organisation, the lower the chances of someone getting away with unethical conduct, including fraud.
6. **Sanctionability (of conduct)**: "Sanctionability refers to the degree to which people can be punished for irresponsible conduct and rewarded for responsible behaviour" (Kaptein & Wempe, 2002, p.256). This dimension is concerned with positive and negative reinforcement of behaviour, where unethical conduct is punished and ethical conduct is praised and rewarded. Where unethical behaviour is rewarded and ethical behaviour is punished, there is a perversion of sanction, which could seriously undermine the health of the ethical climate.
7. **Discussibility (of issues relating to ethics)**: Definition: Discussibility refers to the extent to which employees can discuss or report on ethical issues (Kaptein & Wempe, 2002, p.254). It considers whether ethics forms part of discussions, whether seniors discuss the impact of ethical / unethical behaviour with their staff to call them to account, and whether staff feels safe to discuss or report on unethical behaviour without fear that negative information will be badly received or ignored.

The data from the survey is structured along the lines of these dimensions.

4.2 Importance of each ethical dimension

Some of the ethical dimensions are considered to be more important than others, based on how many other dimensions will be affected by each dimension individually. The table below illustrates which dimensions are impacted by each one. An "X" is placed at each section where a dimension has a definite effect on another. The maximum score of importance, rated by influence is a 6. Any risks identified in Dimensions with a rating of a 5 or a 6 in the first column should be prioritized.

Overall Impact / Importance	DIMENSION	Clarity	Achievability	Supportability	Visibility	Sanctionability	Discussibility	Consistency
6	**Clarity**	N/A	X	X	X	X	X	X
1	**Achievability**	0	N/A	X	0	0	0	0
5	**Supportability**	0	X	N/A	X	X	X	X
3	**Visibility**	0	0	X	N/A	X	X	0
5	**Sanctionability**	X	0	X	X	N/A	X	X
6	**Discussibility**	X	X	X	X	X	N/A	X
4	**Consistency**	0	X	X	X	0	X	N/A

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From the table, it is clear that the dimensions with the highest overall impact on other dimensions are Clarity, Discussibility, Sanctionability and Supportability (marked with red arrows). Therefore, any shortcomings found in these areas should receive priority attention.

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Section 5: Glossary of Terms

Term / abbreviation	Description
EXCO	Executive Committee
GE	Group Executive
GM	General Manager
MDS	Market Demand Strategy
OD	Operating Division
PIO	Performance Improvement Observation
TIA	Transnet Internal Audit
Population	All TCC employees with e-mail addresses
Sample	All TCC employees who completed the survey
Completion rate	The percentage of the population who completed the survey.
HR	Human Resources
GLT	Group Leadership Team
FRMP	Fraud Risk Management Plan

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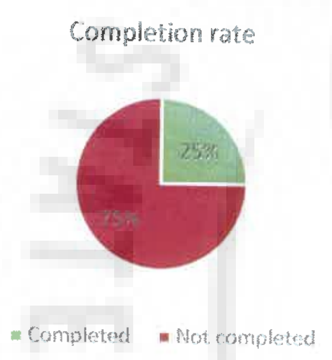
Annexure: Detailed results from survey

This section contains information on the survey participants which need to be taken into account when interpreting the results.

Completion rate and representativeness



Completion rate: 25%

- 248: Total sample (amount of TCC employees who completed the survey).
- 984: Total population (amount of TCC employees the survey was sent to).

Additional statistics

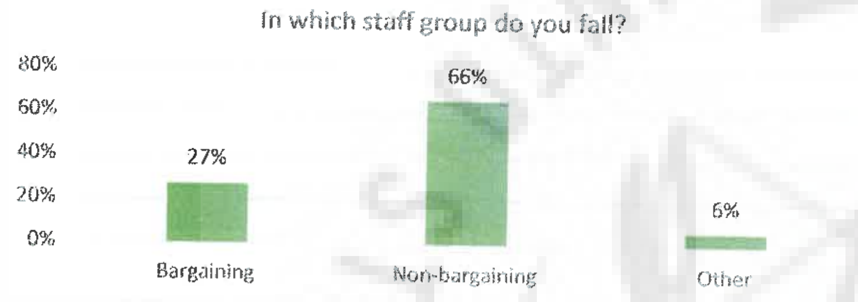
- 494: Number of people who started the survey.
- 1139: Number of times the survey was viewed

For a population of this size (N = 984), the results can be seen as representative of the total population if the sample reaches 30% (per accepted standards in social science research*). In this case the sample reached 25%. Though full representativeness cannot be claimed, the data is still valid.

*Blanche, M.T, Durrheim, K. & Painter, D. (2006) 2nd Ed. "Research methods in practice: Applied methods for the social sciences". Juta & Co.

Biographical detail of respondents

Only two biographical questions were posed to respondents for the sake of protecting their anonymity. The results are shown below.



Survey results

General

The first question is asked in order to gauge respondents' perception of whether TCC is ethical as a whole. The responses from this question are important as they represent the issues that are "top of mind" for TCC employees, since whatever is mentioned here has not been primed or prompted by more specific questions.

The stated question was "In general, I think that TCC as a whole is..." and the answer options were "Very ethical / Mostly ethical / Unsure / Mostly unethical / Very unethical.

Survey responses:

Comments from comment boxes:

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Issues mentioned by respondents are listed below:

- Corporate theft
- Lack of trust in HR consultants
- Racism, favouritism, and bullying
- Ethics merely being a compliance act
- Lack of consequence management
- Lack of enforcement of Code of Ethics
- Lack of fairness
- Lack of leading by example
- Time and attendance issue: Coming late, leaving early

The most common themes that arose are listed below.

Summary of comments from comment boxes (excluding issues listed in text box above):

- 4 respondents commented that the ways things work are based on "who you know", citing the following areas of influence: Awarding of learnerships, receiving recognition for work, the way you are treated, and whether rules and policies seem to apply.
- 5 respondents commented on a lack of good communication, expressing the need for two-way communication, discussions around media reports and rumors that cause uncertainty, and one-to-one talks.
- 9 respondents commented that there is a lack of consistent application of rules and policies, citing the recruitment process, the procurement process, and rules on being frugal. In addition, it was stated that corrupt managers get away with this because they protect each other.

Dimension 1: Clarity

Definition: "Clarity refers to how accurate, concrete, and complete the organization's expectations are of the moral conduct of its employees" (Kaptein & Wempe, 2002, p.251). The first step to limiting ethical risk is ensuring that all employees have seen and understood the Code of Ethics. Employees further need to be aware of where they can find a copy to use as a reference if needed. Ideally, there should be training or internal communications on the Code of Ethics regularly to clarify expectations.

Survey responses:

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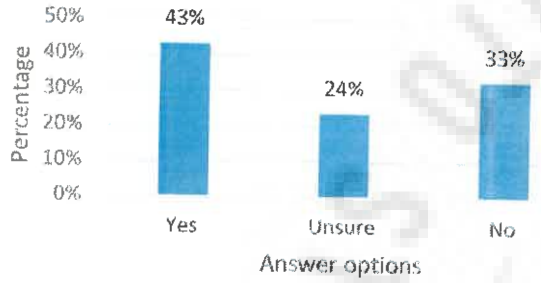
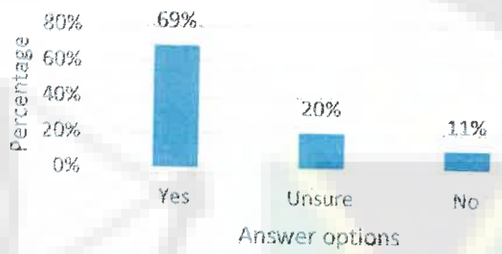
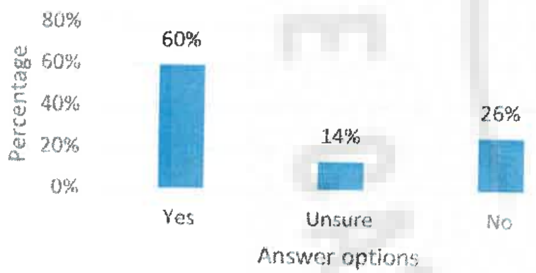
Question: Code of Ethics - Did you have to sign it when you were employed?



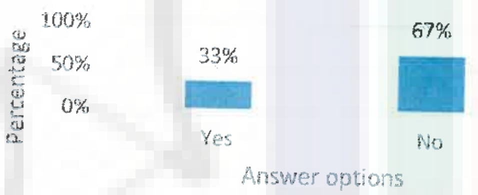
Question: Is it clear from the Code of Ethics what is expected from you in terms of ethical behaviour?



Question: Code of Ethics - Would you know where to find a copy of it now?



In the last 12 months, have you received training or other communications regarding the Code of Ethics?



Important comments from respondents:

"Provide people training on Ethics, where I come from we use to receive training on Ethics and during the training they will share internal cases without mentioning names so that we can have a broader understanding on what is unethical behaviour. Have ethics co-ordinators in the OD's and departments to drive ethical behaviour. Bring it closer home to drive it rigorously. I was one of the ethics coordinators and sees I have join I have not felt it. It is not enough doing this during the induction only by the time I sit on my desk I forgot as there are many things said on that day".

"There are vast misinterpretations of the Code of Ethics as a result of language barriers".

"I don't know which standards because I don't know the Code of Ethics"

Summary of comments from the comment boxes:

- 6 respondents commented that the Code of Ethics is clear on what Transnet's ethical expectations of employees are, or that it has been clearly explained.
- 6 respondents commented that they have never seen the Code of Ethics
- 2 respondents commented that they know they can find the Code of Ethics on the intranet.
- 2 respondents asked in the comment box where they could find the Code of Ethics.
- 2 respondents commented that they had never been formally introduced to the Code of Ethics.
- 2 respondents commented that Transnet policies guide them / that they adhere to it.

- 2 respondents commented that the Code of Ethics did not exist or was not applicable when they started working at Transnet, one of them stipulating that it was 40 years ago.
- 2 respondents recommended that there should be training on the ethical standards expected by Transnet.
- Comment on a need for clarification of the ethical standards that Transnet expects of employees: "Maybe ethical (within Transnet) needs to be defined as Muslims may consider unethical what a Christian considers ethical".

Interpretation

Respondents do not report a distinct lack of clarity of ethical expectations. The concern is rather that there is not sufficient awareness of the Code of Ethics and its content. This could lead to misperceptions of what is expected, accidental misconduct, a lack of reporting on misconduct and difficulty in enforcing the Code of Conduct.

Recommendations

The following practices are recommended to increase awareness of the Code of Ethics:

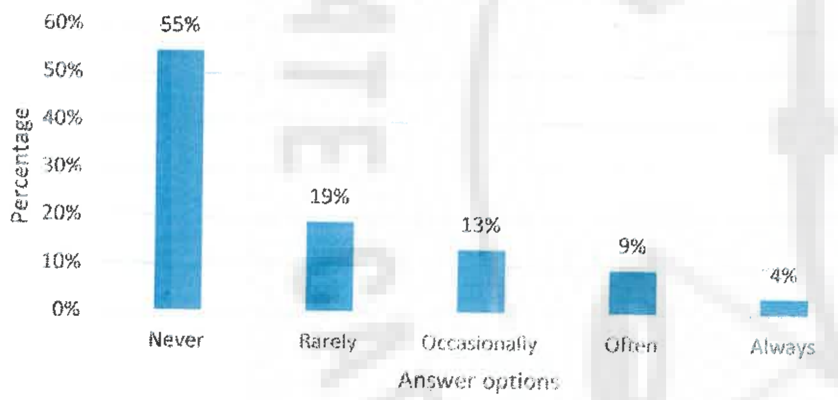
- ✓ Translate the Code of Ethics into "everyday English" as well as into other official languages.
- ✓ Re-launch the Code of Ethics, making an event of the Board and Group Leadership Team signing the Code of Ethics.
- ✓ Send out an internal e-mail to staff reporting on the leadership signing event with photos and request all staff to read and sign the Code of Ethics.
- ✓ Enforce and follow up on the signing to ensure that every member of staff has signed it. This can be monitored by the Company Secretary or HR.
- ✓ Organise training workshops on the Code of Ethics and establish a minimum number of staff from each department to attend these workshops.
- ✓ Send out quarterly emails to staff highlighting specific Transnet values and what they mean in practice.

Dimension 2: Consistency of ethical expectations

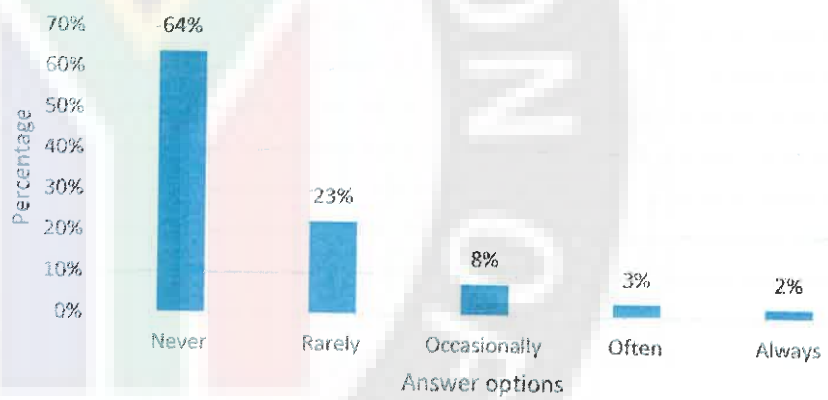
Definition: "Consistency concerns the extent to which the organization's expectations of employee conduct are coherent, univocal, unambiguous, and compatible" (Kaptein & Wempe, 2002, p. 252). This refers to informal expectations placed on employees by their seniors or peers that may or may not be aligned to the formal expectations set out, for example, in the Code of Ethics. There would be a lack of consistency, for instance, if managers expected their staff to contravene the Code of Conduct. A lack of consistency undermines the creation and maintenance of a healthy ethical climate.

Survey responses:

How often does the following take place at TCC? "I am expected by my SENIORS to do things that contravene Transnet values and rules.



How often does the following take place at TCC? "I am expected by my CO-WORKERS to do things that contravene Transnet values and rules.



Important comments from comment boxes:

"I do not have any issues with the ethical standards set by Transnet; my issue is when my seniors expect me to do things that do not match the ethics expected of me".
"I agree what is on paper about the ethical standards but that is not the same as what is happening, the senior management think the rules do not apply to them, it is only for other people"
"Executive management continually place undue pressure on staff to deliver whatever it takes. This behaviour exposes Transnet employees to unethical choices to be made. Employees are side-lined when they do not want to act unethically".

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Summary of comments from comment boxes:

The following positive comments were made

- 3 respondents commented that they have never been expected to do something that contravenes Transnet values and rules.
- 4 respondents commented that there is no inconsistency in expectations in their department / unit, i.e. that the policies and procedures are followed.
- 4 respondents said that they would not be expected to contravene Transnet values and rules, because they themselves are ethical persons or follow a certain code.

The following negative comments were made:

- 5 respondents commented that policies do not apply to everyone all the time.
- 3 respondents commented that seniors expect staff to carry out something they deem to be unethical.
- 2 respondents commented that there is a lack of support for, or consistent adherence to ethical behaviour from seniors.
- 2 respondents commented that they are expected by their seniors to "do whatever it takes" instead of adhering to Transnet's formal ethical expectations.

Respondents also highlighted the difficult situations they find themselves in due to inconsistency in ethical expectations, as quoted below:

- "I am often labelled as a trouble-maker for refusing to do things which not only contravene Transnet values and rules but also my own integrity"
- "As a trainee I sometimes find it difficult to say no when I'm asked to do something even if the task is against the governance procedures".

Interpretation

Staff should *never* be expected by their seniors or co-workers to contravene Transnet's values and rules, as such expectations not only lead to increases in misconduct (which can include committing or being complicit in fraud and corruption), it also severely damages the ethical climate, the trust between staff and their seniors, and hinders the misconducts from coming to light, since people are no longer lone actors in misconduct. The consequences can be varied, including financial loss, damage to reputation etc. This is a priority risk.

Recommendations

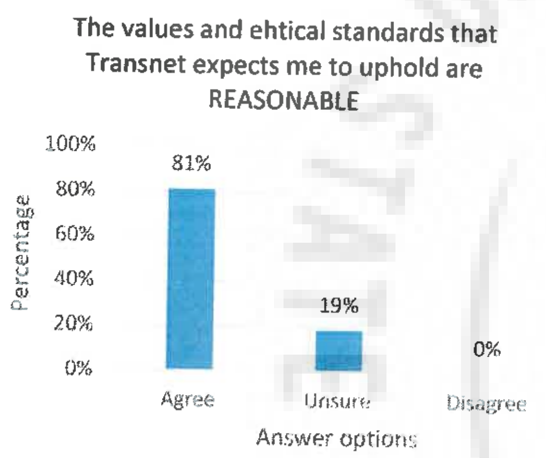
The following needs to be communicated to all staff using emails and training, as well as being enforced and sanctioned:

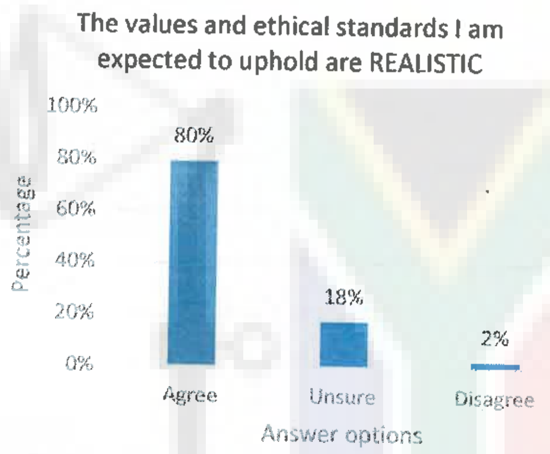
- ✓ Any member of staff that engages in misconduct based on the instruction of a senior should be held individually responsible for such misconduct.
- ✓ There should be zero tolerance towards seniors who expect their staff to commit in unethical behaviour. This should be communicated and enforced.
- ✓ All staff should be required to report such instances to the hotline or to the Forensic Champion.
- ✓ All staff need to be informed that Transnet values, policies and procedure takes precedence over instructions from seniors.
- ✓ All staff need to be made aware of the Transnet Code of Ethics, so that they can pinpoint instances where they are asked to behave in contravention to it.

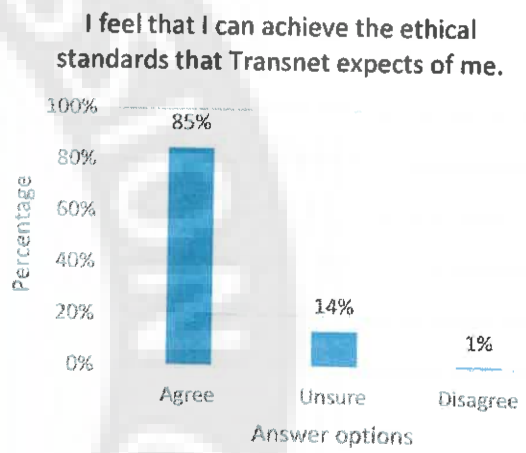
Dimension 3: Achievability of ethical expectations

Definition: "ethical expectations should also be practicable" (Kaptein & Wempe, 2002, p.252). This dimension is concerned with whether the ethical standards and expectations placed on staff are reasonable, achievable, and realistic.

Survey responses:







Comments from comment boxes:

The comments that respondents made in this section relate more accurately to other dimensions are listed as such.

Interpretation

There are no real issues regarding the achievability of Transnet's ethical standards. Where the above answers are "unsure" it is most likely due to a lack of knowledge of what the official ethical expectations are. Refer to the "Clarity" dimension. **This is a low priority area.**

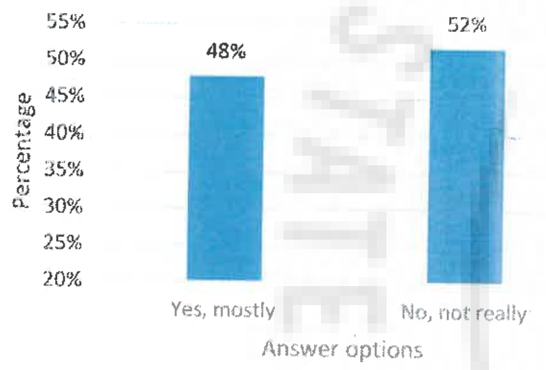
Recommendations

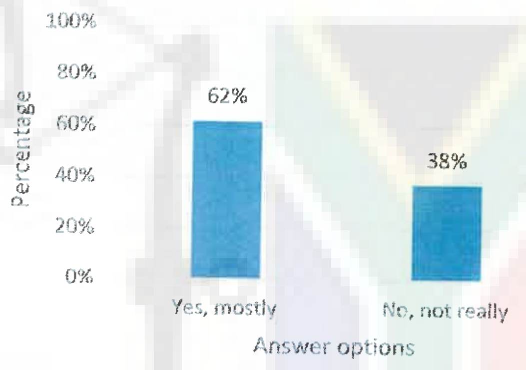
No actions are needed for this dimension.

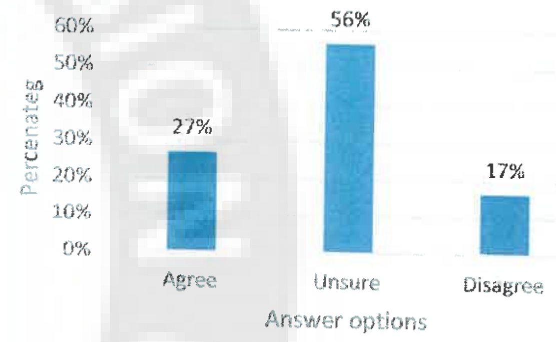
Dimension 4: Supportability of an ethical climate

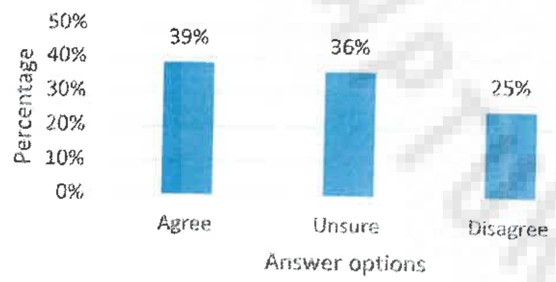
Definition: "The [organisational] context either stimulates or hinders employee commitment [to ethical expectations]" (Kaptein & Wempe, 2002, p.253). This dimension considers whether the organisation adequately encourages and enables ethical behaviour. A major theme in this dimension is trust among workers and their peers and seniors, and its influence on motivation and morale. "Tone at the top" and leadership example are included in this area since it is the cornerstone issue in building an environment that supports the establishment of an ethical culture.

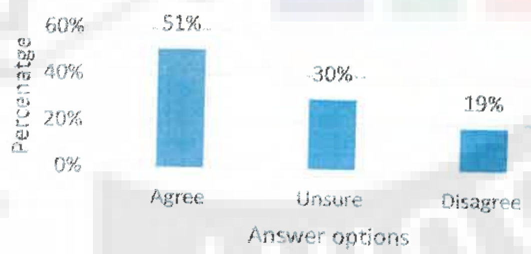
Survey results

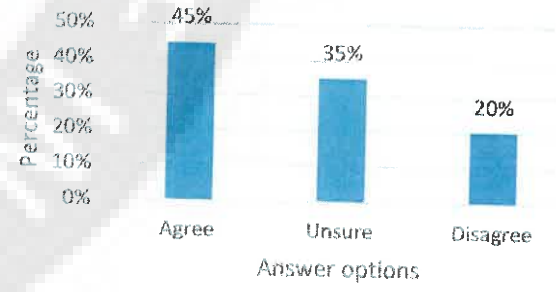












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Important comments from comment boxes

"People are being bribed by their seniors".
"Employees think that ethics is about saying the right things but back in the office they do differently".
"My ethical values are no longer aligned to those of the organisation because of the behaviours of some of the management here at Transnet. Bullying managers are overlooked and the employees are worked out of their positions. I would like to see management taking more ownership of Culture Charter values".
"Policies apply to certain people and other get what they want based on their affiliation".
"Employees do not trust this environment"

Summary of comments made by respondents

Leadership or tone at the top
The example that seniors sets and their behaviour has a major influence on whether staff will perceive that the environment at TCC is supportive of creating, maintaining and strengthening a healthy ethical climate. Below are comments made by respondents concerning leadership and their seniors:

- 4 respondents made positive comments about their seniors, saying that they are ethical, encourage ethical behaviour, set a good example and work within the confines of delegated authority.
- 14 respondents made negative comments about their seniors relating to the following themes:
  - 5 comments relating to not leading by example or not 'walking the talk' of ethics;
  - 3 comments relating to abuse of power or position;
  - 2 comments relating to seniors serving their own best interests rather than that of Transnet;
  - Others (1 each): Questioning decisions taken on Board level, being provoked to act unethically, and being bribed by seniors, humiliating employees in front of one another.

Work Climate (Environment): The ethical climate is influenced by how employees experience the work environment. 8 respondents commented on the environment as summarised below:

- 5 respondents mentioned specific behaviour that does not support an ethical climate, namely: bringing each other down, lack of teamwork, unfair treatment, bullying, being disrespected, condescension, insubordination, backstabbing, and selfishness.
- 3 respondents commented that the work environment is not conducive for ethical behaviour.

Equality in terms of the applicability of policies:
An ethical climate can only be supported when all employees are equal before all policies, meaning that all policies (i.e. Code of Ethics) should apply to all staff at all times. 6 respondents commented that there is a lack of equality in terms of the application of policies. All 6 comments stated that whether polices apply to someone will depend on who they know, which "cliques" they are in and how much power that provides them.

Trust:
Trust is a fundamental building block for the relationships that need to form in a work environment to support an ethical climate. Trust (specifically a lack of trust) was a main theme identified in the Interim Report. 4 respondents commented specifically on their lack of trust in the environment, company, co-workers, management, and leaders.

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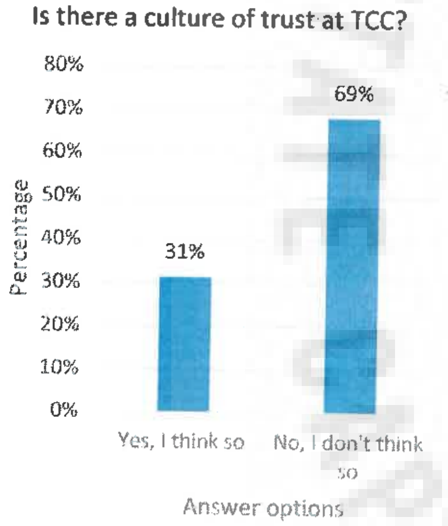
Interpretation

It is very concerning that 52% of respondents do not trust their seniors. Ideally, this number should be a maximum of 20%. This figure should be read in conjunction with the comments throughout that there is a need for more communication and Transparency, especially since a lot of respondents indicated that they find out about Transnet's dealing via the media or through rumours. The same lack of adequate communication and Transparency might explain why so many respondents (56%) are unsure about whether the Board of Directors set a good example of ethical behaviour for Transnet. The perception that there is a lack of ethical leadership is also concerning with a full 25% of respondents disagreeing to the statement "my seniors set a good example of example of ethical leadership for me. Systemically, it seems that it is not easy to be ethical at Transnet, with 55% of respondents saying they are unsure or disagree to the statement that "the way things work at TCC make it easy for me to be ethical". All the aforementioned statistics should be read in conjunction with respondents' comments. The environment at TCC is not adequately supportive of creating and maintaining a healthy ethical climate. **This is a priority risk.**

This interpretation should be read in conjunction with the results of the survey question below, which was asked to TCC employees on the basis of data obtained from the interviews and focus groups:



Recommendations - The following actions are recommended for improving the supportability of an ethical climate at TCC:

- ✓ Directly after Transnet has received negative media attention, a statement from leadership should be emailed to all employees, setting out facts and clarifying whether they support or condone what has happened, as well as stating Transnet's expectations of correct behaviour.
- ✓ Seniors need to receive training on ethical conduct, ethical leadership and Transnet policies. They should be reminded regularly that they collectively set the tone at the top and that they have a duty to lead by example. This point should be a standard agenda point at key meetings.
- ✓ It should be communicated to staff that "all Transnet policies apply all the time – to everyone". Staff should be encouraged to report breaches of policy by their seniors or teams to the forensic champion or the hotline.
- ✓ Seniors who are found to act in contravention of Transnet policies should be adequately punished according to Transnet's disciplinary procedures without fear or favour.
- ✓ Seniors need to commit to setting a good example to all staff through ethical and upright behaviour. This should be included in their job descriptions and performance appraisals. Seniors should work toward creating trust amongst their teams through open, honest and regular two-way communication. It is recommended that trust building workshops should be held which are facilitated by a qualified person, such as an industrial psychologist.

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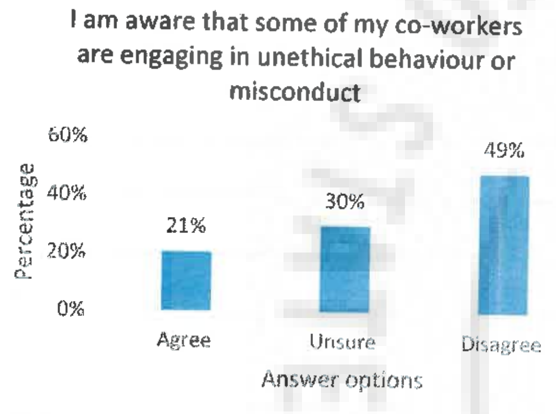
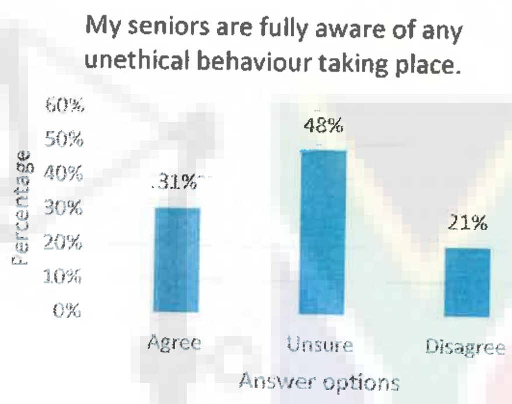
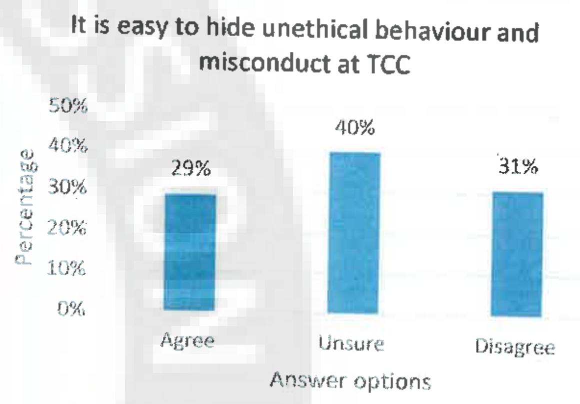
Dimension 5: Visibility of the effects of conduct

Definition: "Visibility concerns the extent to which employee conduct and the effects thereof are manifest [...] visibility concerns the consequences of their actions" (Kaptein & Wempe, 2002, p.253). This dimension explores whether seniors are aware of unethical behaviour by their juniors, and whether staff are aware of unethical behaviour by co-workers. The higher the perception of visibility of misconduct in an organisation, the lower the chances of someone getting away with unethical conduct, including fraud.

Survey results:







Important comments from comment boxes

"Transnet is all over the newspapers about unethical behaviour allegations".

"I just come to work and do what I am required to do and forget about what the next person does".

"Everything is just a secret and only known by the 'Privileged' connected".

"Dissemination of information is at times used as a power tool"

"We rely on people to come through with information rather than having proper effective and efficient systems in place to pick up or flag misappropriation of funds or systems that are able to flag processes that are non-compliant with the procedures whether that processes was completed by a senior or not".

Summary of comments from comment boxes:

Below are comments that can be read alongside each other:

Number of respondents	Comment theme	Number of respondents	Counter-comment theme 1	Number of respondents	Counter-comment theme 2
1	Seniors are fully aware of unethical behaviour taking place.	2	Seniors cannot be fully aware of all misconduct taking place	5	Respondents are not particularly aware of unethical conduct based on the fact that they either cannot be or choose not to be aware of other's behaviour.
10	It is not easy to hide unethical conduct or respondents would not know how to hide it.	2	It is easy to hide unethical conduct	2	It is difficult to pick up on misconduct
37	Have not seen / experienced / witnessed unethical conduct.	22	Unsure whether misconduct is taking place or whether their seniors are aware of it when it does.	2	Aware of misconduct taking place on a daily basis or "a lot"

Respondents commented on how they become aware of misconduct as follows:

Number of respondents	Vehicle of awareness	Number of respondents	Vehicle of awareness	Number of respondents	Vehicle of awareness
8	Rumours, gossip, grapevine	6	Media and newspapers	2	Suspensions that have taken place

In response to whether there is a culture of transparency at Transnet, participants commented as follows:

- 5 respondents commented that privileged, connected or favoured persons are the only ones who are 'in the know' or that there is limited transparency
- 2 respondents commented that there is a lack of transparency in the recruitment process
- 2 respondents commented "NOT AT ALL" and that "information is provided on a need to know basis", respectively.

Listed below are comments that explain how or why misconduct remains undetected:

- "Loopholes are exploited to mask the behaviour as to be compliant". / "Seniors know what is going on and some are part of it".
- "Procedures are not followed, thus there is no formal documentation taking place. Unethical decisions are made verbally and enforced".

- "Not that unethical behaviour is hidden, it is just that people see it and take it for granted".
- "Much of what constitutes unethical behaviour would not be recorded and thus is difficult to detect".
- "Senior management sweeps unethical behaviour under the carpet when it suits them".
- "Managers and employees working in an area where unethical behaviour is happening are aware. But cannot confront their seniors about it. It's a career-limiting move".
- "The higher up in the ranks, the easier it is to hide unethical conduct".
- "From media reports which have been supported by documents, it appears that things are not as they ought to be in respect of ethical behaviour. Disturbingly, it appears that these transgressions are committed at high levels of TCC".

Interpretation:

A fifth of respondents (21%) claimed that they are aware of their co-workers engaging in unethical behaviour or misconduct. This number is high. It is important to compare this figure to actual reporting figures on misconduct. It is equally important to consider this result when interpreting the "Discussibility" dimension. Respondents' perception of the visibility of misconduct is concerning, with 69% saying they are unsure or disagree about the statement "my seniors are fully aware of any unethical behaviour taking place". It is important that staff at least *perceive* that their seniors are truly aware of what is going on as this acts as a major deterrent for future misconduct. Furthermore, 69% of respondents agree or are unsure about the statement that "it is easy to hide unethical behaviour and misconduct at TCC". This figure is too high. Ideally, the vast majority (at least two thirds) should disagree with this statement. The perceptions that seniors are not aware of misconduct and that it is easy to hide create a decisive ethics risk – the risk of staff taking changes because they believe they could get away with it. When the visibility is low, it usually corresponds to weakness in the area of Sanctionability / Corrective Action.

The following survey question was used specifically for TCC staff, based on the data obtained from interviews and focus groups and the result should be considered along with the above interpretation:

Recommendations:

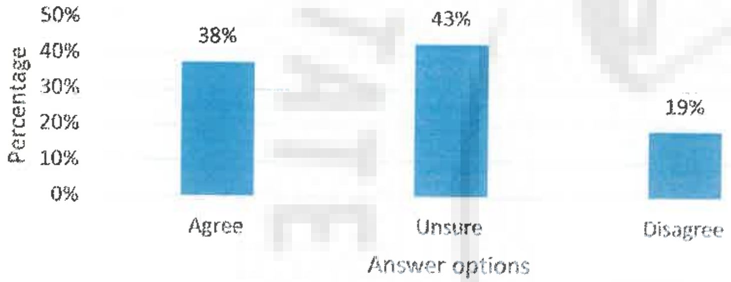
- ✓ It should be communicated clearly to all staff that anyone found "covering up" for a colleague or senior on misconduct instead of reporting it would be liable for disciplinary action according to existing policy.
- ✓ Visibility would also increase if there are more open and honest discussions about ethical and unethical conduct between staff and their seniors. Therefore, refer to the recommendations under the dimension heading of "Discussibility" and "Sanctionability".

Dimension 6: Sanctionability / Corrective action

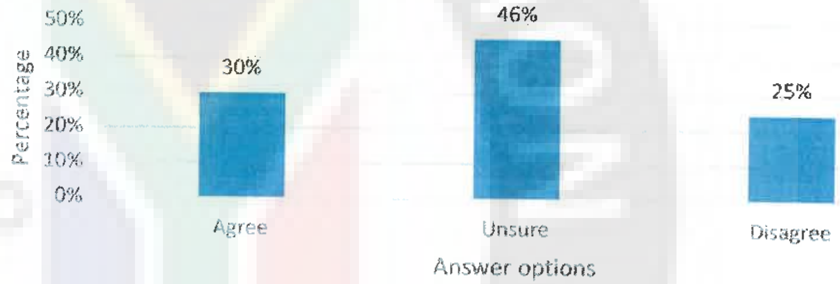
Definition: "Sanctionability refers to the degree to which people can be punished for irresponsible conduct and rewarded for responsible behaviour" (Kaptein & Wempe, 2002, p.256). This dimension is concerned with positive and negative reinforcement of behaviour, where unethical conduct is punished and ethical conduct is praised and rewarded. Where unethical behaviour is rewarded and ethical behaviour is punished, there is a perversion of sanction, which could seriously undermine the health of the ethical climate.

Survey results:

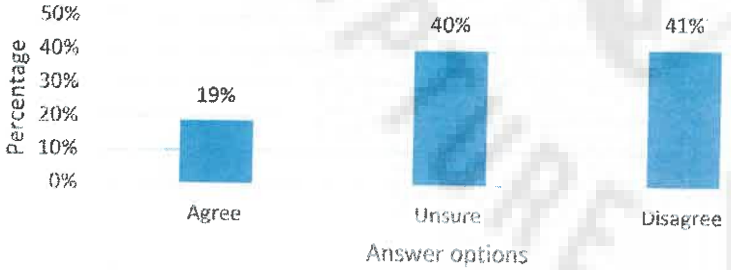
How do you feel about the following statement regarding UNETHICAL behaviour at TCC: Unethical behaviour is FORMALLY punished (i.e. disciplinary hearings, demotions, etc.)



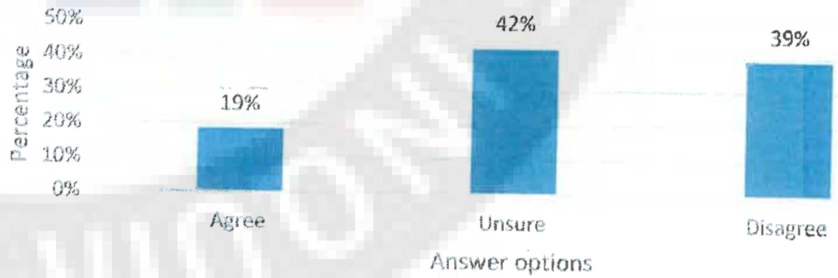
How do you feel about the following statements regarding UNETHICAL behaviour at TCC: Unethical behavior is INFORMALLY punished (i.e. disapproval from colleasgues, gossip, rejection, isolation)



How do you feel about the following statements regarding UNETHICAL behaviour at TCC: Unethical behavior is FORMALLY REWARDED (i.e. awards, promotions, bonuses)



How do you feel about the following statements regarding UNETHICAL behaviour at TCC: Unethical behaviour is INFORMALLY REWARDED (i.e. praise and respect from collegues).



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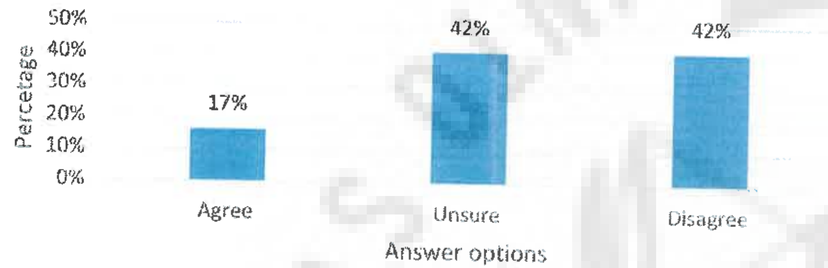
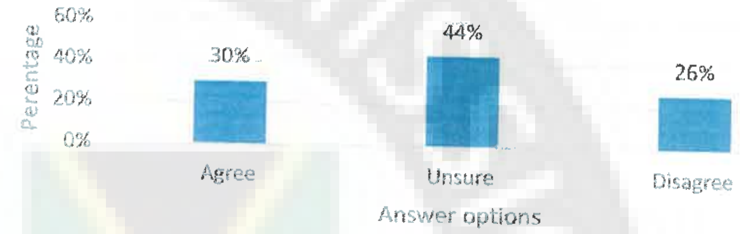
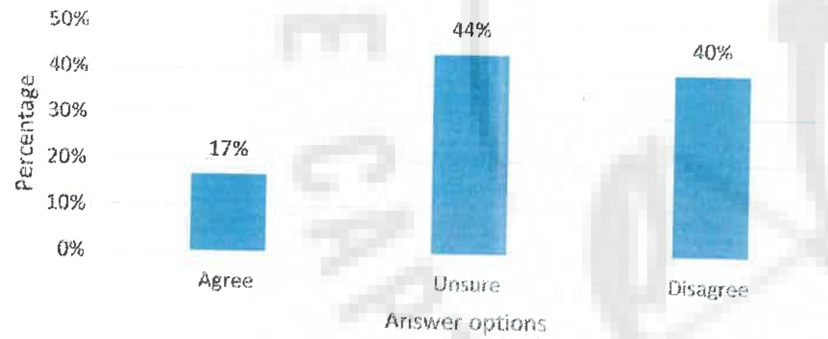
How do you feel about the following statements, regarding ETHICAL behaviour at TCC: Ethical behaviour is FORMALLY rewarded (i.e. awards, promotions, bonuses)



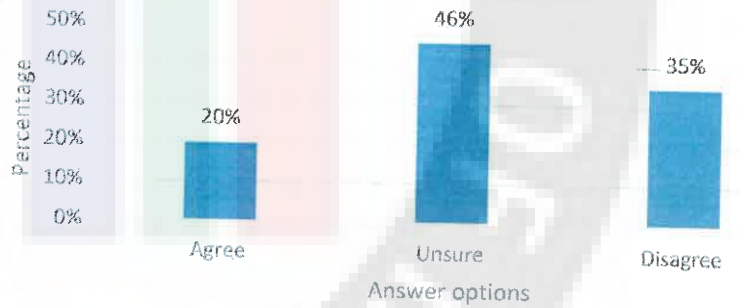
How do you feel about the following statements, regarding ETHICAL behaviour at TCC: Ethical behaviour is INFORMALLY rewarded (i.e. praise and respect from colleagues)



How do you feel about the following statements, regarding ETHICAL behaviour at TCC: Ethical behaviour is FORMALLY PUNISHED (i.e. disciplinary hearings, demotions, etc)



How do you feel about the following statements, regarding ETHICAL behaviour at TCC: Ethical behaviour is INFORMALLY PUNISHED (i.e. disapproval from colleagues, gossip, rejection, isolation)



Note: Ideally the distribution should not be balanced between answer options. It should be clear that ethical behaviour is rewarded and unethical behaviour is punished with little to not uncertainty, i.e. there the "unsure" answer options should be under 10%.

Important comments for pinpointing ethics risks:

"Transnet has a culture of alignments; you will not receive what is due to you if you are not affiliated to an influential individual or persons. As a result, employees are not rewarded fairly, they are not promoted and they are put in a position where they are frustrated and victimised".
"One is side-lined the moment you highlight policy requirements and due diligence and governance that do not support the manner in which the goal is to be achieved by the relevant leadership. Those who do as they are told to do – whether ethically or not – are promoted and protected."
"Some are promoted where as they have done wrongs in the company and those that do good are harassed".
"Sometimes, when good ethics is practised, you tend to get marginalised and then pushed aside as you are seen as a 'blocker'. You also get ridiculed by loud conversation without being afforded an opportunity to be heard. It becomes embarrassing when this happens in front of your colleagues".

An exemplary comment demonstrating moral maturity is highlighted below:

"Ethical behaviour is the default expectation – no reward required".

Summary of comments from comment boxes:

- 11 participants commented that the likelihood of being punished for unethical behaviour depends on seniority, political alliances, favouritism, and who you know (rather than being fair and consistent).
- 11 Participants commented stating that there are perversions in the punishment / reward system, meaning that unethical behaviour will somehow be rewarded and that ethical behaviour will somehow be punished.
- 4 participants commented that appropriate action is taken in cases of misconduct immediately and appropriately.
- 7 participants commented that people who engage in misconduct get away with or will not be dealt with at all, some saying it would be swept under the carpet.
- 1 participant pointed out that ethical aspects or behavioural aspects are not measured within the Transnet SPO.
- 3 Participants commented on being unsure of how misconduct is dealt with because it is not made public or communicated.
- 1 participant commented that enforcement measures are not known.

Interpretation

The results from this dimension are extremely concerning. In a healthy ethical climate ethical behaviour would be clearly rewarded and unethical behaviour will be clearly punished. There should be no reward of unethical behaviour and no punishment for ethical behaviour. Additionally, there should be little to no uncertainty. The "unsure" answer option should not even apply. There is a perversion of reward and punishment, signalling an inversion of wrong and right. This complicates all the entire ethical climate and needs urgent attention. If unethical behaviour is rewarded, the risks for misconduct (including but not limited to theft, fraud, and corruption) is high. This risk is compounded by low visibility.

Recommendations

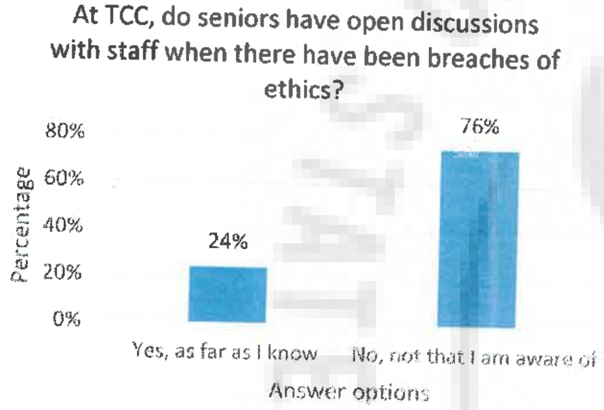
The following actions are recommended to address the issue of Sanctionability:

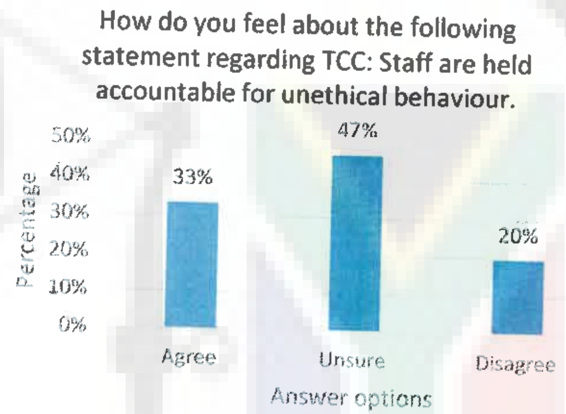
- ✓ Corrective action should be applied effectively and immediately to anyone who is guilty of misconduct regardless of seniority, or how "connected" the person is.
- ✓ The HR department should consider including a rating in the annual performance rating practice for ethical behaviour. This rating should be given by the individual, the individual's senior and the individual's peers.
- ✓ Once a quarter each department or section should nominate an ethics champion based on consistent and outstanding ethical behaviour. The ethical champion should be rewarded formally (i.e. an award or bonus) as well as informally (i.e. an article in One magazine, a handshake from a senior etc.). If a nominee has been guilty of misconduct in past 24 months, they should not be considered for any reward.
- ✓ A communication should be sent to employees encouraging them to report any punishment of ethical behaviour, or any rewarding of unethical behaviour.
- ✓ The department responsible for disciplinary action should be subject to an audit which considers whether immediate and effective corrective action was taken in every instance of reported misconduct. Failure to do so should in turn be subject to corrective action.

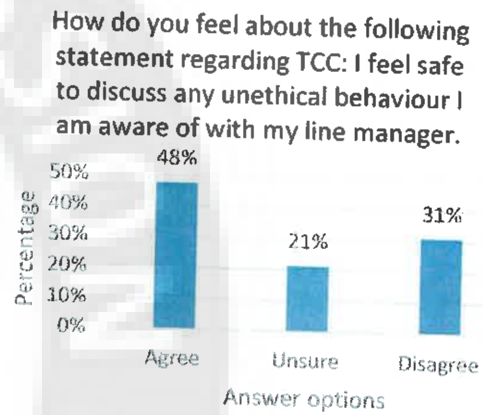
Dimension 7: Discussibility of ethical issues

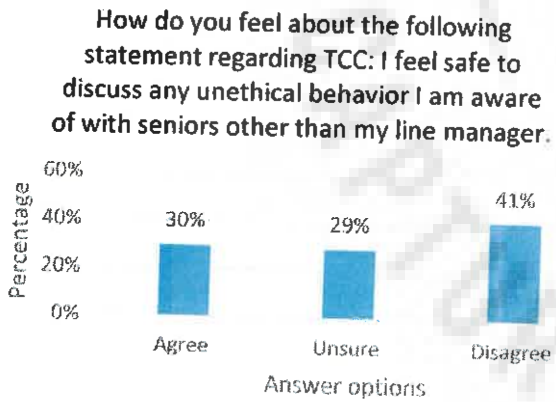
Definition: Discussibility refers to the extent to which employees can discuss or report on ethical issues (Kaptein & Wempe, 2002, p.254). It considers whether ethics forms part of discussions, whether seniors discuss the impact of ethical / unethical behaviour with their staff to call them to account, and whether staff feel safe to discuss or report on unethical behaviour without fear that negative information will be badly received or ignored.

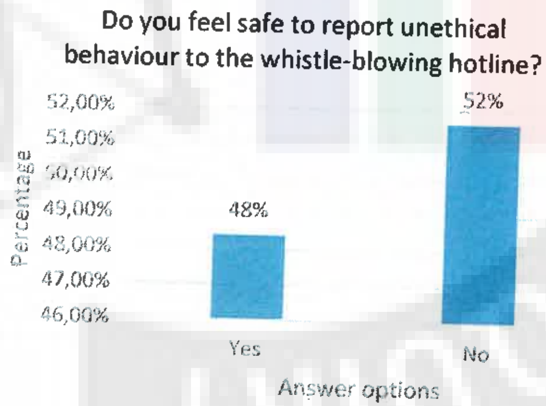
Survey results:

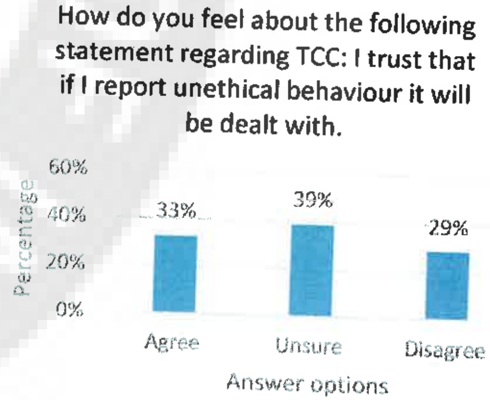












Critical comments

"You report, you are the one that is going to be murdered"

"Even if you report, nothing happens, the perpetrators are always protected and you own life becomes in danger"

"They [the hotline] are corrupt. They will tell, which will put your family in danger"

"As long as I am not involved in any unethical behaviour, and I also wouldn't want to put myself in any form of danger, you just hope things will be visible for anyone to see one day".

Important comments from comment boxes

"Our grapevine at Transnet is very efficient. Makes employees distrust management up to GCE level even more and due to lack of communication, this situation is perpetrated".

"It is very discouraging because you can't trust anyone and you do not want a career limiting move".

"We have a culture of bullying, victimization and intimidation"

"Employees are too scared to speak up, there is no culture of trust within this organisation"

"Evidence of fraudulent procurement transactions. Perception that fraudulent activities are condoned and that it is better to keep quiet about what you know else you will lose your job. Whistle blowers cannot trust internal fraud line as these are 'captured'.

"The hotline doesn't do anything; it is a waste of time"

"Colleagues have had to resign after whistle-blowing... I ain't blowing any sh%@T myself no ways...we the ethical are at risk of the unethical period..!!"

"Open and honest communication not welcome. Managers are sensitive and judgmental you will be blackmailed for your honesty and openness. It is career limiting".

Summary of comments from comment boxes

- 15 Respondents reported having bad experiences after trying to report misconduct, adding that the person reporting misconduct will be victimised or persecuted.
- 10 Respondents reported that their reports on misconduct was ignored or not followed up on by the entity they reported it to, or doubt whether it will be followed up.
- 3 Respondents refer to the grapevine, rumours, or corridor talk as the way they find out what is going on at TCC
- 2 Respondents refer to media reports as learning what is going on ethically
- 6 Respondents noted that there is a lack of communication, consultation and meetings with management.
- 5 Respondents pointed out that they are too scared or afraid to speak out on misconduct
- 4 Respondents said that reporting on misconduct would endanger the reporters' life
- 7 Respondents said that reporting on misconduct would endanger their careers, or be "career-suicide"

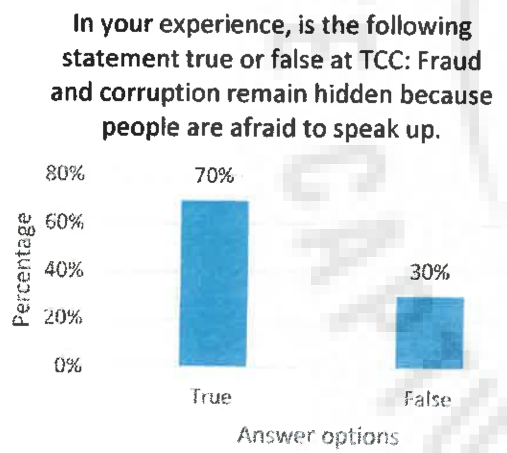
- 4 Respondents said that they were unsure of whether the necessary protection is afforded to whistle-blowers.
- 5 Respondents said that they trust the hotline, that it is a good mechanism and that the necessary protection is afforded to whistle-blowers.
- 2 Respondents question the anonymity of the hotline, one citing that calls are traceable.
- 1 Respondents commented that they trust their seniors and will openly discuss and report misconduct to them.

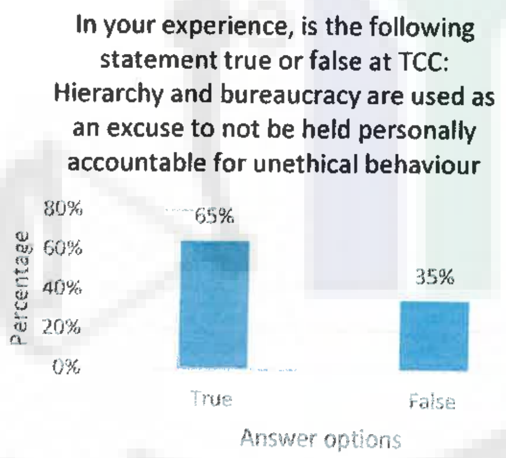
Interpretation

Discussibility is one of the two most important dimensions of a healthy ethical climate. In a healthy ethical climate, there would be open discussions about ethical and unethical issues, staff would be held accountable for unethical behaviour, and everyone would feel safe to report on misconduct and confident that it would be dealt with. The data in this dimension indicates that there is a severe problem in this dimension. The main issue seems to be that TCC staff do not feel safe to report on misconduct – actually fearing for their own wellbeing. This overlaps with one of the two major themes identified by the interim report, namely that there is a culture of fear. The Discussibility dimension effects every other dimension. The stronger the discussibility dimension, the stronger the other dimensions will be and vice versa.

The fear in discussing and reporting misconduct or ethical issues goes hand in hand with the lack of trust amongst TCC employees as reported on in the Supportability dimension. The Supportability and Discussibility dimensions reinforce each other. If one is weak it will weaken the other. It is unclear whether the fear expressed by respondents is based on actual factual threats, or impressions and perceptions which are based on false rumours and gossip. This should be further investigated.

The following survey questions were used for TCC based on information gathered in interviews and focus groups, and the result is important in the interpretation of the above data:





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Comments from participants relating specifically to fear (listed in full because of its importance):

- "Employees are fearful to speak up. There is no culture of trust within this organization and no confidence or trust in our current GCE".
- "I don't think people are afraid to speak up, I just think people feel like there is no point in speaking up because nothing happens to the wrong-doers".
- "We are too afraid to say anything. We work in a very unpleasant environment of constantly looking over your shoulder. Fact is, no one wants to risk joining the UIF queue by revealing things".
- "I agree fear is the biggest issue here, we all are trying to earn a living and no one wants to have hell days at work or even get their lives put at risk. Maybe if there were some form of guaranteed protection, alternate employment options after speaking out and successful investigations".
- "More there is a culture of 'it doesn't concern me' than of fear. People are tired of misconduct but helpless".
- "Sometimes if you witness any misconduct, one may have fear of reporting such conduct".
- "Too often people are not given or take full accountability that hampers the process e.g. process owners will not engage or sign off unless seniors have been involved for the fear of being punished".
- "Certain functions within TCC are run by a system of fear and people that disagree are treated with some level of brutality".
- "We are constantly in fear of being victimized or backstabbed. In my case, I heard that my seniors are conniving to get rid of me from the department and replace me with their favourite so that she won't be negatively affected by the optimization process. I on the other hand will be thrown to the wolves wherever space is. Only because I'm not their favourite, so stressful".

Recommendations

The health of the ethical climate at TCC hinges on rooting out the fear, and improving all aspects of Discussibility. To this end, the following actions are recommended:

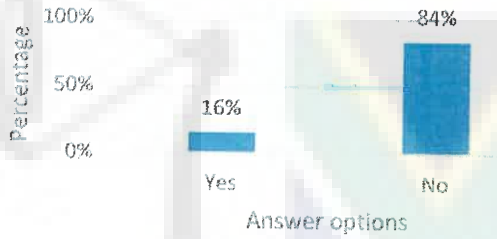
- ✓ Ensure that all employees are fully trained and informed on how the hotline works. There should be no reason to fear using the hotline. It might be that the lack of trust in the hotline is due to misinformation. Ensure that there is yearly training on the hotline – whether through workshops or in an online format. Write articles on how the hotline works and publish it in One magazine. Train the ethics champions on how the hotline works so that they can act as a source of information.
- ✓ Whenever there has been a breach of ethics or misconduct in a department, the seniors should have open and honest discussions with their staff about it to lay down the facts, stop rumours from spreading and explain what the correct behaviour in the situation would have been. This should be standard operating procedure after negative media attention. In the case of the latter it is recommended that a division or company-wide statement be emailed to all staff. The seniors should hand in minutes of such meetings as part of their performance appraisal reference documents.
- ✓ Root out fear: This might require a professional intervention, guided by a social scientist or industrial psychologist. Fear can cripple an environment that could otherwise have maintained a healthy ethical climate. The starting point would be to separate truth from perceptions based on rumours through either further anonymous surveys or workshops. Where there are legitimate, provable death threats, these should be subject to full disciplinary action and legal action.
- ✓ Managers should be encouraged and expected to have an open door policy to discuss any issues that their staff face.

TCC specific questions based on Interim report

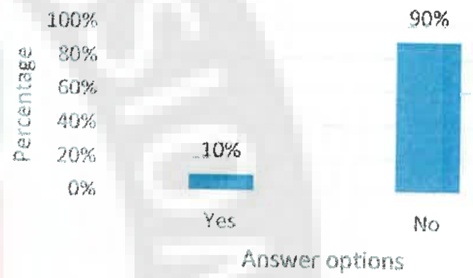
Survey results

Are you aware of the following taking place at TCC in the last 12 months: Bullying and victimisation as a way to silence staff who are aware of misconduct.

Are you aware of the following taking place at TCC in the last 12 months: Fraud in the recruitment and appointment process (i.e. false CV information or qualifications etc.)

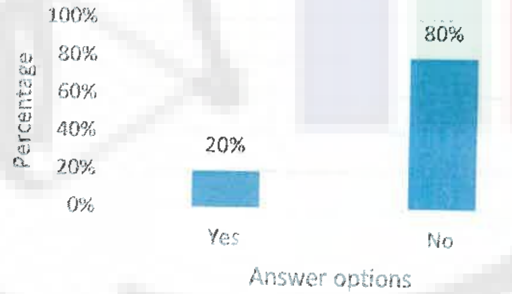


Are you aware of the following taking place at TCC in the last 12 months: Bribery and/or kickbacks being paid or recieved.

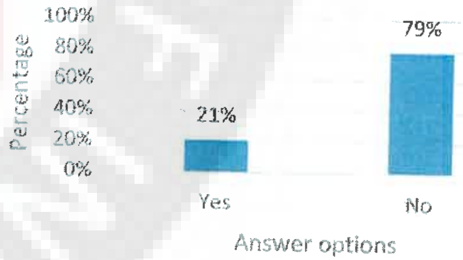


Are you aware of the following taking place at TCC in the last 12 months: Collusion amongst staff to hide misconduct.

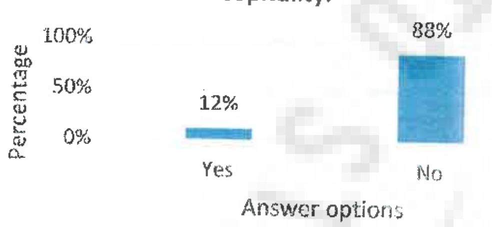
Are you aware of the following taking place at TCC in the last 12 months: Staff creating inaccurate reports on purpose.



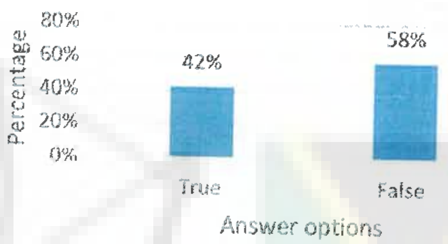
Are you aware of the following taking place at TCC in the last 12 months: Conflicts of interests not being declatred truthfully and accurately.



Are you aware of the following taking place at TCC in the last 12 months: Staff being influenced by improper gifts and hospitality.



True or false: At TCC confidential information is always kept confidential.



In your experience, are the following statements true or false at TCC: The financial process is manipulated.

Interpretation: These figures should be compared with actual cases reported.

Additional issues highlighted by respondents: Recruitment and Confidentiality

Comments from respondents specifically relating to recruitment are listed below (spelling corrected):

- "There are things that happen, I.e. promotions where employees not qualified which are supported by management".
- "Internal people are overlooked for positions and those positions are given to friends".
- "Some managers in group security have been promoted to executive managers without any academic qualifications".
- "I have been in this department from 2007, an admin assistant was promoted to be the Grants Manager by the person who was acting as the Head: Transnet Foundation because of corrupt relationship they had, and a receptionist was promoted as an Admin Assistant to Education and Employee Volunteerism, whereas I was told that I am incompetent to be in my position, I reported the said acting Head of Foundation, fortunately she never got the position, but unfortunately she was in the good books with the newly appointed Head of Foundation".
- "Although I am not aware of these, I've overheard that bullying and victimization may have taken place. Direct appointments without advertising of positions also took place".
- "Fraud in Recruitment in the sense that people employ their friends or relatives instead of deserving applicants".
- "All those who is connected to line managers get recruited easily".
- "Well the recruitment processes are clearly not fair, one can be responsible for a particular role and comes hiring time a person who doesn't even have extensive experience in a particular role would be hired and will still have to be trained by the same people who were not hired".
- "Employees approached to take up higher positions which have not been advertised and giving them an unfair advantage".
- "Extensive reference checking is not done with new appointments - the formal ones are done but no proper investigation from prior employers as to the new employee's conduct".

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- "Relatives of managers get employed, the relationship is kept secret for more than six months".
- "People only recruit people that will endorse their unethical behaviour".

Comments related to confidentiality are listed below (spelling corrected):

- "We usually hear about things happening or get information via the grapevine (passage talk)".
- "The grapevine is very efficient, there is no confidential information within Transnet".
- "People should check what information is open and exposed on their tables. All people should have Confidential Clearance or Secret or Top Secret Clearance. The folder must also be secure. We work in Open office plans; this already has to be taken into consideration".
- "Not sure because people report things and the next day it gets known by everyone".
- "Things discussed maybe in the board or Exco meetings you can hear rumors in the passages".
- "Not if the stories on the rumour mill are even half true".
- "But there were few instances of leaks".
- "People trusted with confidential info gossips to their friends about it. we end up knowing everything in the passages".
- "We always hear rumors, most managers at Transnet are very unprofessional and cannot uphold confidential matters, WhatsApp get sent during senior executive meetings. The culture is very disturbing hence I will never divulge any confidential information about myself to my manager. Managers are friends with employees".
- "In my experience, some Executives openly discuss confidential information and openly engage in gossip".
- "There is evidence of leaks to the media".
- "Information always leaks".
- "People are lazes faire about certain things e.g. leaving important documents in printers".
- "Although I believe this to be true, recent incidents or communication seem to indicate otherwise".
- "Please note that my comments generally apply specifically to the Foundation as it is where I'm posted".
- "It appears that there have been leakages to the media, else how can TCC explain away the detailed documentation has at its disposal to support some of the transgressions that have been allegedly committed".
- "It is kept confidential when a particular agenda is suited. People seem to hide behind the PFMA when they want to keep items confidential".
- "I am not privy to this hence I would assume that it is kept confidential".
- "There have been leaks of sensitive information to the media".
- "Information gets leaked at investigation stages, people who are not supposed to access certain information do access it and it puts several investigations at jeopardy. Our Managers talk I repeat. Maybe a course is required for management to address etiquettes and confidentiality".

ANNEXURE PM 7

TRANSNET

ANNEXURE "B"

DELEGATION OF AUTHORITY FRAMEWORK

(EFFECTIVE FROM 1 DECEMBER 2015)

APPROVED BY THE BOARD OF DIRECTORS ON

25 NOVEMBER 2015

UNDER RESOLUTION

10-15/16FY/8

INDEX

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1 **Interpretation and Definitions**

The following words and expressions bear the following meanings, unless the context indicates otherwise:-

1.1 **"Alternative Dispute Resolution" (ADR)** refers to the process of resolving disputes among parties without necessarily resorting to court action, although the agreements and outcomes may be legally binding. ADR processes include conciliation, mediation, adjudication and arbitration.

1.2 **"Board"** means the Board of Directors of the Company and includes the Board when it acts as the deemed Authority under the National Ports Act No. 12 of 2005;

1.3 **"Board Reserved Matters"** means matters reserved by the Board as set out in Annexure "A "of the Delegation of Authority Framework approved by the Board.

1.4 **"CAPIC"** means the Capital Investment Committee, a sub-committee of the Group Executive Committee which has been established to make decisions regarding capital expenditure;

1.5 **"CE"** means Chief Executive of an Operating Division;

1.6 **"Chairperson"** means the person who is appointed as the Chairperson of the Board as per the MOI;

1.7 **"Company"** means Transnet SOC Ltd including its Operating Divisions and Specialist Units, with registration number 1990/000900/30 and **"Transnet"** shall have a corresponding meaning;

1.8 **"Company Strategy"** means the strategy for the Company as approved from time to time by the Board;

1.9 **"Consultant"** means a person, or partners in a firm, or a company or a close corporation who can provide expert or specialised advisory skills, but excludes anyone who also carries out the physical work or provides the end product for Transnet based on his own professional or expert advice. Such consultancy service normally pertains to a specific project and therefore non-repetitive in nature and confined to design work, investigation, or advice on management, financial, business or technical matters;

In short, a consultant does not supply the ultimate end product, but merely gives a recommendation, based on his expertise, of the best solution to a specific problem. That proposed solution, if acceptable to Transnet, still has to be acquired, built or erected by another party and may or may not be connected with the consultant. Excludes any professional services procurement package included in the approved asset procurement package plan for and approved physical asset project.

1.10 **"Delegation of Authority Framework "** means this document, recording the nature and extent of authorities required in order to implement certain actions by or on behalf of the company, including any sub-delegation of authority where permitted and **"Delegation"** shall have a corresponding meaning;

1.11 **"Estimated Total Cost" (ETC)" means costs planned to bring the project into operation. These include costs such as:**

- **Direct activities relating to the project such as building materials, delivery cost thereof;**
- **Project management fees;**
- **Gate review costs (FEL3 and 4);**
- **Transnet Internal Audit Costs;**
- **Group Capital Integration & Assurance;**
- **Preliminaries and general; and**
- **Contingencies.**

Typical accounting entry type transactions such as capitalisation of borrowing costs and allocated costs are excluded from ETC;

1.12 **"FRMF"** means Financial Risk Management Framework;

1.13 **"GCE"** means Group Chief Executive;

1.14 **"GCFO"** means Group Chief Financial Officer;

1.15 **"GCSCO"** means Group Chief Supply Chain Officer;

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1.16 **"Group Executive Committee"** or **"Group Exco"** means the executive committee established to take responsibility for the day-to-day execution of strategy and running of the Company;

1.17 **"Group Executive (GE) or Group Executive nominee"** refers to the Group Executive responsible for the supporting business or his/her nominee;

1.18 **"Head of Legal" refers to the most senior employee with a Legal qualification in the respective Legal Department;**

1.19 **"International agreements"** means agreements which are required to be construed in accordance with the laws of a foreign jurisdiction including the neighbouring countries;

1.20 **"Memorandum of Incorporation"** or **"MOI"** means the constitutive documents of the Company, as amended;

1.21 **"Memorandum of Understanding"** means a formal agreement between two or more parties. Companies and organizations can use MOUs to establish official partnerships. MOUs are not legally binding but they carry a degree of seriousness and mutual respect, stronger than a gentlemen's agreement.

1.22 **"Neighbouring Countries"** means countries sharing a border with the Republic of South Africa;

1.23 **"Non-Disclosure Agreement/Confidentiality Agreement"** means a contract by which one or more parties agree not to disclose confidential information that they have shared with each other as a necessary part of doing business together.

1.24 **"Operating Divisions"** means the Operating Divisions of Transnet, namely, Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals and Transnet Pipelines;

1.25 **"PFMA"** means the Public Financial Management Act 1 of 1999 (as amended), read together with its regulations' including Treasury Regulations;

1.26 **"Prescribed Officer"** means a person who, within a company, performs any function that has been designated by the Minister of Trade and Industry in terms of section 66(10) of the Companies Act, Act 71 of 2008, read with Regulation 38. Within the Company, members of Group Exco are designated Prescribed Officers;

1.27 **"Rental"** means money payable for the hire of movable and immovable property in terms of a lease agreement, but excludes the payment of operational expenses and costs.

1.28 **"Shareholder"** means the Government of the Republic of South Africa represented by the Shareholder Minister.

1.29 **"Shareholder Minister"** means the Minister of Public Enterprises as defined in the MOI;

1.30 **"Shareholder's Compact"** means the shareholder's compact being an agreement entered into pursuant to section 52 of the PFMA between the Shareholder representative and the Board from time to time;

1.31 **"Specialist Unit"** mean all business units of Transnet which have been deemed 'supporting businesses' in terms of the Company Strategy, these include Transnet Property, Transnet Foundation, Transnet Capital Projects and Transnet Corporate Centre. Where a Specialist Unit GE is not a member of the Group Exco, the Group Exco member responsible for such Specialist Unit shall sub-delegate powers to the Specialist Unit's GE;

1.32 **"Subsidiary"** means subsidiary as defined in the Companies Act 71 of 2008 (as amended) and Subsidiaries shall have a corresponding meaning;

1.33 **"Transnet"** means the Company with its Subsidiaries and Operating Divisions/Specialist Units as stated in clause 1.7 above.

1.34 **"Treasury Regulations"** means the regulations issued in terms of section 76 of the PFMA, amended from time to time;

1.35 **"Transnet Total Asset Base"**: refers to the total value of the assets in Transnet and is set at the asset value indicated in the integrated report for the year; and

1.36 **"VAT"** means Value Added Tax. All amounts indicated in the document are exclusive of VAT.

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2 Scope

This Delegation of Authority Framework records the nature and extent of the authorities delegated by the Board of Directors to the Group Chief Executive, and in turn, by the Group Chief Executive to the members of the Group Executive Committee, in order to implement certain actions by or on behalf of the Company. It includes, to the extent necessary and/or incidental thereto, the authority to discharge all of the duties, obligations and powers imposed upon the deemed Authority under the National Ports Act 12 of 2005.

3 Application

3.1 This Delegation of Authority Framework applies to all employees of the Company, including its Operating Divisions and Specialist Units. It does not apply to any of the Company's subsidiaries. The respective Boards of Directors of the Company will prepare the requisite delegations of authority for those subsidiaries.

3.2 The persons set out in clause 5 below are granted the power and /or authority to perform their functions and responsibilities subject to the limits of authority outlined in clause 5 below, provided that the exercise of such power and/or authority in terms of this delegation is not in conflict with the following:

- PFMA;
- Board Reserved Matters;
- Memorandum of Incorporation;
- Company Strategy;
- Shareholder's Compact;
- the Corporate Plan, Annual Budget and Borrowing Strategy and/or Funding Plan of the Company as approved by the Board from time to time;
- Project and Programme Frameworks;
- Enterprise Risk Management Framework; and
- Any approvals by the Board and the Minister of Finance for the delegation of the power to borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind the Company to any future financial commitment in terms of section 66 of the PFMA.

3.3 This Delegation supersedes any prior Delegations of Authority Framework and takes effect upon the date determined by the Board of Directors.

3.4 The Delegation of Authority Framework shall be sub-delegated to Group Exco and Extended Exco within 30 days from the date of signature by the GCE.

3.5 Any proposal for amendments to this Delegation or to the authorities or the authorities delegated in this Delegation must be submitted in writing to the Transnet Company Secretary for consideration and approval by the Board of Directors.

4 Delegating Powers

4.1 A person authorised to exercise any of the authorities set out in clause 5 below ("original bearer of authority") may, in writing, sub-delegate to his/her subordinate ("designate") during his/her temporary absence or for an indefinite period, provided:

4.1.1 the authority is conferred by way of a certificate signed by the original bearer of authority, naming and identifying the designate, and the extent of the authority which is sub-delegated to the designate;

4.1.2 the sub-delegated authority shall only be exercised within the original bearer of authority's respective area of responsibility;

4.1.3 the powers delegated by the original bearer of authority cannot be sub-delegated further by the designate unless explicitly stated in the certificate signed by the original bearer of authority; and

4.1.4 the sub-delegated authority may be revoked in writing, at any time by the original bearer of authority.

4.2 Unless otherwise specifically indicated, approval of any of the matters listed in clause 5 below may be granted by a designate.

4.3 With respect to all matters and authorities specifically listed in clause 5 below, the delegated authority by the GCE to bind the Company is in regard to any business activity or transaction (or a series of related transactions) and is subject to the value in the aggregate of all payments or any consideration made or to be made for any such business activity or transaction(s) being complied with.

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4.4 The original bearer of authority or designate must ensure that all the necessary procedures and/or approvals have been fulfilled prior to exercising any of the matters and authorities listed in clause 5 below.

4.5 All delegations of authority, signed by the original bearer of authority and accepted by the designate, must be filed with the Office of the Group Secretariat prior to the effective date.

5 **Company Authorities**

Limits of authority have been delegated by the Board of Directors to the Group Chief Executive. In the interest of good corporate governance, approval structures have been established in the Company. Requests for approval must follow the approved governing processes and structures for recommendation but the final approval vests with the delegated individual (for example CE, GCFO, GCE) as reflected in the specific delegations set out in this document.

In cases where business requirements necessitate that approval be obtained from the delegated authority without the review and recommendation by the relevant governance structures (CAPIC, Group Exco, etc.) this must be reported to the relevant governance structures immediately thereafter.

The authority to approve the Corporate Plan and Budget of the Company vests with the Board of Directors, provided that it must be submitted to the Shareholder in terms of Section 52 of the PFMA.

Management's intervention in addressing non-compliance with the DOA

Approval Authority →	OD CE	GCFO	GCE
Operating Divisions	Nil	Nil	Unlimited
Approval Authority →	Group Exco Member	GCFO	GCE
Specialist Units	Nil	Nil	Unlimited

Note: All requests for approval of non-compliance must be made by the OD CE/Group Exco member to the GCE. Together with the application for approval of non-compliance, the requestor must advise on the steps/corrective measures taken to avoid a repeat of the transgression within 30 days of the transgression being discovered.

5.1 **Capital Expenditure**

NOTE 1: Capital expenditure may only be authorised if the project has been so approved by CAPIC or the relevant divisional CAPIC in accordance with the limits set out in this Delegation of Authority Framework and capital funds have been allocated in the annual Budget of the Company.

NOTE 2: Capital expenditure may only be authorised if the project has been approved and a warrant number has been issued by the relevant authority. All requests for capital expenditure exceeding the Divisional CE's limit must be submitted to the Principal Specialist: Governance and Assurance.

5.1.1 **CAPEX in approved budget/Corporate Plan: To commence projects (execution funding)**

Approval Authority →	OD Exco/CE excluding TFR	TFR Exco/CE	CAPIC/GCFO	Group Exco /GCE	Acquisitions and Disposals Committee	Board	Shareholder Minister
Operating Divisions	Up to but not exceeding R250million	Up to but not exceeding R450million	Up to but not exceeding R800million	Up to but not exceeding R1.5billion	Up to but not exceeding R2billion	Up to but not exceeding R5.2 billion	Exceeding R5.2billion
Approval Authority →	Group Exco Member	GE: Transnet Property	CAPIC/GCFO	Group Exco /GCE	Acquisitions and Disposals Committee	Board	Shareholder Minister
Specialist Units	Up to but not exceeding R20million	Up to but not exceeding R50million	Up to but not exceeding R800million	Up to but not exceeding R1.5billion	Up to but not exceeding R2billion	Up to but not exceeding R5.2billion	Exceeding R5.2billion

Refer to Materiality and Significance Framework. If the set limit (R5.2billion) is exceeded then the Board has to consider and recommend to Shareholder Minister for approval.

- Approval limits are per individual project, reported on a monthly basis to Group Financial Planning.
- Amounts indicated above exclude the capitalisation of borrowing costs.
- All ICT projects requiring approval must be signed off by the Group Executive: EIMS.

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- Acquisitions and Disposals Committee refers to the Acquisitions and Disposal Committee of the Board.
- Group Exco/GCE to be the final approval gate for all capitalisation of maintenance projects (COPEX) single or multi-year irrespective of the value of the project provided that it has been included in the Corporate Plan.
- It is mandatory that submissions to the Group Exco/GCE have been recommended by the approval bodies leading up to the Group Exco/GCE i.e. OD CAPIC and Group CAPIC.
- Front end loading (FEL) studies are to be submitted to CAPIC based on the value of the underlying asset on which the study is conducted. e.g. If the FEL study is for an asset that exceeds R250million (R450million for TFR) then the FEL study irrespective of its stage requires approval from Group CAPIC Please refer to the Accounting Policy for Conceptual, Pre-feasibility and Feasibility Studies when capitalising FEL studies.
- Approvals exceeding R2billion but less than R5.2billion in ETC are to be reported to the Shareholder Minister

5.1.2 **Unforeseen CAPEX (not included in budget/Corporate Plan)**

Approval Authority →	OD Exco/CE excluding TFR	TFR Exco/CE	CAPIC/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board	Shareholder Minister
Operating Divisions	Up to but not exceeding R50million	Up to but not exceeding R75million	Up to but not exceeding R400million	Up to but not exceeding R800million	Up to but not exceeding R1billion	Up to but not exceeding R5.2billion	Exceeding R5.2billion
Approval Authority →	Group Exco Member	GE: Transnet Property	CAPIC/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board	Shareholder Minister
Specialist Units	Up to but not exceeding R20million	Up to but not exceeding R50million	Up to but not exceeding R400million	Up to but not exceeding R800million	Up to but not exceeding R1billion	Up to but not exceeding R5.2billion	Exceeding R5.2billion

Refer to Materiality and Significance Framework. If the set limit (R5.2billion) is exceeded then the Board has to consider and recommend to Shareholder Minister for approval.

- All unforeseen Capex approved by Operating Divisions/Specialist Units within their delegated authority, must be reported on a quarterly basis to Group Financial Planning.
- Amounts indicated above exclude the capitalisation of borrowing costs.
- All ICT projects requiring Transnet approval must be signed off by the Group Executive: Enterprise Information Management Services
- Approval limits are per project at Operating Divisional level and Transnet Property level subject to an aggregate divisional limit of R250million per annum (for ODs and Transnet Property) and R450million for TFR on condition that divisions remain within their annual approved capital budget (refer to 5.1.3.1).
- Divisional investment committees are to monitor the limits pertaining to the respective OD and to escalate submissions to Transnet if the respective OD limits are reached.
- If an unforeseen project will result in the divisional 7 year investment plan being increased then Group Exco needs to be approached for approval.

5.1.3 **Increase in Estimated Total Cost (ETC) of Existing/Approved Projects**

Approval Authority →	OD Exco/CE excluding TFR	TFR Exco/CE	CAPIC/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board
Operating Divisions	ETC may be increased to a maximum of R250million, increases beyond this amount may only be approved at Transnet Level	ETC may be increased to a maximum of R450million, increases beyond this amount may only be approved at Transnet Level	ETC may be increased to a maximum of R800million	ETC may be increased to a maximum of R1.2billion.	ETC may be increased to a maximum of R2billion	Exceeding R2billion
Approval Authority →	Group Exco Member	GE: Transnet Property	CAPIC/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board
Specialist Units	ETC may be increased to a maximum of R20million, increases beyond	ETC may be increased to a maximum of R50million, increases beyond this amount may only be approved at Transnet Level		ETC may be increased to a maximum of R1.2billion.	ETC may be increased to a maximum of R2billion.	Exceeding R2billion

• I n c	this amount may only be approved at Transnet Level					

rease in ETC of projects already approved by the Shareholder Minister must be reported to the Shareholder Minister if the increase is in excess of 15%.

- All ICT projects requiring approval must be signed off by the GE: EIMS.
- All cost increases in excess of 25% of the approved budget for a project must be reported to Transnet CAPIC/GCFO.
- Amounts indicated above exclude the capitalisation of borrowing costs. Increases in ETC of a project solely due to the capitalisation of borrowing costs may be approved by the OD Exco/CE. Project costs and capitalisation of borrowing costs are to be managed separately and may not be expended on projects interchangeably.
- Increases in ETC of a project that results in the project exceeding a specific committee's approval limit needs to be submitted to the next approval body. If CAPIC approved a project at ETC of R700million, and the increase required is R200million then the final approval body for the increase will be Group Exco as the new ETC of R900million is beyond CAPIC's limit.
- Requests for increases in ETC need to be submitted to the approval body that originally approved the project. If Board approved a project to the value of R2.1billion, any increases to this project will require Board approval.

5.1.3.1 Any increase in excess of the annual approved capital investment budget must be submitted to CAPIC/GCFO for approval. Where the GCFO has approved an increase, the submission should be tabled at the subsequent CAPIC meeting for information purposes.

5.1.4 Approval of Front-End Loading (FEL) Studies

Front end loading (FEL) studies are to be submitted to CAPIC based on the value of the underlying asset on which the study is conducted e.g. If the FEL study is for an asset that exceeds R250million (R450million for TFR) then the FEL study irrespective of its stage requires approval from Group CAPIC . The following limits apply in instances of the FEL study itself.

Approval Authority →	OD Exco/CE excluding TFR	TFR Exco/CE	Capic/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board
Operating Divisions	FEL studies conducted on assets not exceeding R250 million	FEL studies conducted on assets not exceeding R450 million	Up to but not exceeding R800million	Up to but not exceeding R1.2billion	Up to but not exceeding R2billion	Exceeding R2billion
Approval Authority →	Group Exco Member	GE: Transnet Property	Capic/GCFO	Group Exco/ GCE	Acquisitions and Disposals Committee	Board
Specialist Units	FEL studies conducted on assets not exceeding R20 million	FEL studies conducted on assets not exceeding R50 million	Up to but not exceeding R800million	Up to but not exceeding R1.2billion	Up to but not exceeding R2billion	Exceeding R2billion

- Limits are per FEL study
- The study to be managed along the same principles as a project
- FEL studies to be managed and controlled by an appointed project manager to ensure efficient utilisation of Transnet resources.

5.1.5 Matters pertaining to the Scope of a Project

Schedule:

- Project timelines may not exceed the end date contained in the business case by more than 12 months with no cost increases
- Approval to be sought from the original approval body at the earliest discovery that the 12 month limit is going to be exceeded.

Physical progress:

- Scope changes of more than 10% of the original scope requires approval from the original approval body.
- Funds allocated for future scope items may NOT be utilised to fund current items that have depleted their budgets and contingencies provided specifically for the item.

5.1.6 Asset Write-off/Scrapping: Movable Assets

Approval Authority →	OD Exco/CE excluding TFR	TFR Exco/CE	Capic/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board
Operating Divisions	Up to but not exceeding R10million	Up to but not exceeding R50million	Up to but not exceeding R100million	Up to but not exceeding R250million	Up to but not exceeding R700million	Exceeding R700million

Approval Authority →	Group Exco Member	Capic/GCFO	Group Exco/ GCE	Acquisitions and Disposals Committee	Board
Specialist Units	Up to but not exceeding R5million	Up to but not exceeding R100million	Up to but not exceeding R250million	Up to but not exceeding R700million	Exceeding R700million

Refer to Materiality and Significance Framework. If the set limit (currently R5.2billion) is exceeded then the Board has to consider and recommend to Shareholder Minister for approval.

- The above amounts refer to net book value and pertains to the cost actually paid for the asset (revaluations are excluded) and are a cumulative annual limit. Write-offs below R10m and above R50m in the case of TFR must be reported to CAPIC/GCFO quarterly.
- Divisional investment committees are to monitor the limits pertaining to the respective OD and to escalate submissions to Transnet if the respective OD limits are reached.

5.1.7 **Asset write-off/Scrapping/Demolition of Immovable Assets (excluding land) e.g. buildings, structures**

Approval Authority →	OD Exco/CE excluding TFR	TFR Exco/CE	Capic/GCFO	Group Exco/ GCE	Acquisitions and Disposals Committee	Board*
Operating Divisions	Up to but not exceeding R10million	Up to but not exceeding R50million	Up to but not exceeding R150million	Up to but not exceeding R250million	Up to but not exceeding R300million	Exceeding R300million
Approval Authority →	Group Exco Member		Capic/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board*
Specialist Units	Up to but not exceeding R5million		Up to but not exceeding R100million	Up to but not exceeding R250million	Up to but not exceeding R300million	Exceeding R300million

*Refer to Materiality and Significance Framework. If the set limit (currently R5.2billion) is exceeded then the Board need to consider and recommend to the Shareholder Minister for approval.

- The above amounts refer to an estimated market value at that point in time and are a cumulative annual limit.
- Divisional investment committees are to monitor the limits pertaining to the respective OD and to escalate submissions to CAPIC if the respective OD limits are reached.
- Write-offs below R10million and below R50million in the case of TFR must be reported to CAPIC/GCFO quarterly.

5.1.8 **Disposal of Movable Assets (excluding sale of scrap)**

Approval Authority →	OD Exco/CE*	Capic/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board**
Operating Divisions	Up to but not exceeding R50million	Up to but not exceeding R100million	Up to but not exceeding R250million	Up to but not exceeding R700million	Exceeding R700million
Approval Authority →	Group Exco Member	Capic/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board**
Specialist Units	Up to but not exceeding R5million	Up to but not exceeding R100million	Up to but not exceeding R250million	Up to but not exceeding R700million	Exceeding R700million

The above amounts refer to an estimated market value and are subject to a cumulative annual limit of R200million. For sale of scrap please refer to 5.5.1.

- Divisional investment committees are to monitor limits pertaining to their OD, and to escalate submissions to CAPIC once the respective OD limits are reached.

**Refer to Materiality and Significance Framework. If the set limit (currently R5.2billion) is exceeded, then the Board need to consider and recommend to the Shareholder Minister for approval.

5.1.9 **Management's intervention in addressing non-compliance with regard to the approval of capital projects**

Approval Authority →	OD CE:OD	GCFO	GCE
Operating Divisions	Nil	Nil	Unlimited
Approval Authority →	Group Exco Member	GCFO	GCE
Specialist Units	Nil	Nil	Unlimited

- Together with the application for approval of non-compliance, the requestor must advise on the steps/corrective measures taken to avoid a repeat of the transgression within 30 days of the transgression being discovered.
- If the approval of non-compliance results in the annual divisional budget being exceeded, then the request must be submitted to CAPIC for approval (refer to 5.1.3.1).

5.1.10 **Alienation/acquisition of immovable property (land and servitudes)**

Approval Authority →	OD Exco/CE excluding TFR	TFR Exco/CE	Capic/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board**
Operating Divisions	Up to but not exceeding R10million	Up to but not exceeding R50million	Up to but not exceeding R200million	Up to but not exceeding R350million	Up to but not exceeding R500million	Exceeding R500million
Approval Authority →	Group Exco Member	GE: Transnet Property	Capic/GCFO	Group Exco/GCE	Acquisitions and Disposals Committee	Board**
Specialist Units	Up to but not exceeding R1million	Up to but not exceeding R10million	Up to but not exceeding R200million	Up to but not exceeding R350million	Up to but not exceeding R500million	Exceeding R500million

**Refer to Materiality and Significance Framework. If the set limit (R5.2billion) is exceeded then the Board need to consider and recommend to the Shareholder Minister for approval.

- Approval limits are per transaction and are with reference to market value
- All transactions entered into in terms of the above must be reported to CAPIC/GCFO
- Only immovable property on the non-core list, may be disposed of (refer to 5.1.8.1), such disposal may only be done through the Transnet Property.
- Amounts indicated above exclude the capitalisation of borrowing costs.

5.1.10.1 **Newly identified properties to be included on the non-core list (Book value of individual properties)**

GE: Transnet Property	GCFO	GCE	Acquisitions and Disposals Committee	Board
Up to but not exceeding R50million	Up to but not exceeding R100million*	Up to but not exceeding R200million	Up to but not exceeding R300million	Exceeding R300million

These disposals must be reported to Capic//Group Exco/Acquisitions and Disposals Committee/ Board.

5.2 Treasury

Treasury Policies

Approval Authority →	Group Treasurer	GCFO	GCE	Risk	Audit Committee	Board
Financial Risk Management Framework	Recommend	Recommend	Recommend	Noting	Recommend	Approve

NOTE 1: Only approved financial instruments as approved in terms of the applicable Treasury Financial Risk Management Framework approved by the Board and subject to such limits determined in accordance with such framework may be utilised in the Treasury operations.

5.2.1 **InterTransnet Debt (Treasury inter Transnet debt write-off)**

Approval Authority →	Deputy Treasurer: Operations	Group Treasurer	GCFO	GCE
Operating Divisions	Up to but not exceeding R5million	Up to but not exceeding R10million	Up to but not exceeding R20million	Exceeding R20million
Specialist Units	Up to but not exceeding R2million	Up to but not exceeding R10million	Up to but not exceeding R20million	Exceeding R20million

All breaches of the above limits to be reported to the Audit Committee.
External debt write-off on financial instruments due to counter-party liquidation may only be approved by the GCE.

5.2.2 **Maximum annual loss on all repo activities (Realised and unrealised)**

Approval Authority →	Traders and Chief Trader	Deputy Treasurer: Front Office	Group Treasurer	GCFO	GCE
Group	Up to but not exceeding R1million	Up to but not exceeding R1.5million	Up to but not exceeding R2.5million	Up to but not exceeding R5million	Exceeding R5million

All breaches of the above limits to be reported to the Audit Committee
Note: The above limits are aggregate desk limits

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5.2.3 **Buy and sell back and sell and buyback transactions (Expressed in nominal terms)**

Approval Authority →	Traders	Chief Trader	Deputy Treasurer: Front Office	Group Treasurer	GCFO
Group	Up to but not exceeding R250million	Up to but not exceeding R500million	Up to but not exceeding R750million	Up to but not exceeding R1 billion	Exceeding R1 billion
Duration Limit	2 weeks	3 weeks	1 month	1 month	> 1 month

All breaches of the above limits (amount or tenure) to be reported to the Audit Committee.
Approval limits are per transaction/event.

5.2.4 **Foreign Exchange Spot Transactions Operational payments, not related to hedging, early take ups or extensions (expressed in USD equivalent)**

Approval Authority →	Traders	Chief Trader	Deputy Treasurer: Front Office	Group Treasurer	GCFO
Group	Up to but not exceeding an aggregate equivalent of $20millionper day (desk total)	Up to but not exceeding an aggregate equivalent of $40million per day (desk total)	Up to but not exceeding an aggregate equivalent of $100million per day (desk total)	Up to but not exceeding an aggregate of $250million per day (desk total)	Exceeding a daily equivalent of $250million (desk total)

All breaches of the above limits to be reported to the Audit Committee.

5.2.5 **Foreign Exchange Hedging Transactions New hedges or re-alignment of existing hedges (expressed in USD equivalent)**

Approval Authority →	Deputy Treasurer Middle Office	Group Treasurer	GCFO
Group	Submissions not exceeding $10million	Submissions not exceeding $100million	Submissions exceeding $100million
Tenure	Not exceeding 18 Months	Not exceeding 3 years	Exceeding 3 years

All breaches of the above limits (amount or tenure) to be reported to the Audit Committee.

5.2.6 **Foreign Exchange Hedging Transactions: Extensions, early take ups (expressed in USD equivalent)**

Approval Authority →	Traders	Chief Trader	Deputy Treasurer: Front Office	Group Treasurer
Group	Not exceeding an aggregate equivalent of $20million per day (desk total)	Not exceeding an aggregate equivalent of $50million per day (desk total)	Not exceeding an aggregate equivalent of $100million per day (desk total)	Exceeding an aggregate of $100million per day (desk total)

All breaches of the above limits to be reported to the Audit Committee.
Note: Where no specific limit is mentioned, the FRMF policy on foreign exchange rate risk will apply.

5.2.7 **Approval of FX hedges to be hedged by external suppliers on their balance sheet for goods/services to be delivered to Transnet in respect of Rand agreements involving foreign content**

Approval Authority →	Traders	Chief Trader	Deputy Treasurer: Front Office	Group Treasurer
Group	Not exceeding $10million	Not exceeding $25million	Not exceeding $100million	Exceeding $100million

All breaches of the above limits to be reported to the Audit Committee for noting.
The above limits are applicable per agreement.
Note: The Business Units must always obtain quotes on FX forward rates and liaise with the Treasury Trading desk that will verify the rates to ensure it is market related. The Business Units can only enter into the FX hedges with the supplier once the rates are accepted by the Treasury Trading desk via e mail. Once the above approvals are obtained, the Treasury Traders will provide sign off on the rate acceptance.

5.2.8 **Interest Rate Risk Hedging**

Approval Authority →	Notional Amounts	Group Treasurer	GCFO
Group	Notional amount of hedge expressed in RAND or equivalent in USD (FX loans and leases)	Up to but not exceeding R1billion or equivalent in USD	Exceeding R1billion or equivalent in USD
Tenure		Not exceeding 5 years	Exceeding 5 years

All breaches of the above limits to be reported to the Audit Committee.
Note: Where no specific limit is mentioned, the FRMF policy on interest rate risk will apply.
The above limits are applicable per hedging submission.

5.2.9 **Hedging of fuel risk exposures (RAND and USD)**

Approval Authority →	Group Treasurer	GCFO
Tenure	Not exceeding 6 months	Not exceeding 18 months
Notional hedge expressed in USD or equivalent in RAND	Not exceeding $50million or equivalent in RAND	Exceeding $50million or equivalent in RAND

All breaches of the above limits to be reported to the Audit Committee.
Note: The maximum hedge should not exceed 75% of annual budgeted consumption.
The above limits are applicable per hedging submission.
Note: Where no specific limit is mentioned, the FRMF policy on commodity (fuel) risk will apply.

5.2.10 **Hedging of commodity risk exposures in supply agreements, including escalation (other than fuel) in FX or RAND**

Approval Authority →	Group Treasurer	GCFO
Tenure	Not exceeding 24 months	Exceeding 24 months
Notional hedge expressed in RAND	Not exceeding R100million	Exceeding R100million
Notional hedge expressed in USD	Not exceeding $10million	Exceeding $10million

All breaches of the above limits to be reported to the Audit Committee.
The above limits are applicable per hedging submission.
Note: Where no specific limit is mentioned, the FRMF policy on commodity risk will apply.

5.2.11 **Granting of InterTransnet Loans (Interest-bearing only) to divisions/specialist units**

Approval Authority →	Deputy Treasurer: Front Office	Group Treasurer	GCFO
Operating Division	Up to but not exceeding R750million	Up to but not exceeding R1 billion	Exceeding R1 billion
Specialist Unit	Up to but not exceeding R10million	Up to but not exceeding R25million	Exceeding R25million

These above limits are cumulative per OD/ SU per financial year.

5.2.12 **Letters of Credit**

Approval Authority →	Deputy Treasurer: Front Office	Group Treasurer	GCFO	
Transnet	Up to but not exceeding R250million	Up to but not exceeding R500million	Exceeding R500million	

All breaches of the above limits to be reported to the Audit Committee.
The above limits are per Letter of Credit.

Funding Portfolio

NOTE 1: The total nominal funding amount per financial year in respect of Bonds and any other funding transactions shall be as determined per Board approved/Board amended Funding/Borrowing Plan.

NOTE 2: A. Signatories mean, subject to such approvals by the Board and the Minister of Finance in terms of section 66 of the PFMA as may be applicable, the Group Treasurer and any other officer so designated in writing by the GCFO.

B. Signatories mean, subject to such approvals by the Board and the Minister of Finance in terms of section 66 of the PFMA as may be applicable, persons so designated in writing by the Group Treasurer.

5.2.13 **Limits for approval and signing of funding agreements per financial year**

Approval Authority →	Group Treasurer	GCFO	GCE
Tapping of bonds (in accordance with the approved Funding Plan or as approved by the Board)	-	Not exceeding R5billion	Exceeding R5billion
Bank facilities		No limit applies	No limit applies
Drawdown on Overnight facilities including Revolving Credit Facilities **	Up to but not exceeding R3billion	Exceeding R3billion	Exceeding R3billion
Commercial Paper			
	-	Not exceeding R5billion	Exceeding R5billion
Loans	Up to but not exceeding R1billion	Up to but not exceeding R2.5billion	Exceeding R2.5billion

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Export Credit Agency supported funding			
Up to but not exceeding R1billion			
New domestic bond issues (in accordance with the approved Funding Plan or as approved by the Board)		Up to but not exceeding R2billion	Exceeding R2billion
Development Finance Institution Funding	Up to but not exceeding R1billion	Up to but not exceeding R2.5billion	Exceeding R2.5billion
Foreign funding	Up to but not exceeding $100million	Up to but not exceeding $250million	Exceeding $250million
Any other source of funding not stipulated above	Up to but not exceeding R1billion	Up to but not exceeding R2billion	Exceeding R2billion
The above is further subjected to the following annual aggregate limit			
	R5billion	R12.5billion	Limited to the annual Board approved funding plan

The above is subject to the following:

- Be executed in accordance with the approved funding strategy as incorporated in the Corporate Plan (including any approved amendments).
- All breaches of the above limits to be reported to the Audit Committee.
- The GCE can increase funding requirements up to 10% of Board approved Borrowing Plan and this needs to be ratified by Board. Any funding increase above the 10% can only be approved by the Board.
- Any increase in the funding requirement beyond what was included in Corporate Plan is to be notified to the Shareholder and the Ministry of Finance.
- * Bank facilities must be approved and signed by either the GCFO or GCE.
- ** Applicable on outstanding balances.
- The Group Treasurer must sign all Funding Agreements within their delegated authority limits, together with the GCFO signing as co-signatory
- The Group Treasurer can approve all drawdowns and sign any ancillary transaction related documentation required from time to time irrespective of the amounts involved.
- Pricing Supplements for new listings, existing bonds and commercial paper to be listed on any exchanges must be signed by the GCFO and GCE.
- Final Terms for new listings on international exchanges must be signed by the GCFO and GCE.
- The Group Treasurer is authorised to sign all ancillary documents related to listings in local and international exchanges.

5.2.14 Signing of legally binding agreements in respect of Treasury related activities not listed in 5.2.13 above. (Such as ISDA, ISMA, JSE client agreements, data subscription agreements)

Only the GCE or the GCFO have authority to sign. The Group Treasurer may sign with a specified delegation of authority.

5.2.15 Counterparty Limits: Setting of Limits

Approval Level			
Group Treasurer	GCFO	GCE	Audit Committee
			Counter Party Risk Limits[1]
Price Risk Limits ≤ R25m[3]	Price Risk Limits ≤ R250million[3]	Price Risk Limits ≥ R250million[3]	Overall counterparty limit (as calculated in line with FRMF)
Recommendation of Bond Issue and Bond Issuer Limits	Approval of Bond Issue and Bond Issuer Limits		
Recommendation of Settlement Limits[2]	Approval of Settlement Limits[2]		
Recommendation of limits where the Company is exposed to counterparty issuer risk as a result of advance payment guarantees, performance bonds, retention bonds etc. issued under supplier agreement/contracts[3]	Approval of limits where the Company is exposed to counterparty issuer risk as a result of advance payment guarantees, performance bonds, retention bonds etc. issued under supplier agreement/contracts[3]		

Note: Where no specific limit is mentioned, the FRMF policy on Counter Party Risk will apply.

Note[1]: The approved counterparty limit may be utilised for price risk, investment risk as well as issuer risk (in respect of advance payment guarantees, performance bonds, retention bonds etc.) as long as the sum of the individual exposures remains within the overall Audit Committee approved risk limit.

Note[2]: Settlement risk limits are set at 1.5 times the approved counterparty limit as stipulated in the FRMF and will be approved with the counterparty limit.

Note[3]: In respect of counterparties not approved by Audit Committee

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5.2.16 **Appointment of Commercial Bankers and the Opening of Bank Accounts**

	Group Treasurer	GCFO
All OD/SU	Recommendation to open bank accounts and the appointment of bankers.	Approval of new bank accounts and the appointment of bankers and the approval of all documentation relating to such accounts, including electronic banking documentation.
Process to follow	There is no delegation to any OD/SU to appoint commercial bankers or to open bank accounts, domestically or internationally; only the GCFO may make such appointments.	

5.2.17 **Authorisation of cheque signatories, Test keys and EFT's**

Signing Cheques	Two A signatories or one A and one B signatory
Signing Test keys for paying/receiving	Two A signatories or one A and one B signatory
Electronic transfer of funds	Two A signatories or one A and one B signatory

5.2.18 **Payment instructions and confirmation notes**

Signing payment instructions/ receipts/ settlement instructions:	Two A signatories or one A and one B signatory
Signing confirmation notes in respect of approved financial transactions executed:	One A signatory

5.2.19 **Approval of Annual Borrowing Plan**

	Board
Companywide	Approve the annual Borrowing Plan for execution by Treasury

Annual Borrowing Plan to be recommended by the Audit Committee for approval by the Board.

5.2.20 **Authorisation to enter into binding transactions**

	Group Treasurer
Companywide	Authorise Treasury employees to enter into binding financial transactions on behalf of Transnet

5.2.21 **Issuing of Guarantees (subject to requirements of section 66 of the PFMA)**

	Group Treasurer	GCFO	GCE	Board
Companywide	Up to but not exceeding 25million	Up to but not exceeding R200million	Up to but not exceeding R500million	Exceeding R500million

All breaches of the above limits to be reported to the Audit Committee.
The Limits are per transaction.

5.2.22 **Issuing Letters of Support**

	Board
Companywide	Only the Board of Directors has authority to issue letters of support

5.2.23 **Issuing of security per transaction (subject to section 66 of the PFMA)**

	Group Treasurer	GCFO	GCE	Board
Companywide	Up to but not exceeding R250million	Up to but not exceeding R500million	Up to but not exceeding R1 billion	Exceeding R1billion

All breaches of the above limits to be reported to the Audit Committee. The limits are per transaction.

5.2.24 **Guarantees resulting from Supplier Agreements**

	CFO:OD	Deputy Treasurer Middle Office[1]	Group Treasurer[2]	Group CFO[3]
Notional Value per OD per financial year	Up to but not exceeding R200million	Up to but not exceeding R250million	Up to but not exceeding R500million	Exceeding R500million
Issuer Acceptance		All issuers	All issuers	All Issuers

- The limits are cumulative per OD/SU per annum.
- The OD is required to obtain legal acceptance from the Divisional Legal Department and or Group Legal in respect of all Guarantees.
- Guarantees should be constructed in a manner that they become payable on demand
- The minimum long-term credit rating requirements may be acceptable under the following:-
  - A- from Fitch Rating Investor Services or Standard & Poor's Rating Services or A3 from Moody's Investor Services;
  - Issuers not rated by a recognised credit rating agency will not be accepted, unless specific approval has been obtained from GCFO that internally developed credit rating of the Issuer is acceptable;

- Group Treasury may also consider an equivalent rating from other recognised rating agencies as contained in the FRMF.

Note: The approvals of [123] are additional and do not include the amount of lower level authority.

5.3 Finance

5.3.1 Bad Debt Write-off

Trade Debtors

Approval Authority →	OD Exco/CE* excluding TFR	TFR Exco/CE	GCFO	Group Exco/ GCE	Audit Committee	Board**
Operating Divisions	Up to but not exceeding R10million	Up to but not exceeding R20million	Up to but not exceeding R100 million	Up to but not exceeding R250 million	Up to but not exceeding R500million	Exceeding R500 million
Approval Authority →	Group Exco Member		Capic/GCFO	Group Exco/ GCE	Audit Committee	Board
Specialist Units	Up to but not exceeding R5 million		Up to but not exceeding R100 million	Up to but not exceeding R250million	Up to but not exceeding R500million	Exceeding R500 million

**Approval limits are R10million and R20million for TFR per transaction subject to an annual cumulative limit of R50 million and R100m for TFR. Specialist Unit limit is R5million cumulative per annum.

5.3.2 Setting of limits for credit facilities (Trade debtors)

Approval Authority →	Divisional CFO excluding TFR	OD Exco/CE* excluding TFR	TFR CFO	TFR CE	GCFO	GCE
Operating Divisions	Up to but not exceeding R10 million	Up to but not exceeding R20 million	Up to but not exceeding R100 million	Up to but not exceeding R150million	Up to but not exceeding R300 million	Exceeding R300million
Specialist Units	Up to but not exceeding R5 million	Up to but not exceeding R10 million	n/a	n/a	Up to but not exceeding R300 million	Exceeding R300million

Limits are per individual customer/client. Credit limits are to be reviewed on an annual basis. The limits are applicable subject to the division following the credit evaluation process.
Internal limits between ODs are not applicable.

5.3.3 Issuing of Credit notes

Approval Authority →	Divisional CFO	OD Exco *	GCFO	GCE
Operating Divisions	Up to but not exceeding R10million	Up to but not exceeding R20million	Up to but not exceeding R300million	Exceeding R300million
Specialist Units	Up to but not exceeding R5million	Up to but not exceeding R10million	Up to but not exceeding R300million	Exceeding R300million

Limits are per individual credit note and relates to external parties. Issuing of credit notes regarding internal/interdivisional transactions must be within the control of the divisional CFOs.
Excludes the product reconciliation process at Transnet Pipelines where the Divisional CFO or General Manager: Strategy and Commercial recommend to the OD CE the approval of transactions arising out of the product reconciliation process.

5.3.4 Exceeding the operational expenditure budget in total for the year (Operating Divisions/Specialist Units)

The Board of Directors to be informed at every meeting of the financial status and latest estimates of the Company

Approval Authority →	CE:OD *	GCFO	GCE	Board
Operating Divisions	Up to but not exceeding 5% of approved budget	Up to but not exceeding 7.5% of approved budget	Exceeding 7.5% of approved budget to a maximum of 10%	>10%
Specialist Units	Up to but not exceeding 5% of approved budget	Up to but not exceeding 7.5% of approved budget	Exceeding 7.5% of approved budget to a maximum of 10%	> 10%

* To be reported quarterly to the GCFO and GCE together with mitigating action plans to ensure that key financial metrics are maintained or met.

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Delegations for operational transactions that are too detailed to include in the Delegations of Authority Framework will be determined and applied in terms of the details set out by the CE/GE in conjunction with the CFO of the respective OD/SU.

5.3.5 **Establishing financial policy with regard to insurance**

Approval Authority →	GCFO	Risk Committee
Authority Level	GCFO after consulting with Chief Risk Officer to recommend to the Risk Committee	Final approval

5.3.6 **Inventory Write-off**

Approval Authority →	OD Exco/CE* excluding TFR	TFR Exco/CE	GCFO	Group Exco/ GCE	Audit Committee	Board
Operating Divisions	Up to but not exceeding R10million	Up to but not exceeding R20million	Up to but not exceeding R100million	Up to but not exceeding R250million	Up to but not exceeding R500million	Exceeding R500million
Approval Authority →	Group Exco Member		CAPIC/GCFO	Group Exco/ GCE	Audit Committee	Board
Specialist Units	Up to but not exceedingR5million		Up to but not exceeding R100million	Up to but not exceeding R250million	Up to but not exceeding R500million	Exceeding R500million

* Approval limits are R10million and R20million for TFR per transaction, subject to an annual cumulative limit of R50million and R100million for TFR. Specialist Unit limit is R5million cumulative per annum.

5.4 **Procurement, Enterprise Development and Supplier Development**

All procurement transactions (including reverse logistics – selling of goods) must fully comply with the approved Supply Chain Policy and Procurement Procedures Manual (PPM),) where applicable – Any commercial agreement (for the purchase of goods or services) must be signed off by an authorised employee of Supply Chain Management (Procurement) prior to signing of the contract to indicate that all the steps as per Clause 5.5 below have been followed and that all procurement related governance has been adhered to. In addition to the other exclusions specifically mentioned in the PPM, Treasury transactions related specifically to the appointment of service providers for Transnet's funding and hedging requirements are not subject to the PPM.

5.4.1 **Appointment of Consultants**

Approval Authority →	CE:OD and GE:TCP	GCFO	Group Exco/ GCE	Acquisitions and Disposals Committee	Board
Operating Divisions including TCP	Up to but not exceeding R25million	Up to but not exceeding R50million	Up to but not exceeding R200million	Up to but not exceeding R300million	Exceeding R300million
Approval Authority →	Specialist Unit GE (i.e. Foundation & Property) Group Exco Members	GCFO	GCE	Acquisitions and Disposals Committee	Board
Specialist Units excluding TCP	R10million	Up to but not exceeding R50million	Up to but not exceeding R200million	Up to but not exceeding R300million	Exceeding R300million

*Approval limits are cumulative per annum. Excludes appointment of consultants to perform feasibility studies for capital projects.

- Consultants may only be remunerated at set rates as follows:
  - Guideline for fees as determined by the South African Institute of Chartered Accountants.
  - Guide on Hourly Fee Rates for Consultants by the Department of Public Service and Administration.
  - Prescribed by the body regulating the profession of the consultant (for this purpose the *Guideline on Cost Containment Measures issued in terms of National Treasury's Instruction Note 01 of 2013/14* must be followed).

Prescribed in the Service Level Agreement concluded with lawyers on the Transnet legal panel.

5.4.2 **Approval to approach the market for Open Tenders**

Approval Authority →	CE:OD and GE:TCP	GCSCO	GCFO	GCE	Acquisitions and Disposals Committee	Board
Operating Divisions including TCP	Up to but not exceeding R700million	Up to but not exceeding R750million	Up to but not exceeding R1billion	Up to but not exceeding R1.5billion	Up to but not exceeding R2. 5billion	Exceeding R2. 5billion
Approval Authority →	Specialist Unit(i.e. Foundation and Property Group Exco Members					
Specialist Units excluding TCP	GE Up to but not exceeding R100million	Up to but not exceeding R750million	Up to but not exceeding R1billion	Up to but not exceeding R1.5billion	Up to but not exceeding R2.5billion	Exceeding R2.5billion

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The CE: OD may only delegate these powers to go to market with Open Tenders to Heads of Procurement. The Requisition (or Request to Purchase) issued to Procurement must be approved by the OD's Budget Owner or GE in the case of Specialist Units or his duly authorised delegate. Such approved requisition or Request to Purchase will signify that the acquisition has been approved and that the necessary funds are available.

Submissions requiring approval by the person with delegated authority must also include a procurement strategy document which includes Supplier Development.

5.4.3 **Approval to approach the market for confined tenders: Confinement of tenders (applicable to transactions above R2m in value)**

Approval Authority →	CE:OD and GE:TCP	GCSCO		GCE	Acquisitions and Disposals Committee	Board
Operating Divisions including TCP	Nil	Nil		Up to but not exceeding R500m	Up to but not exceeding R1.5billion	Exceeding R1.5billion
Approval Authority →	Specialist Unit GE (i.e. Foundation & Property) Group Exco Members	GCSCO		GCE	Acquisitions and Disposals Committee	Board
Specialist Units excluding TCP	Nil	Nil		Up to but not exceeding R500m	Up to but not exceeding R1.5billion	Exceeding R1.5 billion

The limits are per transaction/confinement. All requests for approval of confinements must be made by the CE:OD /Group Exco Member through the GCSCO and the GCFO to the GCE. The OD/SU shall prepare the submission in collaboration with integrated Supply Chain Management (iSCM) to ensure that the motivation for confinement contains sufficient information to meet one or more of the grounds for confinement as stipulated in the PPM. In instances where a confinement is confidential, the GCE may approve such confinement without the confinement request being routed through any other authority.

Note: Confinement must only be used in respect of transactions above R2million in value. For transactions below R2million, the quotation system must be used. The quotation system is a procurement mechanism that may only be used:

- For transactions below R2million in value that.
- Relates to goods or services required on a non-repetitive basis.
- Market is known.
- Minimum of 3 quotes must be obtained where applicable (greater than R100 000 but less than R2million).

5.4.4. **Management's intervention to address non-compliance with procurement policies and procedures**

Approval Authority →	CE:OD/and GE:TCP	GCFO	GCE	Acquisitions and Disposals Committee	Board
Operating Divisions including TCP	Nil	Nil	Up to but not exceeding R500million	Up to but not exceeding R1.5billion	Exceeding R1.5billion
Approval Authority →	Specialist Unit GE (i.e. Foundation & Property) Group Exco Members	GCFO	GCE	Acquisitions and Disposals Committee	Board
SU excluding TCP	Nil	Nil	Up to but not exceeding R500million	Up to but not exceeding R1.5billion	Exceeding R1.5billion

Note: All requests for approval of non-compliance must be made by the CE: OD/Group Exco member to the GCE. The OD/SU shall prepare the submission in collaboration with iSCM to ensure that the rules for the addressing of non-compliance are met. Together with the application for approval of non-compliance, the requestor must advise on the steps/corrective measures taken to avoid a repeat of the transgression within 30 days of the transgression being discovered.

5.4.5 **Establishing Procurement policy (opex, capex and disposals)**

Authority Level	Acquisitions and Disposals Committee

5.4.6 **Procurement process approval**

NOTE: Each OD/SU will have its own main Acquisition Council (AC) which will consider and approve all procurement processes, as well as the disposal of scrap, falling within its jurisdiction from R2million, but not exceeding R700million. This is subject to the discretion of the CE: OD/GE: SU to lower the R2million thresholds, or to create Secondary Regional/Local Acquisition Councils. Where a particular Transnet Entity chooses to create a secondary AC/s, the jurisdiction of the Secondary AC/s will start below the R2 million threshold. ODs have the discretion to set the maximum threshold/s of such secondary ACs to a value higher than R2 million. This

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value will then become the minimum threshold of the main AC of the Transnet Entity. The CE: OD/GE: SU may also delegate certain process approval powers to the relevant Manager for matters below the Secondary Acquisition Councils' delegation. Transactions exceeding the CE: OD's/GE: SU's delegated authority will also be considered by the OD's main AC for recommendation to the higher approval body (e.g. the Acquisitions and Disposal Committee). If it concurs with the recommendation, the matter will be referred to the relevant person/structure with the delegation of authority for approval. Should any process approval body not agree with the recommendation, the matter must be referred back to the recommending officer(s) for reconsideration or re-motivation.

Approval Authority →	ODs, TCP and TCC (Secondary and/or Main) Acquisition Councils	GCSCO	GCFO	GCE	Acquisitions and Disposals Committee	Board
Operating Divisions (including TCP and TCC)	Up to but not exceeding R700million	Up to but not exceeding R750million	Up to but not exceeding R1billion	Up to but not exceeding R1.5billion	Up to but not exceeding R2.5billion	Exceeding R2.5 billion
Approval Authority	Specialist Unit (excluding TCP and TCC)(Secondary and/or Main) Acquisition Councils	GCSCO	GCFO	GCE	Acquisitions and Disposals Committee	Board
Specialist Units (excluding TCP and TCC)	Up to but not exceeding R20million subject to the contract period not exceeding 5 years	Up to but not exceeding R750 million	Up to but not exceeding R1billion	Up to but not exceeding R1.5 billion	Up to but not exceeding R2.5 billion	Exceeding R2.5 billion

5.4.7 Enterprise and Supplier Development

Approval Authority →	CE:OD	iSCM Council/ GCSCO	GCFO	Group EXCO/ GCE	Acquisitions and Disposals Committee	Board*
Operating Divisions (including TCP and TCC)	Up to but not exceeding R5m	Up to but not exceeding R25million	Up to but not exceeding R100million	Up to but not exceeding R250million	Up to but not exceeding R500million	Exceeding R500million
Approval Authority	Specialist Unit GE (i.e. Foundation & Property) Group Exco Members	iSCM Council/ GCSCO	GCFO	Group EXCO/ GCE	Acquisitions and Disposals Committee	Board
Specialist Units (excluding TCP and TCC)	Up to but not exceeding R2million	Up to but not exceeding R25million	Up to but not exceeding R100million	Up to but not exceeding R250million	Up to but not exceeding R500million	Any amount exceeding R500million

The abovementioned delegations are per transaction.
*RemSEC to note all Enterprise and Supplier Development transactions.

5.5 **Contracts and/or Agreements**

NOTE 1: Any person who has been authorised to execute any legal documents including deeds, leases, assignments, contracts, applications, financial instruments, external submissions to or on behalf of the Company and/or its OD's or SU's or any other legal documents may only do so with the prior advice of the relevant Legal Services department as set out in the Legal Policy.

NOTE 2: Unless otherwise indicated in the authorities below, the authority to execute a contract or other binding document carries with it like authority to cancel or modify it, but only with the prior written advice of the relevant Legal Services department as set out in the Legal Policy and if it relates to Procurement Contracts, the process prescribed in the Procurement Procedures Manual must be adhered to.

NOTE 3: Any person authorised to enter into an agreement/contract or other binding document involving capital expenditure must have obtained prior financial approval in terms of the procedures set out in 5.1 prior to entering into such a CAPEX contract.

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NOTE 4: Approval limits are per transaction/contract.

NOTE 5: The authority to execute a contract or other binding document carries with it the understanding that an authorised payment required thereby will be made once proof of receipt has been obtained. No person is authorised to obligate the company to an amount greater than such payment or create more onerous obligations than those contained in the contract or other binding document. Increases to the original scope of the binding document must be supported by authorised amendment.

NOTE 6: The PPM prescribes the process that must be followed in terms of approving procurement contract amendments: Non-material amendments (i.e. where the scope, value and/or period of the contract is less than 10% of the original contract value): the manager with the delegation of authority may effect such amendment and is only required to inform the AC (if within the AC jurisdiction) of such amendment as soon as possible thereafter. The manager who approves the amendment may be the original signatory of the contract if the cumulative value of the amended contract is still within his/her delegation of authority. However, if the cumulative value of the amended contract is above the original signatory's delegation, the amendment must be approved by the next level of authority on review and recommendation of the original signatory.

- Material amendments within the AC threshold (i.e., where the scope, value and/or period of the contract is greater than 10% of the original contract value): the manager with the delegation of authority may not effect such amendments without the PRIOR approval of the relevant AC first of such amendment. Following AC approval such amendment needs to be signed off by the original signatory (i.e. the person with delegation of authority who signed the initial contract or the person mandated to do so) provided the cumulative value of the contract and subsequent amendment(s) still falls within his/her delegations. However, if the cumulative value of the amended contract is above the original signatory's delegation, the amendment must be approved by the next level of authority on review and recommendation of the original signatory.
- NOTE: As a general rule, contracts may be amended by not more than 40% of the original contract value. Any deviation (as provided for in the paragraph below) in excess of this threshold will only be allowed in exceptional circumstances.
- Amendments in excess of 40% of the original contract value or contract period will be dealt with as follows: 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 person with the delegation of authority to approve the amended value. This rule applies regardless of whether the amendment is still within the original signatory's delegation of authority or above it. On approval, the amended contract will be signed off by the person with the delegation of authority to sign off the contract value concerned. However, this rule does not apply to amendments falling within the GCE, Acquisitions and Disposals Committee or the Board's delegation of authority. For such contract amendments, the matter will be submitted to the GCE, Acquisitions and Disposal Committee or the Board regardless of the value of the contract amendment (provided the cumulative value is still within their delegations of authority).
- For higher value contracts (i.e. those signed by the operating division's GE, the GCFO or GCE), it is advisable to obtain a written mandate from that official empowering a delegate to administer such contract and to effect changes to such contract not exceeding 10% of the initially approved contract value.

5.5.1 Entering into and/or signing of Contracts and/or Agreements and award of business: (including the sale of scrap)

Approval Authority →	CE:OD and GE:TCP		GCSCO	GCFO	GCE	Acquisitions and Disposals Committee	Board
Operating Divisions (including TCP)	Up to but not exceeding R700 million		Up to but not exceeding R750million	Up to but not exceeding R1billion	Up to but not exceeding R1.5billion	Up to but not exceeding R2.5billion	Exceeding R2.5billion
Approval Authority →	GE: Specialist Unit GE (i.e. Foundation & Property	Group Exco Members	GCSCO	GCFO	GCE	Acquisitions and Disposals Committee	Board
Specialist units (excluding TCP)	Up to but not exceeding R5m subject to the contract period not exceeding 5 years	Up to but not exceeding R30 million subject to the contract period not exceeding 5 years	Up to but not exceeding R750million	Up to but not exceeding R1billion	Up to but not exceeding R1.5billion	Up to but not exceeding R2.5billion	Exceeding R2.5billion

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Contract award delegation carries with it the authority to issue letters of intent, letters of award, letters of regret and signing of the final contract. Values are per contract for the full term of the contract (Total value of contract excluding VAT) on condition that approval has been obtained for the related expenditure over the period. Please refer to the conditions stipulated below.
Payments: Once the decision to contract has been issued, contract execution will be governed by the Operating Divisions or Specialist Units, including the payment process provided that the contract amount is not exceeded.

5.5.1.1 **Contracts > R700 million, including Transnet's top 70% value opex items and capex contracts**
Prior to entering into a high value (greater than R700 million) / highly complex contract (especially for the top 60% value opex items as dealt with by iSCM Strategic Sourcing commodity teams), any authorised official must first liaise with a multi-disciplinary team of experts at Corporate Centre, who should each sign off on any agreement/contract or other binding document:

- Group iSCM.
- Group Legal Services – entire document.
- GCFO to sign-off after sign-off from the Finance Departments (Group Finance/Reporting Financial Planning, Tax and Treasury).
- Group Risk.
- Group Insurance.
- Contracts less than R700 million within the OD's limit of authority, require a similar process as set out above to be followed by the relevant OD.

5.5.1.2 **Contracts with foreign exchange exposure**

- Approval to enter into an agreement/contract or other binding document involving foreign currency exposure (including ***international agreements***) may not be sub-delegated lower than to the Chief Procurement Officer (CPO) of an OD. Approval of the divisional CFO is required to enter into the contracts that may result in foreign currency exposure.

- The duly authorised official must obtain prior written approval in respect of FX agreements above R50million from Group iSCM, Group Legal Services, Group Treasury, Group Tax, Group Risk, Group Insurance and Group Reporting, both where the contract will be concluded in foreign currency and especially in such cases where foreign contracts will be concluded in South African Rand, as this may expose the Company to an embedded derivative. All FX agreements above R100million must apart from the above also obtain written approval from the GCFO. The GCFO to sign-off after sign-off from Group Treasury, Group Tax, Group Risk, Group Insurance, Group /Reporting, Group Legal Services (the entire document) and Group iSCM.

5.5.2 **Entering into and/or Signing of Revenue Contracts/Agreements and authority to issue binding quotes locally: (excluding lease contracts and the sale of scrap)**

Approval Authority →	**CE:OD/GE:SU Commercial Limit per Annum per contract up to but not exceeding 5 years**	**GCFO Limit per Annum per contract up to but not exceeding 5 years**	**GCE Limit per Annum per contract up to but not exceeding 5 years**	**Acquisitions and Disposals Committee Limit per Annum per contract and contracts exceeding 5 years**	**Board Limit per Annum per contract and contracts exceeding 5 years**
Operating Divisions	Up to but not exceeding R500 million but not exceeding R2.5 billion for the total contract	Up to but not exceeding R700 million but not exceeding R3.5 billion for the total contract	Up to R2.5billion per annum but not exceeding R12.5billion for total contract value	Up to R3 billion per annum, unlimited total contract value	Exceeding R3 billion per annum and unlimited total contract value
Approval Authority →	**Specialist Unit CE Limit per Annum per contract up to but not exceeding 5 years**	**GCFO Limit per Annum per contract up to but not exceeding 5 years**	**GCE Limit per Annum per contract up to but not exceeding 5 years**	**Acquisitions and Disposals Committee Limit per Annum per contract and contracts exceeding 5 years**	**Board Limit per Annum per contract and contracts exceeding 5 years**
Specialist Units	Up to but not exceeding R10 million	Up to but not exceeding R700 million but not exceeding R3.5 billion for the total contract	Up to R1 billion but not exceeding R5 billion for the total contract	Up to R3 billion per annum, unlimited total contract value	Exceeding R3billion per annum and unlimited total contract value

- Integrated customer agreements where a service incorporates more than one division must be signed off by the Group Executive: Legal and Compliance, GCFO and the Group Executive: Commercial in addition to sign off by the CE: ODs, up to but not exceeding revenue of R500million per annum not exceeding 5 years.

- If the contract period is below 12 months the contract value is to be annualised and the delegated authority required to approve the transaction will be determined by the annualised amount.
- All limits indicated above are exclusive of VAT
- Board approval is required if the annual value of the contract exceeds R3 billion.

5.5.3 **Entering into and/or Signing of Revenue Contracts/Agreements and authority to issue binding quotes internationally including cross border contracts: (excluding lease contracts and the sale of scrap)**

Approval Authority →	CE:OD Limit per Annum per contract up to but not exceeding 3 years	GCFO Limit per Annum per contract up to but not exceeding 5 years	GCE Limit per Annum per contract up to but not exceeding 5 years	Acquisitions and Disposals Committee Limit per Annum per contract and contracts exceeding 5 years	Board Limit per Annum per contract and contracts exceeding 5 years
Operating Divisions	Up to but not exceeding R300 million	Up to but not exceeding R500 million	Up to but not exceeding R1 billion	Up to but not exceeding R3billion	Exceeding R3 billion
Approval Authority →	GE:SU Group Exco Members Limit per Annum per contract up to but not exceeding 3 years	GCFO Limit per Annum per contract up to but not exceeding 5 years	GCE Limit per Annum per contract up to but not exceeding 5 years	Acquisitions and Disposals Committee Limit per Annum per contract and contracts exceeding 5 years	Board Limit per Annum per contract and contracts exceeding 5 years
Specialist Units	Up to but not exceeding R200 million	Up to but not exceeding R500 million	Up to but not exceeding R1 billion	Up to but not exceeding R3 billion	Exceeding R3 billion

5.5.4 **Internal Contracts**

Contracts between OD and/or SUs such as service level agreements and project specific agreements may be entered into between CE:ODs or GE:SUs.

5.5.5 **Property and Lease Agreements**

All internal and external Property Lease Agreements including revenue generating leases and expenditure leases (excluding vacant land).

Approval Authority →	CE:OD and GE:TCP	GE: Transnet Property	GCFO	GCE	Acquisitions and Disposals Committee
Operating Divisions	Up to but not exceeding R100 million per lease per annum	Up to but not exceeding R200 million annualised	Up to but not exceeding R200 million full term	Up to but not exceeding R500 million full term	Exceeding R500 million full term
	Tenure not exceeding 5 years	Tenure not exceeding 10 years	Tenure not exceeding 10 years	Tenure exceeding 10 years	Tenure exceeding 15 years

- Tenders that include alienation/leasing out of land for a period longer than 5 years must be submitted to the GCE for approval prior to going out on tender or RFP.
- Cession of leases: All cession or assignment of Lease agreements shall be approved by the GCFO or Group Executive: Transnet Property. For cession of leases at OD level, the CE of the respective OD/SU may approve cession or assignment of lease agreements.
- Cession of lease agreements, renewals and extensions of lease agreements with a change to material terms of the existing lease e.g. extension or shortening of the lease period, change of rental terms etc. may be approved in terms of the above limits i.e. where the original lease was approved in terms of the delegated authority above, changes of material terms to be approved by the same approval body.
- All external Lease Agreements (> 5 years) of properties on land/properties adjacent to other land/properties of ODs and/or belonging to Transnet Property, must be communicated and agreed with the relevant division/Transnet Property before entering into any Lease Agreements.
- All leases for vacant land may only be approved by the GCE with the above limits for the GCE applicable i.e. if the lease value exceeds R500million or the tenure exceeds 15 years then Acquisitions and Disposals Committee approval is required. For the purposes of this transaction vacant land is considered to be undeveloped land.
- In cases where vacant land is leased out with its own rental premium applicable to it and a separate rental premium for improvements located on the portion of the same leased site, although part of one lease transaction – to the extent that the

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proposed lease has lettable vacant land, the GCE shall approve such lease transactions in line with his limits of authority as stated in the table above.

- Interdivisional leases for vacant land may be entered into and signed by the respective CE: ODs/GE: TCP/GE: Transnet Property.
- Leases for vacant land exclude the leasing in of land to be used for lay down areas and borrow pits for projects.
- Special Delegation to apply to the CE of TNPA in compliance with the National Ports Act of 2005 as amended.
- Internal leases between Transnet Property and the ODs/SUs may be signed by the CEs or GE's of the respective ODs/SUs.
- Revenue Generating Leases: Lease agreements concluded by Transnet in its capacity as lessor for purposes of generating revenue.
- Expenditure Lease: Lease agreements concluded by Transnet in its capacity as a Lessee.
- Properties on DPE approved Transnet non-core list may only be leased out for a maximum period of 10 years. Any leases of these non-core properties for longer than 10 years require s 54 (2) of the PFMA approval by the DPE.

5.5.6 **Non-Disclosure Agreements**

Non-Disclosure Agreements can, with the authority to sub-delegate, be signed by the CE: ODs or GE: SU provided there are no direct monetary obligations created for Transnet.

5.5.7 **Memorandum of Understanding**

A Memorandum of Understanding must be signed by the Group Chief Executive, with the authority to sub-delegate, to the CE: OD or GE: SU.

5.6 **Legal Services**

NOTE: The provision of legal services must be in accordance with the Legal Policy. In respect of all litigation the bearer of the authority may, after taking legal advice from Group or Divisional Legal Services, as the case may be, execute all documents and do all things necessary to give effect to his/her authorisation including submission through governance structures.

5.6.1 **Commencing and settling any litigation, arbitration and other forms of Alternative Dispute Resolution**

Approval Authority →	Divisional Head: Legal	CE:OD, GE: Transnet Property and GE:TCP	GE: Legal and Compliance	GCFO	GCE
Operating Divisions	Up to but not exceeding R2million	Up to but not exceeding R10 million. Greater than R10 million but less than R35 million with concurrence of GE: Legal and Compliance	Up to but not exceeding R50 million	Up to but not exceeding R100million with concurrence of GE: Legal and Compliance	Exceeding R100 million

Approval limits are per litigation matter and relate to the settlement amount of that particular matter.

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5.6.2 **Disputes with Government and matters posing a reputational risk to the Company**

Approval Authority →	Risk Committee	Board
	Matters which pose a reputational risk to the Company should be submitted for consideration.	Any disputes with government entities or where the outcome of any litigation, arbitration or similar proceedings is likely to have a material effect on the business, financial condition or prospects of the Company

5.6.3 **Defending matters in court or any other competent forum**

Approval Authority →	Legal Manager
	Defending, subject to the Legal Policy, any litigation (actions or applications) in court or any other competent forum, including the appointment of attorneys and/or advocates for such proceedings

NOTE: the Standard Operating Procedures for Litigation Matters prescribes the following:

- Upon receipt of instructions, the Legal Advisor must ascertain from the facts of the case and in law whether:
  - Transnet has legal grounds to pursue litigation and whether it would be financially viable to pursue litigation bearing in minc the quantum of the matter and the costs of pursuing the matter;
  - It would be more advisable to settle the matter;
  - There is any reputational or other risk to Transnet in proceeding with the litigation;
  - Whether there is any precedence that needs to be created by the company for future similar matters.
  - Should the Legal Advisor be satisfied that, on the facts presented, Transnet should institute legal action, the Legal Advisoı must submit a written request to the person duly authorised, in terms of the Delegations of Authority Framework, foı approval:
    - To institute litigation on behalf or Transnet, and
    - To appoint an external attorney from the Transnet approved panel of attorneys.

5.6.4 **Subject to the Legal Policy, the appointment of external advisors, attorneys, advocates and any other external legal advisors including adjudicators, mediators, arbitrators for purposes of alternative dispute resolution process under NEC3 contracts or any other contract.**

Approval Authority →	CE:OD	GE: Legal and Compliance	GCE
OPERATING DIVISION	Up to but not exceeding R25 million	Up to but not exceeding R50 million	Exceeding R50 million
	Specialist Units GEs and Heads of Legal	GE: Legal and Compliance	GCE
Specialist Units GEs and Heads of Legal	Up to but not exceeding R10 million	Up to but not exceeding R50 million	Exceeding R50 million

- The amounts indicated relates to the claim amount in the case of commencing litigation, and the estimated legal fees to be charged in all other matters.

5.6.5 **Pleading to criminal charges and payment of penalties imposed by Regulators.**

Approval Authority →	CE:OD	GE: Legal and Compliance	GCE
OPERATING DIVISION	Up to but not exceeding R25 million	Up to but not exceeding R50 million	Exceeding R50 million
	Specialist Units GEs and Heads of Legal	GE: Legal and Compliance	GCE
Specialist Units GEs and Heads of Legal	Up to but not exceeding R10 million	Up to but not exceeding R50 million	Exceeding R50 million

- The amounts indicated relate to the amount of fine or penalty competent or imposed against the Company.

5.7 **Human Resources**

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INTRODUCTION

The Delegation of Authority for Human Resources provides for controls and good governance in the following areas:

- Organisation Management
- Personnel Appointments and Remuneration
- Appointment of Fixed Term Contract Employees
- Interim / *Ad hoc* Remuneration Adjustments
- Rewards / Awards / Exceptional Payments / *Ex-gratia* Awards
- Suspension of Employees
- Dismissal of Employees
- Mutual Separation Agreements
- Collective Bargaining and Trade Union Recognition
- Deviation from approved Human Resources Policies

PRINCIPLES

1. Any approval in the Human Resources environment must be obtained from a manager who is at least one hierarchical reporting level higher than the employee for whom authorisation is required.
2. When acting in a higher capacity, decision for own portfolio or department that will ordinarily be recommended by the acting incumbent must be referred to one level higher.
3. Where an incumbent acts in a higher position, the full powers of delegation of the position in which the person is acting, may be transferred to the acting incumbent. The incumbent's immediate line manager must agree to the appointment of the acting person. The powers delegated to the person acting must be clearly set out in a written document and the person delegated the powers must sign written acceptance of the powers.
4. Each OD may implement stricter delegations and increase the level of authority above those set out in the document. Any such change must be in writing.
5. The HR delegations contained herein cannot be sub-delegated except when delegating to an acting incumbent acting in the roles specified therein.
6. Board recommendation and approval is required for the appointment and remuneration of the Transnet GCE and GCFO.
7. The Remuneration, Social and Ethics Committee (REMSEC) provides final approval for the annual reward allocation including the salary mandate.

All matters relating to the position of the GCE and GCFO are reserved for the Board and Shareholder Minister in line with the Company's governing legislation and mandates.

ABBREVIATIONS

The abbreviations used in the Human Resources Delegation of Authority are set out in the table below:

FA	Final Approval
FA:CC	Final Approval for Corporate Centre
FA:OD	Final Approval for Operating Division
R	Recommendation
R:OD	Recommendation by Operating Division
A	Has provided advice
A:OD	Advice provided by Operating Division
C	Consultation
N	Noting
I	Initiation
GE: HR	Group Executive: Human Resources
CE, GE	Chief Executive of OD or relevant Group Executive of Corporate Staff Department
GM: HRE	General Manager: Human Resources Enablement
GM:HR,CC	General Manager: Human Resources, Corporate Centre
GM: ER	General Manager: Group Employee Relations
OD HR: GM	General Manager: Human Resources at the Operating Division
LM: GM	Line Management - General Manager

The table below sets out the delegation framework for Human Resources.

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1	Organisation Management: Creation of New Positions / Change in Positions / Restructuring • No permanent or fixed term contract position can be created or the grade level changed unless the approved Organisation Management governance was followed in respect of the evaluation of positions and ratification of grade levels.							
HUMAN RESOURCES	Shareholder)	Board	RemSEC	GCE	GE: HR	OD/SU CE/ GE	OD HR GM/OD COO	LM:GM
1.1 Group Exco (A level) Executive Directors	FA	R						
1.2 Group Exco A Level			C	FA	I			
1.3 General Managers (B level)					R	FA		
1.4 Executive Managers (C level)						FA	FA	I
1.5 Senior Management (D level and below)								FA
1.6 Organisational Structure of ODs/SUs/TCC				FA	R			

2	Personnel Remuneration • The RemSEC reviews the GCE's assessment of performance. The remuneration of the abovementioned category of employees shall be based on the Remuneration Policy. • The appointment and remuneration of all management level employees (levels A to F) will be guided by the Guidelines and Salary Bands issued by the Group Remuneration Office. These Guidelines and Salary Bands will take into account the occupational specific categories. • For managers in levels A and B the Group Remuneration Office will recommend the appropriate remuneration bands based on market information and internal parity. Approval of the final appointment and remuneration package will be in terms of the delegations below. • Each OD will apply the Guidelines and Salary Bands when appointing and structuring the packages of management employees in levels C and below. Approval of the final appointment and remuneration package will be in terms of the delegations below. • After salary adjustments and before a mandate is sought for the next financial year, the Group Remuneration Office will conduct a comparative analysis of salaries across ODs to inform the Group Guidelines and Salary Bands of managers for the new financial year. Affordability and the need for internal and external parity will inform these guidelines.						
HUMAN RESOURCES	Shareholder	Board	RemSEC & CORP GOV	GCE	GE: HR	OD/SU CE/GE	ODHR GM
2.1 Group Exco (A level) Executive Directors	FA	R			I		
2.2 Group Exco (A Level)			C	*FA	R		
2.3 General Managers (B level)				FA	R	R	
2.4 Executive Managers (C level)					A	FA	R
2.5 Senior Manager (D level and below)						FA	FA
2.6 I							

3	**Appointment of Employees (Indefinite Contract and Fixed-Term Contract Employees)**
	• A person appointed on an indefinite contract or fixed-term contract (for a specific period of time or to perform a specific project) must be appointed into an approved graded position. • Once the appointment has been approved, the person delegated to approve the appointment may sub-delegate the signing of the contract of employment. • Any appointment of a person on an indefinite or fixed term contract for employment outside of the borders of South Africa must be approved by the Group Chief Executive on recommendation from the Chief Executive of the Operating Division or the Group Executive of Human Resources for Transnet Corporate Centre, including Transnet property and Transnet Capital Projects.

HUMAN RESOURCES	Shareholder Approval	Board	RemSEC/ Corp Gov	GCE	GE: HR	OD/ CE/GE	GM:HR, CC	OD/SU HR GM	LM: GM	OD:HR Manager
3.1 Group Exco (A Level) Executive Directors	FA	R	C							
3.2 Group Exco (A Level)			C	FA	R					
3.3 General Managers (B level)					R	FA	I	I		
3.4 Executive Managers (C level)							R	FA	I	
3.5 Senior Management (D level and below)								R	FA	
3.6 Manager (E level and below)									FA	I
3.7 Bargaining Unit									FA	I

* The Chairpersons of Remuneration, Social and Ethics and the Corporate Governance and Nominations Committees will be consulted by the GCE for the appointment of Group Exco Members (other than executive directors). The *consultation* will be through a memorandum submitted to the Chairpersons of the Committees.

4	**Counter Offers**
	If an employee produces a written and current counter offer of employment with details of the remuneration package, and the Company seeks to retain the employee based on the criticality of the employee's skill, an interim adjustment of the employee's current remuneration package may be offered in terms of the delegations below. Any counter offer must be in accordance with the Group Guidelines and Salary Bands issued by Group Remuneration.

HUMAN RESOURCES	Shareholder	Board	RemSEC/ Corp Gov	GCE	GE: HR	OD/SU CE/ GE	OD/ HR GM	GM:HRE	LM:GM
4.1 Group Exco (A level)Executive Directors	FA	R	C						
4.2 Group Exco (A level)			FA	R	R			I	
4.3 General Managers (B level)				FA	R	R	I	I	
4.4 Executive Managers (C level)						FA	R	R	I
4.5 Senior Management (D level to Level F)						FA	R	R	I
4.6 Bargaining Level employees (in accordance with the applicable Collective Agreement)							FA	FA:CC	R

5	Interim Salary Adjustments
	• In line with the Group Remuneration Philosophy approved by the REMSEC, there will be no interim / *ad-hoc* remuneration adjustments.

5 Internal Rewards / Awards / Exceptional Payments / Ex-gratia Awards

- *The amounts reflected below are per initiative (not per individual employee payment) per annum*

HUMAN RESOURCES	Board	RemSEC	GCE	GE: HR	OD CE/ GE	HR GM	GM: HRE	GM Line Manager
5.1 R15m and above	FA	R	R	I			R	
5.2 Between R10m but not exceeding R15m		FA	R	I				
5.3 Between R50 000 but not exceeding R10m			FA	R	R	I	I	
5.4 Between R20 000 but not exceeding R50 000					FA	R	R	I
5.5 Up to but not exceeding R20 000					FA	R	R	I
5.6 Up to but not exceeding R 10 000					FA	R	R	I

6	**Suspension of Employees** • The suspension of all employees is per the delegations of authority below. • In the case of the suspension of a bargaining unit employee, the relevant OD Employee Relations Manager must recommend the suspension based on the merits of the case.										
HUMAN RESOURCES	**Shareholder**	**Board**	**RemSEC/ Corp Gov**	**GCE**	**GE: HR**	**OD/SU CE/GE**	**OD/SU HR GM**	**GM: ER**	**LM: GM**	**LM**	**ER Manager**
6.1 Group Exco (A level Executive Directors	FA	R	C/N								
6.2 Group Exco (A level excluding executive directors)			N	FA	R	R			R		
6.3 General Managers (B level)				N	R	FA		R			
6.4 Executive Managers (C level)						FA	R	A	R		
6.5 Senior Management (D level to F level)							R		FA	R	A
6.6 Bargaining unit employees							A			FA	R

7	**Dismissal of Employees** • The dismissal of any employee for reasons of discipline or incapacity must be preceded by a fair hearing/process in line with Company policies. • The required authority to seek a dismissal of an employee at a disciplinary or incapacity hearing must be obtained prior to the hearing. • The dismissal of an employee for operational requirements must be preceded by a fair consultation process.									
HUMAN RESOURCES	**Shareholder**	**Board**	**GCE**	**GE: HR**	**OD/SU CE/GE**	**OD/ HR GM**	**GM: ER**	**LM: GM**	**LM**	**ER Manager**
7.1 Group A level Executive Directors	FA	R								
7.2 Group Exco (A level excluding executive directors)		N	FA	R			I			
7.3 General Managers (B level)			FA/N	R	FA		I			
7.4 Executive Managers (C level)					FA	R	I R:CC	R		I
7.5 Senior Management (D level to F level)					N	R		FA	R	R
7.6 Bargaining unit employees									FA	R

8	**Mutual Separation** • Terms and conditions and financial settlement amounts of mutual separation agreements for A – D Roles will be guided by the Guidelines issued by the Group Remuneration Office.									
HUMAN RESOURCES	**Shareholder**	**Board**	**RemSEC**	**GCE**	**GE: HR**	**OD/SU CE/GE**	**OD/SU HR GM**	**GM:HR, CC**	**GM:ER**	**LM:G M**
8.1 Group Exco (A level) Executive Directors	FA	R								
8.2 Group Exco (A level)			FA	R	R			I	I	
8.3 General Managers (B level)			N	FA	R	R		I	I	
8.4 Executive Managers (C level and below)						FA	R		R	I

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9	Settlement of Legal Disputes of Employees and Arbitration The settlement of labour disputes at a disciplinary hearing, at the Transnet Bargaining Council, the CCMA, the Labour Court or High Court is subject to approvals in terms of the delegations below								
HUMAN RESOURCES	Shareholder	Board	GCE	GE: HR	OD CE/ GE	OD HR GM	GM: ER	GM Line Manager	ER Manager
9.1 Group Exco (A level) Executive Directors	FA	R							
9.2 Group Exco (A level) excluding Executive Directors		N	FA	R			I		
9.3 General Managers (B level)		N	FA	R	R		I		
9.4 Executive Managers (C level)					FA	R	A	R	I
9.5 Management (D levels and below)						FA		R	I
9.6 Bargaining unit employees					FA	R			I

10	Collective Bargaining and Trade Union Recognition • Collective agreements shall only be concluded where a collective agreement as required by law • Shift patterns and working arrangements are matters for consultation and not collective agreement						
HUMAN RESOURCES	RemSEC	GCE	GE: HR	OD/SU CE/ GE	OD HR GM	GM:ER	LM:GM
10.1 Conclusion of any Collective Agreements with Labour excluding shift patterns and matters for consultation			FA	R	R	I	
10.2 Mandate for salary and wage negotiations	FA	R	R			I	
10.3 Recognition of Trade Union and Signing of Recognition Agreement	N	N	FA			I	

11	Report all human Capital Risks					
	Board	Risk Committee	Corp Gov	RemSEC	GCE	GE:HR
	FA	C	N	C	R	I

12	Deviation from Approved Human Resources Policies and recommendation of policies								
HUMAN RESOURCES	Risk Committee	Group Exco	GCE		GE: HR	OD/SU CE/GE	OD HR GM	GM: ER	GM:HR,CC
12.1 Any deviation from a Transnet HR Policy*			FA		R	R	R	I	I
12.2 Approval of HR policies*		FA			R				

* Excluding Board approved policies.

5.8 General Delegations

5.8.1 Chartering of Aircraft

Authority Level	OD / GE:SU	GCFO	GCE
Chartering of Aircraft	NIL	Up to but not exceeding R3 million	Exceeding R3 million
Chartering of helicopters for operations	R250 000*	Up to but not exceeding R1 million	Exceeding R1 million

* The limits for CE:ODs/ GE: SUs are cumulative per helicopter per month.

5.8.2 Mobile phones: Authorising payments exceeding monthly limits (reflected in mobile phone contract)

Companywide	Group Exco Member	GCFO	GCE
	Up to but not exceeding R10 000 per month	Up to but not exceeding R20 000 per month	Exceeding R20 000 per month

5.8.3 Entertainment Expenditure

Authority Level	OD: CE/ Group Executives	GCE
	Up to but not exceeding R50 000 per occasion	Amounts exceeding R50 000 per occasion

Costs incurred by any person on behalf of the Company must be authorised by that person's superior and must be within the approved budgetary limits. Supporting documentation should be marked cancelled to prevent re-use thereof. All entertainment expenses must be business related expenses.

5.8.4 Rewards/Awards/Exceptional Payments to external parties: (Examples: *Ex-gratia* awards, exceptional performance, recognition payments)

	CE:OD	GCFO	GCE	REMSEC	Board
Operating Divisions(Incl TP and TCP)	Up to but not exceeding R50 000	Up to but not exceeding R100 000	Up to but not exceeding R5million	Up to but not exceeding R10million	Exceeding R10million
	Group Executive	GCFO	GCE	REMSEC	Board
Specialist units	Up to but not exceeding R50 000	Up to but not exceeding R100 000	Up to but not exceeding R5million	Up to but not exceeding R10million	Exceeding R10million

5.8.5 Sponsorships and Donations

Approval Authority →	OD CE	GCFO	GCE	REMSEC	Board
Operating Divisions	Up to but not exceeding R5million	Up to but not exceeding R7million	Up to but not exceeding R15million	Up to but not exceeding R20million	Exceeding R20million
Approval Authority →	Group Executive	GCFO	GCE	REMSEC	Board
Specialist Units	Up to but not exceeding R2million	Up to but not exceeding R7million	Up to but not exceeding R15million	Up to but not exceeding R20million	Exceeding R20million

Approval limits are cumulative per annum e.g. the CE:OD can approve a total amount of R5m per annum for sponsorships and donations.

5.8.6 Annual filing of tariff applications with Regulators

- OD tariff increase applications to be submitted to Exco for approval.
- The CE: OD in concurrence with the GCFO are delegated to file the Tariffs applications with relevant Regulatory bodies.

5.8.7 International Business Travel (including travel to African countries)

	Approval Authority
Below CE:OD level at Operating Division	GCE
CE:OD	GCE
Corporate Centre	GCE
Specialist Units	GCE
Group Executives	GCE
Travel to SADC Countries	CE: TFR / CE: TE / GE: Planning and Sustainability

GCE and Chairperson	User – Retrospective review by GCE or Chairperson and vice versa.

Business benefits, analysis and purpose to be demonstrated in the application to the respective approval authority. Post travel a report back on the achievement of the above to be submitted to the respective approval authority.

5.8.8 **Domestic Business Travel**

	Approval Authority
Chairperson/GCE/Group Exco Members	User
GE of Specialist Unit	Group Exco member responsible
General Managers/Extended Exco	CE:OD/CFO:OD/SU/Group Executives
All other levels	Extended Exco

All travel must be in line with the approved Travel Policy as amended in accordance with the provisions of National Treasury instruction Note 1 of 2013/14. Extended Exco Members at an OD/SU may sub-delegate to the appropriate lower level.

5.8.9 **Communication**

	Approval Authority
External communication on strategy and operations	GM: Public and Corporate Affairs or GCE or his Designate
Communication on operational issues relating to an OD	Group Exco Member responsible for OD or any delegated appointee
Communication with the Shareholder Minister	Office of the GCE or Chairperson of the Board of Directors

Approval to attend seminars and or conduct presentations to external parties which may result in indirect communication may be approved by a CE:OD GE:SU or the GCE.

5.8.10 **Establishment of Special Purpose Vehicles (SPVs), Public Private Partnerships (PPPs), Private Sector Participation (PSP) and Trusts**

	Approval Authority	
Establishment of SPVs, PPPs, PSPs and Trusts	Board to approve after recommendation by ADC, the GCE, GCFO, GE: Legal and Compliance as per the Materiality and Significance Framework contained in the Compact with the Shareholder if the transaction is specified in the Corporate Plan if not specified in the Corporate Plan then Board may approve the transaction up to but not exceeding capital risk of R100million. Capital risk in excess of R100million are to be recommended by the Board for Shareholder approval.	
	GE: Commercial	GCE
Commencement of due diligence/feasibility studies for PSPs, PPPs and SPVs	Up to but not exceeding R5m for the study	Exceeding R5m for the study

The Company shall not without the prior written approval of the Shareholder Minister enter into any transaction which exceeds or falls outside of the limits prescribed by the Shareholder's Compact or the Significance and Materiality Framework.

5.8.11 **Establishment of Joint Ventures or Consortia with Entities incorporated in foreign jurisdictions**
To be read in conjunction with 5.8.10 above.

	Approval Authority
Establishment of Joint Ventures or Consortia with Entities incorporated in foreign jurisdictions	Approval to enter into an agreement or other binding document establishing a joint venture or consortium with an entity incorporated in foreign jurisdiction requires approval from the Shareholder Minister on recommendation from the Board and in addition, if it also contains foreign currency exposure, approval must be sought and obtained as per the monetary thresholds indicated in the second bullet under item 5.5.1.2 above. If capital risk is R100million or below, Board approval is required as per the Materiality and Significance Framework contained in the Compact with the Shareholder. Capital risk in excess of R100million for this transaction are to be recommended by the Board of Directors for approval by the Shareholder.

The Company shall not without the prior written approval of the Shareholder Minister enter into any transaction which exceeds or falls outside of the limits prescribed by the Shareholder's Compact or the Significance and Materiality Framework (SMF)

5.8.12 **Restructuring and sale of business**

	Approval Authority
Restructuring or sale of business	Board in accordance with Section 54 of the PFMA

5.8.13 **Pension Fund and Medical Fund Rule Amendments as recommended by the Board of Trustees of the Funds**

	Approval Authority
Changes to the rules of the pension and medical fund that do not require Ministerial approval	GCFO and GCE
Rule amendments that require Ministerial approval	Board to recommend to the Minister of Public Enterprises for approval

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5.8.14 **Application for Environmental Authorisation**

- All environmental impact assessment or basic assessment applications must be prepared by a competent independent environmental assessment practitioner/consultant, unless exemption from this provision has been obtained in writing by the Department of Environmental Affairs and under the supervision of the Environmental Department in the OD/SU.
- The application for environmental authorisation must be signed as per the approval authority below.

	Approval authority to act as applicant for an environmental authorisation for Transnet SOC Ltd
Operating Division	Project Manager/ Operations Manager/Environmental Manager
Specialist Unit (Transnet Property)	Chief Operations Officer of Property
Specialist Unit (Transnet Capital Projects)	Project Director

- The applicant remains legally responsible for the compliance with the environmental authorisation throughout the implementation of the authorisation.
- Should an authorisation for new capital projects contain operational elements after formal handover of the project by TCP, the DEA needs to be informed in writing of the change in names and acknowledgement from DEA be filed.
- Should any of the above applicants leave the Company, the DEA needs to be informed in writing of the new person responsible for the implementation of the environmental authorisation.

5.8.15 **Application for Liquor Licences (all types)**

	Approval authority to act as applicant for application for liquor licences for Transnet SOC Ltd
Operating Division	Chief Executive
Specialist Unit (Transnet Property and Transnet Capital Projects and Foundation)	Group Executive
Corporate Centre	Group Chief Executive

5.8.16 **Company Membership of Industry Associations or International Organisations**

Approval Authority	CE:OD or GE:SU	GCE	Remunerations, Social and Ethics Committee
	Up to but not exceeding R5 million	Between R5 million and R20 million	Above R20 million.

The relevance of such membership shall be reviewed annually by the OD/SU concerned

5.8.17 **Enterprise Information Management Systems (EIMS) Governance Framework and Charter**
The Group Executive: EIMS is delegated to approve exemptions to the Framework.

5.8.18 **Recommendation on Board-approved Policies**

Deviation from Policy:	Board	Audit	Risk	ADC	Corporate Governance and Nominations Committee	RemSEC	Group Exco
Governance and Ethics Management Policies	FA				R	N	
HR related (succession planning, excluding executive directors)							R
HR related (succession planning for executive and)	R					FA	
HR related (performance management)					R		R
Procurement related	FA			R		FA	R
Property related				FA			R
Risk related			FA/R				R.
Treasury Related		FA					R
Tax related		FA					R
CSI related	FA						R
Compliance related	FA	R				R	
Marketing and Advertising	FA						
						R	
Sustainability (Energy and Water)							
B-BBEE	FA					FA	R
PSP	FA			R		R	
Financial Policy w.r.t. Insurance		N	FA				R

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ANNEXURE PM 8

TRANSNET

ANNEXURE "B"

DELEGATION OF AUTHORITY FRAMEWORK
(EFFECTIVE FROM 1 SEPTEMBER 2016)

APPROVED BY THE BOARD OF DIRECTORS ON

31 AUGUST 2016

UNDER RESOLUTION

3-16/17FY/2

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INDEX

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1 **Interpretation and Definitions**

The following words and expressions bear the following meanings, unless the context indicates otherwise:-

1.1 **"Alternative Dispute Resolution" (ADR)** refers to the process of resolving disputes among parties without necessarily resorting to court action, although the agreements and outcomes may be legally binding. ADR processes include conciliation, mediation, adjudication and arbitration.

1.2 **"Board"** means the Board of Directors of the Company and includes the Board when it acts as the deemed Authority under the National Ports Act No. 12 of 2005, as amended;

1.3 **"Board Reserved Matters"** means matters reserved by the Board as set out in Annexure "A "of the Delegation of Authority Framework approved by the Board.

1.4 **"CBDO"** means the Chief Business Development Officer;

1.5 **"CCO"** means Chief Capital Officer;

1.6 **"CCRO"** means the Chief Corporate and Regulatory Officer of Transnet SOC Ltd;

1.7 **"CE"** means Chief Executive of an Operating Division or Specialist Unit;

1.8 **"CFO"** means Chief Financial Officer;

1.9 **"Chairperson"** means the person who is appointed as the Chairperson of the Board as per the MOI;

1.10 **"CHRO"** means the Chief Human Resources Officer;

1.11 **"CIO"** means the Chief Information Officer;

1.12 **"COAM"** means the Chief Officer, Advanced Manufacturing;

1.13 **"Company"** means Transnet SOC Ltd including its Operating Divisions, and Specialist Units, with registration number 1990/000900/30;

1.14 **"Company Strategy"** means the strategy for the Company as approved from time to time by the Board;

1.15 **"Consultant"** means a professional person appointed to provide technical and specialist advice or to assist with the design and implementation of projects and/or programmes. The legal status of this person can be an individual, a partnership, a corporation or a company;

1.16 **"Consulting Services"** means those specialist services and skills that are required for the achievement of a specific objective with the aim of providing expert and professional advice on a time and ad hoc basis. These professional services may include the rendering of expert advice, obtaining relevant information from Transnet to draft a proposal for the execution of specific tasks that are of a technical or intellectual nature, business and advisory services, infrastructure and planning services, laboratory services and science and technology.

1.17 **"COO"** means the Chief Operating Officer;

1.18 **"CSCO"** means Chief Supply Chain Officer;

1.19 **"Delegation of Authority Framework "** means this document, recording the nature and extent of authorities required in order to implement certain actions by or on behalf of the company, including any sub-delegation of authority where permitted and **"Delegation"** shall have a corresponding meaning;

1.20 **"Digital"** means technology enablement of the Transnet workplace (HR, Finance, and Procurement etc.), Transnet product and Transnet channel (customer, sales marketing).

1.21 **"Estimated Total Cost" (ETC)"** means costs planned to bring the project into operation. These include costs such as:

- Direct activities relating to the project such as building materials, delivery cost thereof;
- Project management fees;
- Gate review costs (FEL3 and 4);

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- Transnet Internal Audit Costs;
- Group Capital Integration and Assurance;
  - Preliminaries and general; and
  - Contingencies.

  Typical accounting entry type transactions such as capitalisation of borrowing costs and allocated costs are excluded from ETC;

1.22 **Extended Leadership Team** or **"ELT"** refers to a layer of Management which comprises of Direct Reports to the GLT as defined below.

1.23 **"FRMF"** means Financial Risk Management Framework;

1.24 **"GE"** means Group Executive;

1.25 **"GCE"** means Group Chief Executive of Transnet SOC Ltd;

1.26 **"Group Leadership Team"** or **"GLT"** refers to the Group Leadership Team responsible for leadership, implementation of the strategy, and day to day management of the Company. This is made up of GLT Members;

1.27 **"Head of Legal"** refers to the most senior employee with a Legal qualification in the respective Legal Department;

1.28 **"International agreements"** means agreements which are required to be construed in accordance with the laws of a foreign jurisdiction including the neighbouring countries;

1.29 **"Memorandum of Incorporation"** or **"MOI"** means the constitutive documents of the Company, as amended;

1.30 **"Memorandum of Understanding"** means a formal agreement between two or more parties. Companies and organizations can use MOUs to establish official partnerships. MOUs are not legally binding but they carry a degree of seriousness and mutual respect, stronger than a gentlemen's agreement.

1.31 **"Neighbouring Countries"** means countries sharing a border with the Republic of South Africa;

1.32 **"Non-Disclosure Agreement/Confidentiality Agreement"**. means a contract by which one or more parties agree not to disclose confidential information that they have shared with each other as a necessary part of doing business together.

1.33 **"Operating Divisions"** means the Operating Divisions of Transnet, namely, Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Pipelines, and Transnet Port Terminals;

1.34 **"PFMA"** means the Public Financial Management Act 1 of 1999 (as amended), read together with its regulations' including Treasury Regulations;

1.35 **"Prescribed Officer"** means a person who, within a company, performs any function that has been designated by the Minister of Trade and Industry in terms of section 66(10) of the Companies Act, Act 71 of 2008, read with Regulation 38. Within the Company, members of GLT Members are designated Prescribed Officers;

1.36 **"Rental"** means money payable for the hire of movable and immovable property in terms of a lease agreement, but excludes the payment of operational expenses and costs.

1.37 **"Shareholder"** means the Government of the Republic of South Africa represented by the Shareholder Minister.

1.38 **"Shareholder Minister"** means the Minister of Public Enterprises as defined in the MOI;

1.39 **"Shareholder's Compact"** means the shareholder's compact being an agreement entered into pursuant to section 52 of the PFMA between the Shareholder representative and the Board from time to time;

1.40 **"Specialist Unit"** mean all business units of Transnet which have been deemed 'supporting businesses' in terms of the Company Strategy, these include Transnet Capital Projects, Transnet Foundation, Transnet Property and Transnet Corporate Centre;

1.41 **"Subsidiary"** means subsidiary as defined in the Companies Act 71 of 2008 (as amended) and Subsidiaries shall have a corresponding meaning;

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1.42 **"Trader" means** an Employee who engages in the buying and selling of financial assets in any financial market on behalf of the Company.

1.43 **"Transnet"** means the Company with its Subsidiaries.

1.44 **"Treasury Regulations"** means the regulations issued in terms of section 76 of the PFMA, amended from time to time;

1.45 **"Transnet Total Asset Base"** refers to the total value of the assets in Transnet and is set at the asset value indicated in the integrated report for the year; and

1.46 **"VAT"** means Value Added Tax. All amounts indicated in the document are exclusive of VAT.

2 **Scope**

This Delegation of Authority Framework records the nature and extent of the authorities delegated by the Board of Directors to the Group Chief Executive, and in turn, by the Group Chief Executive to the members of the Group Leadership Team, in order to implement certain actions by or on behalf of the Company. It includes, to the extent necessary and/or incidental thereto, the authority to discharge all of the duties, obligations and powers imposed upon the deemed Authority under the National Ports Act 12 of 2005.

3 **Application**

3.1 This Delegation of Authority Framework applies to all employees of the Company, including its Operating Divisions and Specialist Units. It does not apply to any of the Company's subsidiaries. The respective Boards of Directors of the Company will prepare the requisite delegations of authority for those subsidiaries.

3.2 The persons set out in clause 5 below are granted the power and /or authority to perform their functions and responsibilities subject to the limits of authority outlined in clause 5 below, provided that the exercise of such power and/or authority in terms of this delegation is not in conflict with the following:

- PFMA;
- Board Reserved Matters;
- Memorandum of Incorporation;
- Company Strategy;
- Shareholder's Compact;
- the Corporate Plan, Annual Budget and Borrowing Strategy and/or Funding Plan of the Company as approved by the Board from time to time;
- Project and Programme Frameworks;
- Enterprise Risk Management Framework; and
- Any approvals by the Board and the Minister of Finance for the delegation of the power to borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind the Company to any future financial commitment in terms of section 66 of the PFMA.

3.3 This Delegation supersedes any prior Delegations of Authority Framework and takes effect upon the date determined by the Board of Directors.

3.4 The Delegation of Authority Framework shall be sub-delegated to GLT and Extended GLT within 30 days from the date of signature by the GCE.

3.5 Any proposal for amendments to this Delegation or to the authorities or the authorities delegated in this Delegation must be submitted in writing to the Office of the Group Company Secretary for consideration and approval by the Board of Directors.

4 **Delegating Powers**

4.1 A person authorised to exercise any of the authorities set out in clause 5 below ("original bearer of authority") may, in writing, sub-delegate to his/her subordinate ("designate") during his/her temporary absence or for an indefinite period, provided:

4.1.1 the authority is conferred by way of a certificate signed by the original bearer of authority, naming and identifying the designate, and the extent of the authority which is sub-delegated to the designate;

4.1.2 the sub-delegated authority shall only be exercised within the original bearer of authority's respective area of responsibility;

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4.1.3 the powers delegated by the original bearer of authority cannot be sub-delegated further by the designate unless explicitly stated in the certificate signed by the original bearer of authority; and

4.1.4 the sub-delegated authority may be revoked in writing, at any time by the original bearer of authority.

4.2 Unless otherwise specifically indicated, approval of any of the matters listed in clause 5 below may be granted by a designate.

4.3 With respect to all matters and authorities specifically listed in clause 5 below, the delegated authority by the GCE to bind the Company is in regard to any business activity or transaction (or a series of related transactions) and is subject to the value in the aggregate of all payments or any consideration made or to be made for any such business activity or transaction(s) being complied with.

4.4 The original bearer of authority or designate must ensure that all the necessary procedures and/or approvals have been fulfilled prior to exercising any of the matters and authorities listed in clause 5 below.

4.5 All delegations of authority, signed by the original bearer of authority and accepted and signed by the designate, must be filed with the Office of the Group Company Secretary prior to the effective date.

5 Company Authorities

Limits of authority have been delegated by the Board of Directors to the Group Chief Executive. In the interest of good corporate governance, approval structures have been established in the Company. Requests for approval must follow the approved governing processes and structures for recommendation, but the final approval vests with the delegated individual (for example CE, CFO, GCE) as reflected in the specific delegations set out in this document.

In cases where business requirements necessitate that approval be obtained from the delegated authority without the review and recommendation by the relevant governance structures (CAPIC, GLT, etc.) this must be reported to the relevant governance structures immediately thereafter.

The authority to approve the Corporate Plan and Budget of the Company vests with the Board of Directors, provided that it must be submitted to the Shareholder in terms of Section 52 of the PFMA.

Management's intervention in addressing non-compliance with the DOA

Approval Authority →	COO	CFO	GCE
Operating Divisions	Nil	Nil	Unlimited
Approval Authority →	**GLT Member**	**CFO**	**GCE**
Specialist Units	Nil	Nil	Unlimited

Note: All requests for approval of non-compliance must be made by the GLT Member to the GCE. Together with the application for approval of non-compliance, the requestor must advise on the steps/corrective measures taken to avoid a repeat of the transgression within 30 days of the transgression being discovered.

5.1 Capital Expenditure

NOTE 1: Capital expenditure may only be authorised if the project has been so approved by CAPIC or the relevant divisional CAPIC in accordance with the limits set out in this Delegation of Authority Framework and capital funds have been allocated in the annual Budget of the Company.

NOTE 2: Capital expenditure may only be authorised if the project has been approved and a warrant number has been issued by the relevant authority.

NOTE 3: It is mandatory that submissions to the GLT/GCE have been recommended by the approval bodies leading up to the GLT/GCE.

5.1.1 CAPEX in approved budget/Corporate Plan: To commence projects (execution funding)

Approval Authority →	COO and COAM	CAPIC/CFO	GLT /GCE	Acquisitions and Disposals Committee	Board	Shareholder Minister
Operating Divisions	Up to but not exceeding R600m and R500m respectively	Up to but not exceeding R800m	Up to but not exceeding R2bn	Up to but not exceeding R3bn	Up to but not exceeding R6.5bn	Exceeding R6.5bn

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Approval Authority →	GLT Member	CAPIC/CFO	GLT /GCE	Acquisitions and Disposals Committee	Board	Shareholder Minister
Specialist Units	Up to but not exceeding R200m	Up to but not exceeding R800m	Up to but not exceeding R2bn	Up to but not exceeding R3bn	Up to but not exceeding R6.5bn	Exceeding R6.5bn

Refer to Materiality and Significance Framework. If the set limit (R6.5bn) is exceeded then the Board has to consider and recommend to Shareholder Minister for approval.

- Approval limits are per individual project, reported on a monthly basis to Group Financial Planning.
- Amounts indicated above exclude the capitalisation of borrowing costs.
- All ICT and digital projects requiring approval must be signed off by the Chief Information Officer.
- GLT/GCE to be the final approval gate for all capitalisation of maintenance projects (COPEX) single or multi-year irrespective of the value of the project provided that it has been included in the Corporate Plan.
- It is mandatory that submissions to the GLT/GCE have been recommended by the approval bodies leading up to the GLT/GCE.
- Front end loading (FEL) studies are to be submitted to CAPIC based on the value of the underlying asset on which the study is conducted. e.g. If the FEL study is for an asset not exceeding R600m and R500m respectively then the FEL study irrespective of its stage requires approval from Group CAPIC Please refer to the Accounting Policy for Conceptual, Pre-feasibility and Feasibility Studies when capitalising FEL studies.
- Approvals exceeding R2bn but less than R6.5bn in ETC are to be reported to the Shareholder Minister

5.1.2 Unforeseen CAPEX (not included in budget/Corporate Plan)

Approval Authority →	COO and COAM	CAPIC/CFO	GLT /GCE	Acquisitions and Disposals Committee	Board	Shareholder Minister
Operating Divisions	Up to but not exceeding R100m and R80m respectively	Up to but not exceeding R400m	Up to but not exceeding R1bn	Up to but not exceeding R1.5bn	Up to but not exceeding R6.5bn	Exceeding R6.5bn
Approval Authority →	**GLT Member**	**CAPIC/CFO**	**GLT/GCE**	**Acquisitions and Disposals Committee**	**Board**	**Shareholder Minister**
Specialist Units	Up to but not exceeding R50m	Up to but not exceeding R400m	Up to but not exceeding R1bn	Up to but not exceeding R1.5bn	Up to but not exceeding R6.5bn	Exceeding R6.5bn

Refer to Materiality and Significance Framework. If the set limit (R6.5bn) is exceeded then the Board has to consider and recommend to Shareholder Minister for approval.

- All unforeseen Capex approved by Operating Divisions/Specialist Units within their delegated authority, must be reported on a quarterly basis to Group Financial Planning.
- Amounts indicated above exclude the capitalisation of borrowing costs.
- All ICT and digital projects requiring Transnet approval must be signed off by the Chief Information Officer
- Approval limits are **per project** subject to an aggregate of R600m for the COO.
- Divisional investment committees are to monitor the limits pertaining to the respective OD and to escalate submissions to Transnet if the respective OD limits are reached.
- If an unforeseen project will result in the divisional 7 year investment plan being increased then GLT needs to be approached for approval.
- Cumulative value of annual unforeseen approvals cannot exceed the overall delegation of authority.

5.1.3 Increase in Estimated Total Cost (ETC) of Existing/Approved Projects

Approval Authority →	COO and COAM	CAPIC/CFO	GLT/ GCE	Acquisitions and Disposals Committee	Board
Operating Divisions	ETC may be increased to a maximum of R600m and R500m respectively. Increases beyond this amount may only be approved at CAPIC Level	ETC may be increased to a maximum of R800m	ETC may be increased to a maximum of R1.2bn	ETC may be increased to a maximum of R2bn	Exceeding R2bn

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Approval Authority →	GLT Member	CAPIC/CFO	GLT/ GCE	Acquisitions and Disposals Committee	Board
Specialist Units	ETC may be increased to a maximum of R50m, increases beyond this amount may only be approved at CAPIC Level	ETC may be increased to a maximum of R800m	ETC may be increased to a maximum of R1,2bn	ETC may be increased to a maximum of R2bn	Exceeding R2bn

- Increase in ETC of projects already approved by the Shareholder Minister must be reported to the Shareholder Minister if the increase is in excess of 15%.
- All ICT and digital projects requiring approval must be signed off by the Chief Information Officer.
- All ETC increases above the approved budget for a project/programme must be reported to CAPIC.
- Amounts indicated above exclude the capitalisation of borrowing costs. Increases in ETC of a project solely due to the capitalisation of borrowing costs may be approved by the OD Exco/CE. Project costs and capitalisation of borrowing costs are to be managed separately and may not be expended on projects interchangeably.
- Increases in ETC of a project that results in the project exceeding a specific committee's approval limit needs to be submitted to the next approval body. If CAPIC approved a project at ETC of R700m, and the increase required is R200m then the final approval body for the increase will be GLT as the new ETC of R900m is beyond CAPIC's limit.
- Cumulative value of annual ETC approvals cannot exceed the overall delegation of authority.
- Requests for increases in ETC need to be submitted to the approval body that originally approved the project. If Board approved a project to the value of R2.1bn, any increases to this project will require Board approval.
- Cumulative increases in ETC should be limited to the approved portfolio as per Corporate Plan. Trade-off decisions implemented to remain within the approved Corporate Plan will have to be demonstrated to the next approval body for all increases in ETC.

5.1.3.1 Any increase in excess of the annual approved capital investment budget must be submitted to CAPIC/CFO for approval. Where the CFO has approved an increase, the submission should be tabled at the subsequent CAPIC meeting for information purposes.

5.1.4 Approval of Front-End Loading (FEL) Studies

Front end loading (FEL) studies are to be submitted to CAPIC based on the value of the underlying asset on which the study is conducted e.g. If the FEL study is for an asset not exceeding R600m and R500m respectively, then the FEL study irrespective of its stage requires approval from CAPIC . The following limits apply in instances of the FEL study itself:

Approval Authority →	COO and COAM	CAPIC/CFO	GLT/GCE	Acquisitions and Disposals Committee	Board
Operating Divisions	FEL studies conducted on assets not exceeding R600m and R500m respectively	Up to but not exceeding R800m	Up to but not exceeding R1.2bn	Up to but not exceeding R2bn	Exceeding R2bn
Approval Authority →	**GLT Member**	**CAPIC/CFO**	**GLT/ GCE**	**Acquisitions and Disposals Committee**	**Board**
Specialist Units	FEL studies conducted on assets not exceeding R250m	Up to but not exceeding R800m	Up to but not exceeding R1.2bn	Up to but not exceeding R2bn	Exceeding R2bn

- Limits are per FEL study.
- The study to be managed along the same principles as a project.
- FEL studies to be managed and controlled by an appointed project manager to ensure efficient utilisation of Transnet resources.

5.1.5 Matters pertaining to the Scope of a Project Schedule:

- Project timelines may not exceed the end date contained in the business case by more than 12 months with no cost increases
- Approval to be sought from the original approval body at the earliest discovery that the 12 month limit is going to be exceeded.

Physical progress:

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- Scope changes of more than 10% of the original scope requires approval from the original approval body.
- Funds allocated for future scope items may NOT be utilised to fund current items that have depleted their budgets and contingencies provided specifically for the item.

5.1.6 **Asset Write-off/Scrapping: Movable Assets**

Approval Authority →	**COO and COAM**	**CAPIC/CFO**	**GLT/GCE**	**Acquisitions and Disposals Committee**	**Board**
Operating Divisions	Up to but not exceeding R75m	Up to but not exceeding R100m	Up to but not exceeding R250m	Up to but not exceeding R700m	Exceeding R700m
Approval Authority →	**GLT Member**	**CAPIC/CFO**	**GLT/ GCE**	**Acquisitions and Disposals Committee**	**Board**
Specialist Units	Up to but not exceeding R5m	Up to but not exceeding R100m	Up to but not exceeding R250m	Up to but not exceeding R700m	Exceeding R700m

Refer to Materiality and Significance Framework. If the set limit (currently R6.5bn) is exceeded then the Board has to consider and recommend to Shareholder Minister for approval.

- The above amounts refer to net book value and pertains to the cost actually paid for the asset (revaluations are excluded) and are a cumulative annual limit. Write-offs below R50m to be reported to CAPIC/CFO quarterly.
- COO is to monitor the limits pertaining to asset write off/scrapping of movable assets and to escalate submissions to CAPIC once limits are reached.

5.1.7 **Asset write-off/Scrapping/Demolition of Immovable Assets (excluding land) e.g. buildings, structures**

Approval Authority →	**COO and COAM**	**CAPIC/CFO**	**GLT/ GCE**	**Acquisitions and Disposals Committee**	**Board***
Operating Divisions	Up to but not exceeding R100m	Up to but not exceeding R150m	Up to but not exceeding R250m	Up to but not exceeding R300m	Exceeding R300m
Approval Authority →	**GLT Member**	**CAPIC/CFO**	**GLT/GCE**	**Acquisitions and Disposals Committee**	**Board***
Specialist Units	Up to but not exceeding R5m	Up to but not exceeding R100m	Up to but not exceeding R250m	Up to but not exceeding R300m	Exceeding R300m

*Refer to Materiality and Significance Framework. If the set limit (currently R6.5bn) is exceeded then the Board need to consider and recommend to the Shareholder Minister for approval.

- The above amounts refer to an estimated market value at that point in time and are a cumulative annual limit.
- COO is to monitor the limits of asset write off/scrapping/demolition of immovable assets and to escalate submissions to CAPIC once limits are reached.
- Write-offs below R50m are to be reported to CAPIC/CFO quarterly.

5.1.8 **Disposal of Movable Assets (excluding sale of scrap)**

Approval Authority →	**COO and COAM**	**CAPIC/CFO**	**GLT/GCE**	**Acquisitions and Disposals Committee**	**Board****
Operating Divisions	Up to but not exceeding R75m	Up to but not exceeding R150m	Up to but not exceeding R500m	Up to but not exceeding R750m	Exceeding R750m
Approval Authority →	**GLT Member**	**CAPIC/CFO**	**GLT/GCE**	**Acquisitions and Disposals Committee**	**Board****
Specialist Units	Up to but not exceeding R30m	Up to but not exceeding R150m	Up to but not exceeding R500m	Up to but not exceeding R750m	Exceeding R750m

The above amounts refer to an estimated market value and are subject to a cumulative annual limit of R200m. For sale of scrap please refer to 5.5.1.

- COO to monitor limits and to escalate submissions to CAPIC once limits are reached.

**Refer to Materiality and Significance Framework. If the set limit (currently R6.5bn) is exceeded, then the Board need to consider and recommend to the Shareholder Minister for approval.

5.1.9 **Management's intervention in addressing non-compliance with regard to the approval of capital projects**

Approval Authority →	**COO and COAM**	**CFO**	**GCE**
Operating Divisions	Nil	Nil	Unlimited
Approval Authority →	**GLT Member**	**CFO**	**GCE**
Specialist Units	Nil	Nil	Unlimited

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- Together with the application for approval of non-compliance, the requestor must advise on the steps/corrective measures taken to avoid a repeat of the transgression within 30 days of the transgression being discovered.
- If the approval of non-compliance results in the annual divisional budget being exceeded, then the request must be submitted to CAPIC for approval (refer to 5.1.3.1).

5.1.10 **Alienation/acquisition of immovable property (land and servitudes)**

Approval Authority →	**COO and COAM**	**CAPIC/CFO**	**GLT/GCE**	**Acquisitions and Disposals Committee**	**Board****
Operating Divisions	Up to but not exceeding R150m	Up to but not exceeding R300m	Up to but not exceeding R500m	Up to but not exceeding R1bn	Exceeding R1bn
Approval Authority →	**GLT member**	**CAPIC/CFO**	**GLT/GCE**	**Acquisitions and Disposals Committee**	**Board****
Specialist Units	Up to but not exceeding R50m	Up to but not exceeding R300m	Up to but not exceeding R500m	Up to but not exceeding R1bn	Exceeding R1bn

** Refer to Materiality and Significance Framework. If the set limit (currently R6.5bn) is exceeded then the Board need to consider and recommend to the Shareholder Minister for approval.

- Approval limits are per transaction and are with reference to market value.
- All transactions entered into in terms of the above must be reported to CAPIC/CFO.
- Only immovable property on the non-core list, may be disposed of (refer to 5.1.8), such disposal may only be done through the Transnet Property.
- Amounts indicated above exclude the capitalisation of borrowing costs.

5.1.10.1 **Newly identified properties to be included on the non-core list (Book value of individual properties)**

COO	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Up to but not exceeding R75m	Up to but not exceeding R100m	Up to but not exceeding R200m	Up to but not exceeding R300m	Exceeding R300m

These disposals must be reported to CAPIC//GLT/Acquisitions and Disposals Committee/ Board.

5.2 **Treasury**

Treasury Policies

Approval Authority →	**Group Treasurer**	**CFO**	**GCE**	**Risk**	**Audit Committee**	**Board**
Financial Risk Management Framework	Recommend	Recommend	Recommend	Noting	Recommend	Approve

NOTE 1: Only approved financial instruments as approved in terms of the applicable Treasury Financial Risk Management Framework approved by the Board and subject to such limits determined in accordance with such framework may be utilised in the Treasury operations.

5.2.1 **InterTransnet Debt (Treasury inter Transnet debt write-off)**

Approval Authority →	**Deputy Treasurer: Operations**	**Group Treasurer**	**CFO**	**GCE**
Operating Divisions	Up to but not exceeding R5m	Up to but not exceeding R10m	Up to but not exceeding R20m	Exceeding R20m
Specialist Units	Up to but not exceeding R2m	Up to but not exceeding R10m	Up to but not exceeding R20m	Exceeding R20m

All breaches of the above limits to be reported to the Audit Committee.
External debt write-off on financial instruments due to counter-party liquidation may only be approved by the GCE.

5.2.2 **Maximum annual loss on all repo activities (Realised and unrealised)**

Approval Authority →	**Traders and Chief Trader**	**Deputy Treasurer: Front Office**	**Group Treasurer**	**CFO**	**GCE**
Group	Up to but not exceeding R1m	Up to but not exceeding R1.5m	Up to but not exceeding R2.5m	Up to but not exceeding R5m	Exceeding R5m

All breaches of the above limits to be reported to the Audit Committee.
Note: The above limits are aggregate desk limits.

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5.2.3 Buy and sell back and sell and buyback transactions (Expressed in nominal terms)

Approval Authority →	Traders	Chief Trader	Deputy Treasurer: Front Office	Group Treasurer	CFO
Group	Up to but not exceeding R250m	Up to but not exceeding R500m	Up to but not exceeding R750m	Up to but not exceeding R1bn	Exceeding R1bn
Duration Limit	2 weeks	3 weeks	1 month	1 month	> 1 month

All breaches of the above limits (amount or tenure) to be reported to the Audit Committee.
Approval limits are per transaction/event.

5.2.4 Foreign Exchange Spot Transactions Operational payments, not related to hedging, early take ups or extensions (expressed in USD equivalent)

Approval Authority →	Traders	Chief Trader	Deputy Treasurer: Front Office	Group Treasurer	CFO
Group	Up to but not exceeding an aggregate equivalent of $20m per day (desk total)	Up to but not exceeding an aggregate equivalent of $40m per day (desk total)	Up to but not exceeding an aggregate equivalent of $100m per day (desk total)	Up to but not exceeding an aggregate of $250m per day (desk total)	Exceeding a daily equivalent of $250m (desk total)

All breaches of the above limits to be reported to the Audit Committee.

5.2.5 Foreign Exchange Hedging Transactions New hedges or re-alignment of existing hedges (expressed in USD equivalent)

Approval Authority →	Deputy Treasurer Middle Office	Group Treasurer	CFO
Group	Submissions not exceeding $10m	Submissions not exceeding $100m	Submissions exceeding $100m
Tenure	Not exceeding 18 months	Not exceeding 3 years	Exceeding 3 years

All breaches of the above limits (amount or tenure) to be reported to the Audit Committee.

5.2.6 Foreign Exchange Hedging Transactions: Extensions, early take ups (expressed in USD equivalent)

Approval Authority →	Traders	Chief Trader	Deputy Treasurer: Front Office	Group Treasurer
Group	Not exceeding an aggregate equivalent of $20m per day (desk total)	Not exceeding an aggregate equivalent of $50m per day (desk total)	Not exceeding an aggregate equivalent of $100m per day (desk total)	Exceeding an aggregate of $100m per day (desk total)

All breaches of the above limits to be reported to the Audit Committee.
Note: Where no specific limit is mentioned, the FRMF policy on foreign exchange rate risk will apply.

5.2.7 Approval of FX hedges to be hedged by external suppliers on their balance sheet for goods/services to be delivered to Transnet in respect of Rand agreements involving foreign content

Approval Authority →	Traders	Chief Trader	Deputy Treasurer: Front Office	Group Treasurer
Group	Not exceeding $10m	Not exceeding $25m	Not exceeding $100m	Exceeding $100m

All breaches of the above limits to be reported to the Audit Committee for noting.
The above limits are applicable per agreement.
Note: The Business Units must always obtain quotes on FX forward rates and liaise with the Treasury Trading desk that will verify the rates to ensure it is market related. The Business Units can only enter into the FX hedges with the supplier once the rates are accepted by the Treasury Trading desk via e mail. Once the above approvals are obtained, the Treasury Traders will provide sign off on the rate acceptance.

5.2.8 Interest Rate Risk Hedging

Approval Authority →	Notional Amounts	Group Treasurer	CFO
Group	Notional amount of hedge expressed in RAND or equivalent in USD (FX loans and leases)	Up to but not exceeding R1bn or equivalent in USD	Exceeding R1bn or equivalent in USD
Tenure		Not exceeding 5 years	Exceeding 5 years

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All breaches of the above limits to be reported to the Audit Committee.
Note: Where no specific limit is mentioned, the FRMF policy on interest rate risk will apply.
The above limits are applicable per hedging submission.

5.2.9 Hedging of fuel risk exposures (RAND and USD)

Approval Authority →	Group Treasurer	CFO
Tenure	Not exceeding 6 months	Not exceeding 18 months
Notional hedge expressed in USD or equivalent in RAND	Not exceeding $50m or equivalent in RAND	Exceeding $50m or equivalent in RAND

All breaches of the above limits to be reported to the Audit Committee.
Note: The maximum hedge should not exceed 75% of annual budgeted consumption.
The above limits are applicable per hedging submission.
Note: Where no specific limit is mentioned, the FRMF policy on commodity (fuel) risk will apply.

5.2.10 Hedging of commodity risk exposures in supply agreements, including escalation (other than fuel) in FX or RAND

Approval Authority →	Group Treasurer	CFO
Tenure	Not exceeding 24 months	Exceeding 24 months
Notional hedge expressed in RAND	Not exceeding R100m	Exceeding R100m
Notional hedge expressed in USD	Not exceeding $10m	Exceeding $10m

All breaches of the above limits to be reported to the Audit Committee.
The above limits are applicable per hedging submission.
Note: Where no specific limit is mentioned, the FRMF policy on commodity risk will apply.

5.2.11 Restructuring of hedges (Treasury)

Approval Authority →	Group Treasurer	CFO	GCE
Group	Recommendation	Approval by CFO Notional amount <R2bn and tenure <10 years	Approval by GCE Notional amount > R2bn and or tenure > 10 years.

Note: Restructuring of commodity, index linked, credit linked, interest rate and or foreign exchange related hedges can only be approved by the above authority.

5.2.12 Granting of InterTransnet Loans (Interest-bearing only) to divisions/specialist units

Approval Authority →	Deputy Treasurer: Front Office	Group Treasurer	CFO
Operating Division	Up to but not exceeding R750m	Up to but not exceeding R1bn	Exceeding R1bn
Specialist Unit	Up to but not exceeding R10m	Up to but not exceeding R25m	Exceeding R25m

These above limits are cumulative per OD/ SU per financial year.

5.2.13 Letters of Credit

Approval Authority →	Deputy Treasurer: Front Office	Group Treasurer	CFO
Transnet	Up to but not exceeding R250m	Up to but not exceeding R500m	Exceeding R500m

All breaches of the above limits to be reported to the Audit Committee.
The above limits are per Letter of Credit.

Funding Portfolio

NOTE 1: The total nominal funding amount per financial year in respect of Bonds and any other funding transactions shall be as determined per Board approved/Board amended Funding/Borrowing Plan.

NOTE 2: A. Signatories mean, subject to such approvals by the Board and the Minister of Finance in terms of section 66 of the PFMA as may be applicable, the Group Treasurer and any other officer so designated in writing by the CFO.

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B. Signatories mean, subject to such approvals by the Board and the Minister of Finance in terms of section 66 of the PFMA as may be applicable, persons so designated in writing by the Group Treasurer.

5.2.14 Limits for approval and signing of funding agreements per financial year (Treasury)

Approval Authority →	Group Treasurer	CFO	GCE
Tapping of bonds (in accordance with the approved Funding Plan or as approved by the Board)	*	Not exceeding R5bn	Exceeding R5bn
Bank facilities		No limit applies	No limit applies
Drawdown on Overnight facilities including Revolving Credit Facilities **	Up to but not exceeding R1.5bn	Up to but not exceeding R3bn	Exceeding R3bn
Commercial Paper		Up to but not exceeding R3bn	Exceeding R3bn
Loans	Up to but not exceeding R2.5bn	Up to but not exceeding R 5bn	Exceeding R5 bn
Export Credit Agency supported funding	*	Up to but not exceeding R5 bn	Exceeding R5 bn
Export Credit Agency supported funding			
Up to but not exceeding R1bn			
New domestic bond issues (in accordance with the approved Funding Plan or as approved by the Board)		Up to but not exceeding R2bn	Exceeding R2bn
Development Finance Institution Funding	Up to but not exceeding R1bn	Up to but not exceeding R2.5bn	Exceeding R2.5bn
Foreign funding	Up to but not exceeding $100m	Up to but not exceeding $250m	Exceeding $250m
Any other source of funding not stipulated above	Up to but not exceeding R1bn	Up to but not exceeding R2bn	Exceeding R2bn
The above is further subjected to the following annual aggregate limit			
	R5bn	R12.5bn	Limited to the annual Board approved funding plan

The above is subject to the following:

- Be executed in accordance with the approved funding strategy as incorporated in the Corporate Plan (including any approved amendments).
- All breaches of the above limits to be reported to the Audit Committee.
- The GCE can increase funding requirements up to 10% of Board approved Borrowing Plan and this needs to be ratified by Board. Any funding increase above the 10% can only be approved by the Board.
- Any increase in the funding requirement beyond what was included in Corporate Plan is to be notified to the Shareholder and the Ministry of Finance.
- * Bank facilities must be approved and signed by either the CFO or GCE.
- ** Applicable on outstanding balances.
- The Group Treasurer must sign all Funding Agreements within their delegated authority limits, together with the CFO signing as co-signatory.
- The Group Treasurer can approve all drawdowns and sign any ancillary transaction related documentation required from time to time irrespective of the amounts involved.
- Pricing Supplements for new listings, existing bonds and commercial paper to be listed on any exchanges must be signed by the CFO and GCE.
- Final Terms for new listings on international exchanges must be signed by the CFO and GCE.
- The Group Treasurer is authorised to sign all ancillary documents related to listings in local and international exchanges.

5.2.15 Restructuring of Existing Debt

Approval Authority →	Group Treasurer	CFO	GCE
Group	Recommendation	Approval by CFO Notional amount <R2bn and tenure <10 years	Approval by GCE Notional amount > R2bn and or tenure > 10 years.

Note: Restructuring of debt instruments can only be approved by the above authority. This could be the result of a change in business strategy, pressure on financial ratios of the Group, and or change in the macro economic environment. Such change to be reported at the subsequent of the GLT or to GCE.

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5.2.16 **Signing of legally binding agreements in respect of Treasury related activities not listed in 5.2.13 above. (Such as ISDA, ISMA, JSE client agreements, and data subscription agreements)**

Only the GCE, the CFO and the Group Treasurer have authority to sign.

5.2.17 **Counterparty Limits: Setting of Limits**

Approval Level			
Group Treasurer	**CFO**	**GCE**	**Audit Committee**
			Counter Party Risk Limits[1]
Price Risk Limits ≤ R25m[3]	Price Risk Limits ≤ R250m[3]	Price Risk Limits ≥ R250m[3]	Overall counterparty limit (as calculated in line with FRMF)
Recommendation of Bond Issue and Bond Issuer Limits	Approval of Bond Issue and Bond Issuer Limits		
Recommendation of Settlement Limits[2]	Approval of Settlement Limits[2]		
Recommendation of limits where the Company is exposed to counterparty issuer risk as a result of advance payment guarantees, performance bonds, retention bonds etc. issued under supplier agreement/contracts[3]	Approval of limits where the Company is exposed to counterparty issuer risk as a result of advance payment guarantees, performance bonds, retention bonds etc. issued under supplier agreement/contracts[3]		

Note: Where no specific limit is mentioned, the FRMF policy on Counter Party Risk will apply.

Note[1]: The approved counterparty limit may be utilised for price risk, investment risk as well as issuer risk (in respect of advance payment guarantees, performance bonds, retention bonds etc.) as long as the sum of the individual exposures remains within the overall Audit Committee approved risk limit.

Note[2]: Settlement risk limits are set at 1.5 times the approved counterparty limit as stipulated in the FRMF and will be approved with the counterparty limit.

Note[3]: In respect of counterparties not approved by Audit Committee.

5.2.18 **Appointment of Commercial Bankers and the Opening of Bank Accounts**

	Group Treasurer	CFO
All OD/SU	Recommendation to open bank accounts and the appointment of bankers.	Approval of new bank accounts and the appointment of bankers and the approval of all documentation relating to such accounts, including electronic banking documentation.
Process to follow	There is no delegation to any OD/SU to appoint commercial bankers or to open bank accounts, domestically or internationally; only the CFO may make such appointments.	

5.2.19 **Authorisation of cheque signatories, Test keys and EFT's**

Signing Cheques	Two A signatories or one A and one B signatory
Signing Test keys for paying/receiving	Two A signatories or one A and one B signatory
Electronic transfer of funds	Two A signatories or one A and one B signatory

5.2.20 **Payment instructions and confirmation notes**

Signing payment instructions/ receipts/ settlement instructions:	Two A signatories or one A and one B signatory
Signing confirmation notes in respect of approved financial transactions executed:	One A signatory

5.2.21 **Approval of Annual Borrowing Plan**

	Board
Companywide	Approve the annual Borrowing Plan for execution by Treasury

Annual Borrowing Plan to be recommended by the Audit Committee for approval by the Board.

5.2.22 **Authorisation to enter into binding transactions**

	Group Treasurer
Companywide	Authorise Treasury employees to enter into binding financial transactions on behalf of Transnet

5.2.23 **Issuing of Guarantees (subject to requirements of section 66 of the PFMA)**

	Group Treasurer	CFO	GCE	Board
Companywide	Up to but not exceeding R25m	Up to but not exceeding R200m	Up to but not exceeding R500m	Exceeding R500m

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All breaches of the above limits to be reported to the Audit Committee.
The Limits are per transaction.

5.2.24 Issuing Letters of Support

	Board
Companywide	Only the Board of Directors has authority to issue letters of support

5.2.25 Issuing of security per transaction (subject to section 66 of the PFMA)

	Group Treasurer	CFO	GCE	Board
Companywide	Up to but not exceeding R250m	Up to but not exceeding R500m	Up to but not exceeding R1bn	Exceeding R1bn

All breaches of the above limits to be reported to the Audit Committee. The limits are per transaction.

5.2.26 Guarantees resulting from Supplier Agreements

	CFO:OD	Deputy Treasurer Middle Office[1]	Group Treasurer[2]	CFO[3]
Notional Value per OD per financial year	Up to but not exceeding R200m	Up to but not exceeding R250m	Up to but not exceeding R500m	Exceeding R500m
Issuer Acceptance		All issuers	All issuers	All Issuers

- The limits are cumulative per OD/SU per annum.
- The OD is required to obtain legal acceptance from the Divisional Legal Department and or Group Legal in respect of all Guarantees.
- Guarantees should be constructed in a manner that they become payable on demand
- The minimum long-term credit rating requirements may be acceptable under the following:-
  - A- from Fitch Rating Investor Services or Standard & Poor's Rating Services or A3 from Moody's Investor Services;
  - Issuers not rated by a recognised credit rating agency will not be accepted, unless specific approval has been obtained from CFO that internally developed credit rating of the Issuer is acceptable;
  - Group Treasury may also consider an equivalent rating from other recognised rating agencies as contained in the FRMF.

Note: The approvals of [1,2,3] are additional and do not include the amount of lower level authority.

5.3 Finance

5.3.1 Bad Debt Write-off

Trade Debtors

Approval Authority →	COO and COAM**	CFO	GLT/ GCE	Audit Committee	Board
Operating Divisions	Up to but not exceeding R50m	Up to but not exceeding R100m	Up to but not exceeding R250m	Up to but not exceeding R500m	Exceeding R500m
Approval Authority →	**GLT Member****	**CFO**	**GLT/ GCE**	**Audit Committee**	**Board**
Specialist Units	Up to but not exceeding R20m	Up to but not exceeding R100m	Up to but not exceeding R250m	Up to but not exceeding R500m	Exceeding R500m

**Approval limits are per transaction subject to an annual cumulative limit of R100m. Specialist Unit limit is R5m cumulative per annum.

5.3.2 Setting of limits for credit facilities (Trade debtors)

Approval Authority	COO and COAM	CFO	GCE
Operating Divisions	Up to but not exceeding R50m	Up to but not exceeding R100m	Exceeding R100m
Specialist Units	Up to but not exceeding R5m	Up to but not exceeding R100m	Exceeding R100m
Approval Authority –Key Customers		**CFO**	**GCE**
Operating Divisions		Up to but not exceeding R100m	Exceeding R100m

Limits are per individual customer/client. Credit limits are to be reviewed on an annual basis. The limits are applicable subject to the division following the credit evaluation process.
Internal limits between ODs are not applicable.

5.3.3 Issuing of Credit notes

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Approval Authority →	COO and COAM	CFO	GCE
Operating Divisions	Up to but not exceeding R75m and R20m respectively	Up to but not exceeding R300m	Exceeding R300m
Approval Authority →	**GLT Member**	**CFO**	**GCE**
Specialist Units	Up to but not exceeding R10m	Up to but not exceeding R300m	Exceeding R300m

Limits are per individual credit note and relates to external parties. Issuing of credit notes regarding internal/interdivisional transactions must be within the control of the divisional CFOs.
Excludes the product reconciliation process at Transnet Pipelines where the CE: OD may approve transactions arising out of the product reconciliation process.

5.3.4 Exceeding the operational expenditure budget in total for the year (Operating Divisions/Specialist Units)

The Board of Directors to be informed at every meeting of the financial status and latest estimates of the Company

Approval Authority →	COO and COAM	CFO	GCE	Board
Operating Divisions	Up to but not exceeding 5% of approved budget	Up to but not exceeding 7.5% of approved budget	Exceeding 7.5% of approved budget to a maximum of 10%	>10%
Approval Authority →	**GLT Member**	**CFO**	**GCE**	**Board**
Specialist Units	Up to but not exceeding 5% of approved budget	Up to but not exceeding 7.5% of approved budget	Exceeding 7.5% of approved budget to a maximum of 10%	> 10%

* To be reported quarterly to the CFO and GCE together with mitigating action plans to ensure that key financial metrics are maintained or met.

Delegations for operational transactions that are too detailed to include in the Delegations of Authority Framework will be determined and applied in terms of the details set out by the CE/GE in conjunction with the CFO of the respective OD/SU.

5.3.5 Establishing financial policy with regard to insurance

Approval Authority →	CFO	Risk Committee
Authority Level	CFO after consulting with CCRO to recommend to the Risk Committee	Final approval

5.3.6 Inventory Write-off

Approval Authority →	COO and COAM*	CFO	GLT/ GCE	Audit Committee	Board
Operating Divisions	Up to but not exceeding R50m and R75m respectively	Up to but not exceeding R100m	Up to but not exceeding R350m	Up to but not exceeding R500m	Exceeding R500m
Approval Authority →	**GLT Member***	**CAPIC/CFO**	**GLT/ GCE**	**Audit Committee**	**Board**
Specialist Units	Up to but not exceedingR30m	Up to but not exceeding R100m	Up to but not exceeding R350m	Up to but not exceeding R500m	Exceeding R500m

* Approval limits are subject to an annual cumulative limit of R250m.

5.4 Procurement, Enterprise Development and Supplier Development

All procurement transactions (including reverse logistics – selling of goods) must fully comply with the approved Supply Chain Policy and Procurement Procedures Manual (PPM),) where applicable – Any commercial agreement (for the purchase of goods or services) must be signed off by an authorised employee of Supply Chain Management (Procurement) prior to signing of the contract to indicate that all the steps as per Clause 5.5 below have been followed and that all procurement related governance has been adhered to. In addition to the other exclusions specifically mentioned in the PPM, Treasury transactions related specifically to the appointment of service providers for Transnet's funding and hedging requirements are not subject to the PPM. However separate procedures will be developed for such transactions to ensure fairness and transparency.

5.4.1 Appointment of Consultants

Approval Authority →	COO and COAM	CFO	GLT/ GCE	Acquisitions and Disposals Committee	Board
Operating Divisions	Up to but not exceeding R100m	Up to but not exceeding R150m	Up to but not exceeding R300m	Up to but not exceeding R500m	Exceeding R500m
Approval Authority →	**GLT Member**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Specialist Units	R20m	Up to but not exceeding R150m	Up to but not exceeding R300m	Up to but not exceeding R500m	Exceeding R500m

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*Approval limits are cumulative per annum. Excludes appointment of consultants to perform feasibility studies for capital projects.

- Consultants may only be remunerated at set rates as follows:
  - Guideline for fees as determined by the South African Institute of Chartered Accountants.
  - Guide on Hourly Fee Rates for Consultants by the Department of Public Service and Administration.
  - Prescribed by the body regulating the profession of the consultant (for this purpose the *Guideline on Cost Containment Measures issued in terms of National Treasury's Instruction Note 01 of 2013/14* must be followed).
  - Prescribed in the Service Level Agreement concluded with lawyers on the Transnet legal panel.

5.4.2 Approval to approach the market for Open Tenders, Quotations and the Emergency Procurement Procedures

Approval Authority →	**CSCO**	**CCO, COO and COAM**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Operating Divisions	Up to but not exceeding R500m	Up to but not exceeding R750m	Up to but not exceeding R1bn	Up to but not exceeding R2bn	Up to but not exceeding R3bn	Exceeding R3bn
Approval Authority →	**CSCO**	**GLT Members**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Specialist Units	Up to but not exceeding R500m	Up to but not exceeding R300m	Up to but not exceeding R1bn	Up to but not exceeding R2bn	Up to but not exceeding R3bn	Exceeding R3bn

Open Tenders: The COO or COAM may delegate these powers to go to market with Open Tenders to CE: ODs/SUs who may in turn only delegate these powers to the relevant Head of Procurement. The Requisition (or Request to Purchase) issued to Procurement must be approved by the OD's Budget Owner or his duly authorised delegate. Such approved requisition or Request to Purchase will signify that the acquisition has been approved and that the necessary funds are available.
Submissions requiring approval by the person with delegated authority must also include a procurement strategy document approved by the respective OD/SU Procurement Head which includes Supplier Development and empowerment.

Quotation (transactions up to but not exceeding R2m): The COO or COAM may delegate these powers to obtain quotations to the CE: OD/SU who will in turn delegate these powers to the relevant Head of Procurement. CPO will further delegate specific powers to certain managers in the procurement function to invite quotations up to a certain value and secondly for the award of business resulting from quotation system.

Approval to invoke the emergency procurement procedure: The COO OR COAM may delegate these powers to go to the market with Open Tenders to the OD/SU who may in turn delegate these powers to the relevant Head of Procurement. Each OD/SU is responsible for assigning specific persons and value thresholds for authority to invoke the emergency procurement procedure for transactions below T8-00m in value. As soon as possible after the emergency procurement procedure has been instituted, retrospective authority for the emergency procedure must be obtained. In terms of the Procurement Process Approval Delegations (paragraph 5.4.6), the relevant AC or higher will have the authority to retrospectively approve an emergency.

5.4.3 Approval to approach the market for confined tenders: Confinement of tenders (applicable to transactions exceeding R2m in value)

Approval Authority →	**CCO, COO and COAM**	**CSCO**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Operating Divisions	Nil	Nil	Nil	Up to but not exceeding R500m	Up to but not exceeding R1.5bn	Exceeding R1.5bn
Approval Authority →	**GLT Members**	**CSCO**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Specialist Units	Nil	Nil	Nil	Up to but not exceeding R500m	Up to but not exceeding R1.5bn	Exceeding R1.5bn

The limits are per transaction/confinement. All requests for approval of confinements must be made by the GLT Member through the CSCO and the CFO to the GCE. The OD/SU shall prepare the submission in collaboration with integrated Supply Chain Management (iSCM) to ensure that the motivation for confinement contains sufficient information to meet one or more of the grounds for confinement as stipulated in the PPM and National Treasury's Instruction 03 of 2016/2017. In terms of the Instruction Note Transnet may only approve a deviation from a competitive bidding process in the case of an emergency or a sole supplier status. Any other deviation may only be allowed in exceptional cases subject to the prior written approval form National Treasury.

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In instances where a confinement is confidential, the GCE may consider such confinement internally without the confinement request being routed through any other internal authority. On the GCE's support of the confinement, the confidential confinement will thereafter be submitted to National Treasury for final approval, if required.

Note: Confinement must only be used in respect of transactions above R2m in value. For transactions up to but not exceeding R2m, the quotation system must be used as per paragraph 5.4.2 above.

5.4.4. **Management's intervention to address non-compliance with procurement policies and procedures**

Approval Authority →	**CCO, COO and COAM**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Operating Divisions	Nil	Nil	Up to but not exceeding R500m	Up to but not exceeding R1,5bn	Exceeding R1.5bn
Approval Authority →	**GLT Members**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Specialist Units	Nil	Nil	Up to but not exceeding R500m	Up to but not exceeding R1,5bn	Exceeding R1,5bn

Note: All requests for approval of non-compliance must be made by the COO/GLT member to the GCE. The OD/SU shall prepare the submission in collaboration with iSCM to ensure that the rules for the addressing of non-compliance are met. Together with the application for approval of non-compliance, the requestor must advise on the steps/corrective measures taken to avoid a repeat of the transgression within 30 days of the transgression being discovered.

5.4.5 **Establishing Procurement policy (opex, capex and disposals)**

Authority Level	Acquisitions and Disposals Committee

5.4.6 **Procurement process approval**

Note: Each OD/SU will have its own main Acquisition Council (AC) which will consider and approve all procurement processes, as well as the disposal of scrap, falling within its jurisdiction from R2m, but not exceeding R50m. This is subject to the discretion of the CE: OD/SU to lower the R2m thresholds, or to create Secondary Regional/Local Acquisition Councils. Where a particular Transnet Entity chooses to create a secondary Acquisition Councils, the jurisdiction of the Secondary Acquisition Councils will start below the R2m threshold. ODs have the discretion to set the maximum threshold/s of such secondary Acquisition Councils to a value higher than R2m. This value will then become the minimum threshold of the main Acquisition Council of the Transnet Entity. The CE: OD/SU may also delegate certain process approval powers to the relevant Manager for matters below the Secondary Acquisition Councils' delegation. Transactions exceeding the CE: ODs/SUs delegated authority will also be considered by the OD's main Acquisition Council for recommendation to the higher approval body (e.g. the Acquisitions and Disposal Committee). If it concurs with the recommendation, the matter will be referred to the relevant person/structure with the delegation of authority for approval. Should any process approval body not agree with the recommendation, the matter must be referred back to the recommending officer(s) for reconsideration or re-motivation.

Approval Authority →	**CSCO**	**CCO,COO AND COAM**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Operating Divisions	Up to but not exceeding R500m	Up to but not exceeding R750m	Up to but not exceeding R1bn	Up to but not exceeding R2bn	Up to but not exceeding R3bn	Exceeding R3bn
Approval Authority	**CSCO**	**GLT Member**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Specialist Units	Up to but not exceeding R500m	Up to but not exceeding R300m subject to the contract period not exceeding 5 years	Up to but not exceeding R1bn	Up to but not exceeding R2bn	Up to but not exceeding R3bn	Exceeding R3bn

Notes: *Procurement process approval exceeding R750m, for sign–off by CFO and/or GCE as per above limits.
***Procurement process approval ought to be cleared by the respective OD/SU Procurement Head.**

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5.4.7 Enterprise and Supplier Development (approval of initiatives/beneficiaries)

Approval Authority →	iSCM Council/ CSCO	COO and COAM	CFO	GLT/ GCE	Acquisitions and Disposals Committee	Board*
Operating Divisions	Up to but not exceeding R25m	Up to but not exceeding R50m	Up to but not exceeding R150m	Up to but not exceeding R250m	Up to but not exceeding R500m	Exceeding R500m
Approval Authority	**iSCM Council/ CSCO**	**GLT Members**	**CFO**	**GLT/ GCE**	**Acquisitions and Disposals Committee**	**Board**
Specialist Units	Up to but not exceeding R25m	Up to but not exceeding R50m	Up to but not exceeding R150m	Up to but not exceeding R250m	Up to but not exceeding R500m	Any amount exceeding R500m

The abovementioned delegations are per transaction.
*REMSEC to note all Enterprise and Supplier Development transactions.

5.4.8 Approval of Procurement Plans

National Treasury Instruction 02 of 2016/2017 requires that Transnet must submit an approved annual procurement plan to the National Treasury by 31 March of each year. Transnet must submit quarterly reports on the procurement plans by the 15th of the Month following the end of the quarter. Transnet must table the quarterly reports in Parliament on a quarterly basis. Any amendments to the original procurement plan must be approved and submitted to the National Treasury within 10 calendar days from approval.

	Authority Level
Approval of Annual Procurement Plan	Acquisitions and Disposals Committee
Approval or quarterly reports to the National Treasury and any amendments to the original procurement plan	GCE

5.4.9 Approval of Restriction of Suppliers

National Treasury Instruction 02 of 2016/2017 requires that Transnet must follow a process of restriction where suppliers have acted with misconduct towards Transnet. On finalisation of this process and approval internally, Transnet must inform National Treasury of the restriction within 7 days with the details of the restriction. National Treasury will then load the details on its Database of Restricted Suppliers

Authority Level	CFO
To note all Enterprise and Supplier Development transactions	REMSEC

5.5 Contracts and/or Agreements

NOTE 1: Any person who has been authorised to execute any legal documents including deeds, leases, assignments, contracts, applications, financial instruments, external submissions to or on behalf of the Company and/or its OD's or SU's or any other legal documents may only do so with the prior advice of the relevant Legal Services department as set out in the Legal Policy.

NOTE 2: Unless otherwise indicated in the authorities below, the authority to execute a contract or other binding document carries with it like authority to cancel or modify it, but only with the prior written advice of the relevant Legal Services department as set out in the Legal Policy and if it relates to Procurement Contracts, the process prescribed in the Procurement Procedures Manual must be adhered to.

NOTE 3: Any person authorised to enter into an agreement/contract or other binding document involving capital expenditure must have obtained prior financial approval in terms of the procedures set out in 5.1 prior to entering into such a CAPEX contract.

NOTE 4: Approval limits are per transaction/contract.

NOTE 5: The authority to execute a contract or other binding document carries with it the understanding that an authorised payment required thereby will be made once proof of receipt has been obtained. No person is authorised to obligate the company to an amount greater than such payment or create more onerous obligations than those contained in the contract or other binding document. Increases to the original scope of the binding document must be supported by authorised amendment.

NOTE 6: In terms National Treasury Instruction 3 of 2016/2017 Transnet must ensure that contracts are not varied by more than 20% or R20m (including VAT) for construction related to goods, works and/or services and 15% or R15M (including VAT) for all the goods and/or services of the original contract value, whichever is the greater. Any deviation in excess of the prescribed thresholds will only be in exceptional case prior written approval from National Treasury.

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The PPM prescribes the process that must be followed in terms of approving procurement contract amendments:
Non-material amendments (i.e. where the scope, value and/or period of the contract is less than 10% of the original contract value): the manager with the delegation of authority may effect such amendment and is only required to inform the Acquisition Council (if within the Acquisition Council jurisdiction) of such amendment as soon as possible thereafter. The manager who approves the amendment may be the original signatory of the contract if the cumulative value of the amended contract is still within his/her delegation of authority. However, if the cumulative value of the amended contract is above the original signatory's delegation, the amendment must be approved by the next level of authority on review and recommendation of the original signatory.

- Material amendments within the Acquisition Council threshold (i.e. where the scope, value and/or period of the contract is greater than 10% of the original contract value but less than 20% or R20m (whichever is the greater) for construction related goods, works and/or services and less than 15% or R15m (whichever is the greater) for all other goods and/or services): the manager with the delegation of authority may not effect such amendments without the PRIOR approval of the relevant Acquisition Council first of such amendment. Following Acquisition Council approval such amendment needs to be signed off by the original signatory (i.e. the person with delegation of authority who signed the initial contract or the person mandated to do so) provided the cumulative value of the contract and subsequent amendment(s) still falls within his/her delegations. However, if the cumulative value of the amended contract is above the original signatory's delegation, the amendment must be approved by the next level of authority on review and recommendation of the original signatory.

- Amendments to contracts within the AC threshold and in excess of the National Treasury prescribed thresholds of the original contract value will be dealt with as follows: In such cases, PRIOR review and recommendation must be obtained from the appropriate AC first, as well as the original signatory. The matter will be submitted for consideration to the person with delegated authority if the amendment brings the contract above the original signatory's delegation of authority. The CPO of the OD/SU or his/her delegate will then forward the submission to the office of the CSCO for internal review. Once internal support from the CSCO's office has been obtained and support from the person with the delegation of authority to sign the final contract value, the submission can then be sent by the relevant OD/SU CPO to National Treasury for final approval. On approval, the amended contract will be signed off by the person with the delegation of authority to sign off the contract value concerned.

- For higher value contracts (i.e. those signed by the CE: OD, the CFO or GCE), it is advisable to obtain a written mandate from that official empowering a delegate to administer such contract and to effect changes to such contract not exceeding 10% of the initially approved contract value.

5.5.1 Entering into and/or signing of Contracts and/or Agreements and award of business: (including the sale of scrap)

Approval Authority →	**CSCO**	**COO and COAM**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Operating Divisions	Up to but not exceeding R500m	Up to but not exceeding R750m	Up to but not exceeding R1.5bn	Up to but not exceeding R2.5bn	Up to but not exceeding R3.5bn	Exceeding R3.5bn
Approval Authority →	**CSCO**	**GLT Members**	**CFO**	**GCE**	**Acquisitions and Disposals Committee**	**Board**
Specialist units	Up to but not exceeding R500m	Up to but not exceeding R500m subject to the contract period not exceeding 5 years	Up to but not exceeding R1.5bn	Up to but not exceeding R2.5bn	Up to but not exceeding R3.5bn	Exceeding R3.5bn

Contract award delegation carries with it the authority to issue letters of intent, letters of award, letters of regret and signing of the final contract. Values are per contract for the full term of the contract (Total value of contract excluding VAT) on condition that approval has been obtained for the related expenditure over the period. Please refer to the conditions stipulated below.

Payments: Once the decision to contract has been issued, contract execution will be governed by the Operating Divisions or Specialist Units, including the payment process provided that the contract amount is not exceeded.

5.5.1.1 Contracts > R700 m, including Transnet's top 70% value opex items and capex contracts

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Prior to entering into a high value (greater than R700m) / highly complex contract (especially for the top 70% value opex items as dealt with by iSCM Strategic Sourcing commodity teams), any authorised official must first liaise with a multi-disciplinary team of experts at Corporate Centre, who should each sign off on any agreement/contract or other binding document:

- CSCO.
- Chief Legal Counsel – entire document.
- CFO to sign-off after sign-off from the Finance Departments (Group Finance/Reporting Financial Planning, Tax and Treasury).
- CCRO.
- Contracts less than R700 m within the OD's limit of authority, require a similar process as set out above to be followed by the relevant OD/SU.

5.5.1.2 **Contracts with foreign exchange exposure**

- Approval to enter into an agreement/contract or other binding document involving foreign currency exposure (including ***international agreements***) may not be sub-delegated lower than to the Chief Procurement Officer (CPO) of an OD/SU. Approval of the divisional CFO is required to enter into the contracts that may result in foreign currency exposure.

- The duly authorised official must obtain prior written approval in respect of FX agreements above R50m from CSCO, Chief Legal Counsel, Group Treasurer, Group Tax, CCRO, CFO, both where the contract will be concluded in foreign currency and especially in such cases where foreign contracts will be concluded in South African Rand, as this may expose the Company to an embedded derivative. All FX agreements above R100m must apart from the above also obtain written approval from the CFO. The CFO to sign-off after sign-off from Group Treasurer, CFO, CCRO, and Chief Legal Counsel (the entire document).

5.5.2 **Entering into and/or Signing of Revenue Contracts/Agreements and authority to issue binding quotes locally: (excluding lease contracts and the sale of scrap)**

Approval Authority →	**COO and COAM** Limit per Annum per contract up to but not exceeding 5 years	**CBDO** Limit per Annum per contract up to but not exceeding 5 years	**CFO** Limit per Annum per contract up to but not exceeding 5 years	**GCE** Limit per Annum per contract up to but not exceeding 5 years	**Acquisitions and Disposals Committee** Limit per Annum per contract and contracts exceeding 5 years	**Board** Limit per Annum per contract and contracts exceeding 5 years
Operating Divisions	Up to but not exceeding R1bn for the total contract	Up to but not exceeding R3.5bn for the total contract	Up to but not exceeding R2.5bn for the total contract	Up to but not exceeding R4.5bn for total contract value	Up to R5bn per annum, unlimited total contract value	Exceeding R5bn per annum and unlimited total contract value
Approval Authority →	Limit per Annum per contract up to but not exceeding 5 years	**GLT Member** Limit per Annum per contract up to but not exceeding 5 years	**CFO** Limit per Annum per contract up to but not exceeding 5 years	**GCE** Limit per Annum per contract up to but not exceeding 5 years	**Acquisitions and Disposals Committee** Limit per Annum per contract and contracts exceeding 5 years	**Board** Limit per Annum per contract and contracts exceeding 5 years
Specialist Units	Up to but not exceeding R1bn for the total contract	Up to but not exceeding R50m	Up to but not exceeding R2.5bn for the total contract	Up to R4.5bn for the total contract	Up to R5bn per annum, unlimited total contract value	Exceeding R5bn per annum and unlimited total contract value

- Integrated customer agreements where a service incorporates more than one division must be signed off by the Chief Legal Counsel, CFO and the CBDO in addition to sign off by the CE: OD/SUs, up to but not exceeding revenue of R500m per annum not exceeding 5 years.
- If the contract period is below 12 months the contract value is to be annualised and the delegated authority required to approve the transaction will be determined by the annualised amount.
- All limits indicated above are exclusive of VAT.
- Board approval is required if the annual value of the contract exceeds R5bn.

5.5.3 **Entering into and/or Signing of Revenue Contracts/Agreements and authority to issue binding quotes internationally including cross border contracts: (excluding lease contracts and the sale of scrap)**

Approval Authority →	**COO and COAM** Limit per Annum per contract up to but not exceeding 5 years	**CBDO** Limit per Annum per contract up to but not exceeding 5 years	**CFO** Limit per Annum per contract up to but not exceeding 5 years	**GCE** Limit per Annum per contract up to but not exceeding 5 years	**Acquisitions and Disposals Committee** Limit per Annum per contract and	**Board** Limit per Annum per contract and contracts exceeding 5 years

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					contracts exceeding 5 years	
Operating Divisions	Up to but not exceeding R1bn	Up to but not exceeding R1.75bn	Up to but not exceeding R1.2bn	Up to but not exceeding R2bn	Up to but not exceeding R4bn	Exceeding R4bn
Approval Authority →	**GLT Members** Limit per Annum per contract up to but not exceeding 3 years	**GLT Members** Limit per Annum per contract up to but not exceeding 5 years	**CFO** Limit per Annum per contract up to but not exceeding 5 years	**GCE** Limit per Annum per contract up to but not exceeding 5 years	**Acquisitions and Disposals Committee** Limit per Annum per contract and contracts exceeding 5 years	**Board** Limit per Annum per contract and contracts exceeding 5 years
Specialist Units	Up to but not exceeding R500m	Up to but not exceeding R750m	Up to but not exceeding 500m	Up to but not exceeding R2bn	Up to but not exceeding R4bn	Exceeding R4bn

5.5.4 Internal Contracts

Contracts between OD and/or SUs such as service level agreements and project specific agreements may be entered into between the respective GLT Members.

5.5.5 Property and Lease Agreements

All internal and external Property Lease Agreements including revenue generating leases and expenditure leases (excluding vacant land).

Approval Authority →	GLT Member	COO	CFO	GCE	Acquisitions and Disposals Committee
Operating Divisions	Up to but not exceeding R100m per lease per annum	Up to but not exceeding R200m annualised	Up to but not exceeding R200m full term	Up to but not exceeding R500m full term	Exceeding R500m full term
	Tenure not exceeding 5 years	Tenure not exceeding 10 years	Tenure not exceeding 10 years	Tenure exceeding 10 years	Tenure exceeding 15 years

- Tenders that include alienation/leasing out of land for a period longer than 5 years must be submitted to the GCE for approval prior to going out on tender or RFP.
- Cession of leases: All cession or assignment of Lease agreements shall be approved by the CFO or COO. For cession of leases at OD level, the CE of the respective OD/SU may approve cession or assignment of lease agreements.
- Cession of lease agreements, renewals and extensions of lease agreements with a change to material terms of the existing lease e.g. extension or shortening of the lease period, change of rental terms etc. may be approved in terms of the above limits i.e. where the original lease was approved in terms of the delegated authority above, changes of material terms to be approved by the same approval body.
- All external Lease Agreements (> 5 years) of properties on land/properties adjacent to other land/properties of ODs and/or belonging to Transnet Property, must be communicated and agreed with the relevant division/Transnet Property before entering into any Lease Agreements.
- All leases for vacant land may only be approved by the GCE with the above limits for the GCE applicable i.e. if the lease value exceeds R500m then Acquisitions and Disposals Committee approval is required. For the purposes of this transaction vacant land is considered to be undeveloped land.
- In cases where vacant land is leased out with its own rental premium applicable to it and a separate rental premium for improvements located on the portion of the same leased site, although part of one lease transaction – to the extent that the proposed lease has lettable vacant land, the GCE shall approve such lease transactions in line with his limits of authority as stated in the table above.
- Interdivisional leases for vacant land may be entered into and signed by the respective GLT Members.
- Leases for vacant land exclude the leasing in of land to be used for lay down areas and borrow pits for projects.
- Special Delegation to apply to the CE of TNPA in compliance with the National Ports Act of 2005 as amended.
- Internal leases between Transnet Property and the ODs/SUs may be signed by the CEs or GE's of the respective ODs/SUs.
- Revenue Generating Leases: Lease agreements concluded by Transnet in its capacity as lessor for purposes of generating revenue.
- Expenditure Lease: Lease agreements concluded by Transnet in its capacity as a Lessee.
- Properties on DPE approved Transnet non-core list may only be leased out for a maximum period of 10 years. Any leases of these non-core properties for longer than 10 years require s 54 (2) of the PFMA approval by the DPE.

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5.5.6 **Non-Disclosure Agreements**
Non-Disclosure Agreements can, with the authority to sub-delegate, be signed by the COO and may be sub-delegated to CE: OD provided there are no direct monetary obligations created for Transnet. Group Legal should vet all agreements.

5.5.7 **Memorandum of Understanding**
A Memorandum of Understanding must be signed by the GCE, with the authority to sub-delegate. The COO, CFO, COAM, CCRO and CBDO have full authority to implement any such transactions. Group Legal must recommend to the GLT member concerned.

5.6 **Legal Services**

NOTE: The provision of legal services must be in accordance with the Legal Policy. In respect of all litigation the bearer of the authority may, after taking legal advice from Group or Divisional Legal Services, as the case may be, execute all documents and do all things necessary to give effect to his/her authorisation including submission through governance structures.

5.6.1 **Commencing and settling any litigation, arbitration and other forms of Alternative Dispute Resolution**

Approval Authority →	GLT Member	COO	CCRO	CFO	GCE
Operating Divisions	Up to but not exceeding R2m	Up to but not exceeding R35m with concurrence of Chief Legal Counsel	Up to but not exceeding R50m	Up to but not exceeding R100m with concurrence of CCRO	Exceeding R100m

Approval limits are per litigation matter and relate to the settlement amount of that particular matter.

5.6.2 **Disputes with Government and matters posing a reputational risk to the Company**

Approval Authority →	Risk Committee	Board
	Matters which pose a reputational risk to the Company should be submitted for consideration.	Any disputes with government entities or where the outcome of any litigation, arbitration or similar proceedings is likely to have a material effect on the business, financial condition or prospects of the Company

5.6.3 **Defending matters in court or any other competent forum**

Approval Authority →	Legal Manager
	Defending, subject to the Legal Policy, any litigation (actions or applications) in court or any other competent forum, including the appointment of attorneys and/or advocates for such proceedings

NOTE: the Standard Operating Procedures for Litigation Matters prescribes the following:

- Upon receipt of instructions, the Legal Advisor must ascertain from the facts of the case and in law whether:
  - Transnet has legal grounds to pursue litigation and whether it would be financially viable to pursue litigation bearing in mind the quantum of the matter and the costs of pursuing the matter.
  - It would be more advisable to settle the matter.
  - There is any reputational or other risk to Transnet in proceeding with the litigation.
  - Whether there is any precedence that needs to be created by the company for future similar matters.
  - Should the Legal Advisor be satisfied that, on the facts presented, Transnet should institute legal action, the Legal Advisor must submit a written request to the person duly authorised, in terms of the Delegations of Authority Framework, for approval:

- To institute litigation on behalf or Transnet; and
- To appoint an external attorney from the Transnet approved panel of attorneys.

5.6.4 **Subject to the Legal Policy, the appointment of external advisors, attorneys, advocates and any other external legal advisors including adjudicators, mediators, arbitrators for purposes of alternative dispute resolution process under NEC3 contracts or any other contract.**

Approval Authority →	COO	CCRO	GCE
OPERATING DIVISION	Up to but not exceeding R35m	Up to but not exceeding R50m	Exceeding R50m
	GLT Members	CCRO	GCE
Specialist Units GEs and Heads of Legal	Up to but not exceeding R10m	Up to but not exceeding R50m	Exceeding R50m

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- The amounts indicated relate to the claim amount in the case of commencing litigation, and the estimated legal fees to be charged in all other matters.

5.6.5 Pleading to criminal charges and payment of penalties imposed by Regulators and Government Departments.

Approval Authority →	COO	CCRO	GCE
OPERATING DIVISION	Up to but not exceeding R35m	Up to but not exceeding R50m	Exceeding R50m
	GLT Members	CCRO	GCE
Specialist Units GEs and Heads of Legal	Up to but not exceeding R15m	Up to but not exceeding R50m	Exceeding R50m

- The amounts indicated relate to the amount of fine or penalty competent or imposed against the Company.

5.7 Human Resources

INTRODUCTION

The Delegation of Authority for Human Resources provides for controls and good governance in the following areas:

- Organisation Management
- Personnel Appointments and Remuneration
- Appointment of Fixed Term Contract Employees
- Interim / *Ad hoc* Remuneration Adjustments
- Rewards / Awards / Exceptional Payments / *Ex-gratia* Awards
- Suspension of Employees
- Dismissal of Employees
- Mutual Separation Agreements
- Collective Bargaining and Trade Union Recognition
- Deviation from approved Human Resources Policies

PRINCIPLES

1. Any approval in the Human Resources environment must be obtained from a manager who is at least one hierarchical reporting level higher than the employee for whom authorisation is required.
2. When acting in a higher capacity, decision for own portfolio or department that will ordinarily be recommended by the acting incumbent must be referred to one level higher.
3. Where an incumbent acts in a higher position, the full powers of delegation of the position in which the person is acting, may be transferred to the acting incumbent. The incumbent's immediate line manager must agree to the appointment of the acting person. The powers delegated to the person acting must be clearly set out in a written document and the person delegated the powers must sign written acceptance of the powers.
4. Each OD/SU may implement stricter delegations and increase the level of authority above those set out in the document. Any such change must be in writing.
5. The HR delegations contained herein cannot be sub-delegated except when delegating to an acting incumbent acting in the roles specified therein.
6. Board recommendation and approval is required for the appointment and remuneration of the GCE and CFO.
7. The Remuneration, Social and Ethics Committee (REMSEC) provides final approval for the annual reward allocation including the salary mandate.

All matters relating to the position of the GCE and CFO are reserved for the Board and Shareholder Minister in line with the Company's governing legislation and mandates.

ABBREVIATIONS

The abbreviations used in the Human Resources Delegation of Authority are set out in the table below:

FA	Final Approval
FA:CC	Final Approval for Corporate Centre
FA:OD	Final Approval for Operating Division

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R	Recommendation
R:OD	Recommendation by Operating Division
A	Has provided advice
A:OD	Advice provided by Operating Division
C	Consultation
N	Noting
I	Initiation
CHRO	Chief Human Resources Officer
GLT Member, CE, GE	Group Leadership Member, Chief Executive of OD or relevant Group Executive
GM: HR,TT	General Manager: Human Resources, Talent and Transformation
GM:HR,CC	General Manager: Human Resources, Corporate Centre
GM: LR	General Manager: Labour Relations
OD HR: GM	General Manager: Human Resources at the Operating Division
LM: GM	Line Management - General Manager

The table below sets out the delegation framework for Human Resources.

1 | **Organisation Management: Creation of New Positions / Change in Positions / Restructuring/Change of organisational structure**

- **No permanent or fixed term contract position can be created or the grade level changed unless the approved Organisation Management governance was followed in respect of the evaluation of positions and ratification of grade levels.**

HUMAN RESOURCES	Shareholder	Board	REMSEC	GCE	CHRO	GLT Member	CE:OD/SU	OD HR GM & OD COO	LM:GM
1.1 GLT (A Level) Executive Directors	FA	R							
1.2 GLT and Group Executives A Level		N	C	FA	R				
1.3 General Managers (B Level)				FA	R	R	I	I	
1.4 Executive Managers (C Level)						*FA	R	R	I
1.5 Senior Management (D Level)							R	R	FA
1.6 E Level and below					R	I	A	FA	

*This approval applies only to TCC positions.

2 | **Personnel Remuneration**

- The REMSEC reviews the GCE's assessment of performance. The remuneration of the abovementioned category of employees shall be based on the Remuneration Policy.
- The appointment and remuneration of all management level employees (levels A to F) will be guided by the Guidelines and Salary Bands issued by the Group Remuneration Office. These Guidelines and Salary Bands will take into account the occupational specific categories.
- For managers in levels A and B the Group Remuneration Office will recommend the appropriate remuneration bands based on market information and internal parity. Approval of the final appointment and remuneration package will be in terms of the delegations below.
- Each OD will apply the Guidelines and Salary Bands when appointing and structuring the packages of management employees in levels C and below. Approval of the final appointment and remuneration package will be in terms of the delegations below.
- After salary adjustments and before a mandate is sought for the next financial year, the Group Remuneration Office will conduct a comparative
analysis of salaries across ODs to inform the Group Guidelines and Salary Bands of managers for the new financial year. Affordability and the need for internal and external parity will inform these guidelines.

HUMAN RESOURCES	Shareholder	Board	REMSEC & CORP GOV	GCE	CHRO	GLT Member	CE:OD/SU	Line GM	ODHR GM
2.1 GLT (A Level) Executive Directors	FA	R	C		I				
2.2 GLT and Group Executives (A Level)			C	*FA	R				
2.3 General Managers (B Level)				FA	R	R			
2.4 Executive Managers (C Level)					A	**FA	FA	R	R
2.5 Senior Manager (D Level and below)						**FA		FA	R

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* The proposed remuneration for GLT Members (other than executive directors) will be noted by the Remuneration, Social and Ethics Committee.
** This approval only applies to TC

3	**Appointment of Employees (Indefinite Contract and Fixed-Term Contract Employees)** • A person appointed on an indefinite contract or fixed-term contract (for a specific period of time or to perform a specific project) must be appointed into an approved graded position. • Once the appointment has been approved, the person delegated to approve the appointment may sub-delegate the signing of the contract of employment. • Any appointment of a person on an indefinite or fixed term contract for employment outside of the borders of South Africa must be approved by the Group Chief Executive on recommendation from the Chief Executive of the Operating Division or the Group Executive of Human Resources for Transnet Corporate Centre, including Transnet property and Transnet Capital Projects.								
HUMAN RESOURCES	**Shareholder Approval**	**Board**	**REMSEC & CORP GOV**	**GCE**	**CHRO**	**GLT Member**	**CE:OD/SU/ GE**	**OD/SU HR GM**	**LM: GM**
3.1 GLT (A Level) Executive Directors	FA	R	C						
3.2 GLT and Group Executives (A Level)			C	FA	R				
3.3 General Managers (B Level)					R	*FA		R	
3.4 Executive Managers (C Level)						**FA	FA	R	I
3.5 Senior Management (D Level and below)								R	FA
3.6 Manager (E Level and below)								R	FA
3.7 Bargaining Unit								R	FA

* The Chairpersons of Remuneration, Social and Ethics and the Corporate Governance and Nominations Committees will be consulted by the GCE for the appointment of GLT Members (other than executive directors). The *consultation* will be through a memorandum submitted to the Chairpersons of the Committees.
* The appointment of General Managers will be noted by the GLT.
** This approval only applies to TCC positions.

4		**Counter Offers** If an employee produces a written and current counter offer of employment with details of the remuneration package, and the Company seeks to retain the employee based on the criticality of the employee's skill, an interim adjustment of the employee's current remuneration package may be offered in terms of the delegations below. Any counter offer must be in accordance with the Group Guidelines and Salary Bands issued by Group Remuneration.								
HUMAN RESOURCES	**Shareholder**	**Board**	**REMSEC & Corp Gov**	**GCE**	**CHRO**	**GLT Member**	**CE:OD/SU/GE**	**OD/ HR GM**	**GM:HR,T T**	**LM:GM**
4.1 GLT (A Level) Executive Directors	FA	R	C							
4.2 GLT and Group Executives (A Level)				FA	R				R	
4.3 General Managers (B Level)					R	FA	I	I	R	
4.4 Executive Managers (C Level)							FA	R	R	I
4.5 Senior Management (D to Level F)								FA	R	I
4.6 Bargaining Level employees (in accordance with the applicable Collective Agreement)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

5	Interim Salary Adjustments • Any interim adjustments, including requests for adjustments related to lateral transfers, requires the approval of the GCE. Any counteroffers must be noted by the GLT.
6	***Internal Rewards / Awards / Exceptional Payments / Ex-gratia Awards*** *The amounts reflected below are per initiative (not per individual employee payment) per annum*

HUMAN RESOURCES		Board	REMSEC	GCE	CHRO	GLT Member	HR GM	GM: HR,TT	CE:ODs	GM Line Manager
6.1	R15m and above	FA	R	R	I			R		
6.2	Between R10m but not exceeding R15m		FA	R	I					
6.3	Between R50 000 but not exceeding R10m			FA	R	R	I	I		
6.4	Between R20 000 but not exceeding R50 000					FA	R	R		I
6.5	Up to but not exceeding R20 000						R	R	FA	I
6.6	Up to but not exceeding R10 000						FA	A		R

7	**Suspension of Employees** • The suspension of all employees is per the delegations of authority below. • In the case of the suspension of a bargaining unit employee, the relevant OD Employee Relations Manager must recommend the suspension based on the merits of the case. • **OD:CE's final approval for levels D to F can be sub-delegated to GM:LR and OD HR:GM.**										
HUMAN RESOURCES	**Shareholder**	**Board**	**REMSEC & Corp Gov**	**GCE**	**CHRO**	**GLT Member**	**OD/SU HR GM**	**GM: LR**	**LM: GM**	**LM**	**LR Manager**
7.1 GLT (A Level Executive Directors)	FA	R	C								
7.2 GLT and Group Executives (A Level excluding executive directors)			N	FA	R	R			R		
7.3 General Managers (B Level)				N	R	FA		R			
7.4 Executive Managers (C Level)						FA	R	A	R		
7.5 Senior Management (D to F Level)							R		FA	R	A
7.6 Bargaining Unit Employees							A			FA	R

8	**Dismissal of Employees** • The dismissal of any employee for reasons of discipline or incapacity must be preceded by a fair hearing/process in line with Company policies. • The required authority to seek a dismissal of an employee at a disciplinary or incapacity hearing must be obtained prior to the hearing. • The dismissal of an employee for operational requirements must be preceded by a fair consultation process. • **OD: CE's final approval for levels D to F can be sub-delegated to GM:LR and OD HR:GM.**										
HUMAN RESOURCES	**Shareholder**	**Board**	**REMSEC**	**GCE**	**CHRO**	**OD/SU CE/GE**	**GLT Member**	**GM: LR**	**LM: GM**	**LM**	**LR Manager**
8.1 Group A Level Executive Directors	FA	R	N								
8.2 GLT and Group Executives (A Level excluding executive directors)		N	N	FA	R			I			
8.3 General Managers (B Level)				FA	R		R	I			
8.4 Executive Managers (C Level)					C	R	FA	I R:CC	R	I	C
8.5 Senior Management (D to F Level)						FA	R		A	R	R
8.6 Bargaining Unit Employees										FA	R

9	**Mutual Separation** • Terms and conditions and financial settlement amounts of mutual separation agreements for A – D Roles will be guided by the Guidelines issued by the Group Remuneration Office.

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HUMAN RESOURCES	Shareholder	Board	REMSEC	GCE	CHRO	GLT Member	OD/SU HR GM/CE/GE	GM:HR,CC	GM:LR	LM:GM
9.1 GLT (A Level) Executive Directors	FA	R								
9.2 GLT and Group Executives (A Level)			N	FA	R					
9.3 General Managers (B Level)				FA	R	R				
9.4 Executive Managers (C Level and below)						FA	R		R	I

10	Settlement of Legal Disputes of Employees and Arbitration • The settlement of labour disputes at a disciplinary hearing, at the Transnet Bargaining Council, the CCMA, the Labour Court or High Court is subject to approvals in terms of the delegations below. • OD CE could do final approval for Levels D to F.								
HUMAN RESOURCES	Shareholder	Board	GCE	CHRO	GLT Member	OD HR GM	GM: LR	GM Line Manager	LR Manager
10.1 GLT (A Level) Executive Directors	FA	R							
10.2 GLT and Group Executives (A Level excluding Executive Directors)		N	FA	R			A		
10.3 General Managers (B Level)			FA	R	R		A		
10.4 Executive Managers (C Level)					FA	R	A	R	A
10.5 Management (D Levels and below)						FA		R	A
10.6 Bargaining Unit Employees				FA					I

11	Collective Bargaining and Trade Union Recognition • Collective agreements shall only be concluded where a collective agreement as required by law • Shift patterns and working arrangements are matters for consultation and not collective agreement						
HUMAN RESOURCES	REMSEC	GCE	CHRO	GLT Member	OD HR GM	GM:LR	LM:GM
11.1 Conclusion of any Collective Agreements with Labour excluding shift patterns and matters for consultation			FA	R	R	A	
11.2 Mandate for salary and wage negotiations	FA	R	R			A	
11.3 Recognition of Trade Union and Signing of Recognition Agreement	N	N	FA			-A	

12	Report all human Capital Risks					
	Board	Risk Committee	Corp Gov	REMSEC	GCE	CHRO
	N	N	N	C	FA	I

13	Deviation from approved Human Resources Policies and recommendation of policies							
HUMAN RESOURCES	Risk Committee	REMSEC	HR Leadership Team	GCE	CHRO	GLT Member	OD HR GM	GM: LR
13.1 Any deviation from a Transnet HR Policy		N		FA	R	R	R	A
13.2 Approval of HR policies		N	FA		R			A

5.8 General Delegations

5.8.1 Chartering of Aircraft

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Authority Level	GLT Member	COO	CFO	GCE
Chartering of Aircraft	NIL	Up to but not exceeding R3m	Up to but not exceeding R3 m	Exceeding R3 m
Chartering of helicopters for operations	R250 000*	Up to but not exceeding R1m	Up to but not exceeding R1 m	Exceeding R1 m

* The limits for CE: ODs/ GE: SUs are cumulative per helicopter per month.

5.8.2 Mobile phones: Authorising payments exceeding monthly limits (reflected in mobile phone contract)

Companywide	GLT Member	CFO	GCE
	Up to but not exceeding R15 000 per month	Up to but not exceeding R20 000 per month	Exceeding R20 000 per month

5.8.3 Entertainment Expenditure

Authority Level	GLT Member	GCE
	Up to but not exceeding R50 000 per occasion	Amounts exceeding R50 000 per occasion

Costs incurred by any person on behalf of the Company must be authorised by that person's superior and must be within the approved budgetary limits. Supporting documentation should be marked cancelled to prevent re-use thereof. All entertainment expenses must be business related expenses.

5.8.4 Rewards/Awards/Exceptional Payments to external parties: (Examples: *Ex-gratia* awards, exceptional performance, recognition payments)

	COO and COAM	CFO	GCE	REMSEC	Board
Operating Divisions	Up to but not exceeding R100 000	Up to but not exceeding R100 000	Up to but not exceeding R5m	Up to but not exceeding R10m	Exceeding R10m
	GLT Member	**CFO**	**GCE**	**REMSEC**	**Board**
Specialist units	Up to but not exceeding R100 000	Up to but not exceeding R100 000	Up to but not exceeding R5m	Up to but not exceeding R10m	Exceeding R10m

5.8.5 Sponsorships and Donations

Approval Authority →	COO and COAM	CFO	GCE	REMSEC	Board
Operating Divisions	Up to but not exceeding R10m	Up to but not exceeding R7m	Up to but not exceeding R20m	Up to but not exceeding R25m	Exceeding R25m
Approval Authority →	**GLT Member**	**CFO**	**GCE**	**REMSEC**	**Board**
Specialist Units	Up to but not exceeding R2m	Up to but not exceeding R7m	Up to but not exceeding R20m	Up to but not exceeding R25m	Exceeding R25m

Approval limits are cumulative per annum e.g. the COO can approve a total amount of R10m per annum for sponsorships and donations.

5.8.6 Annual filing of tariff applications with Regulators

- OD tariff increase applications to be submitted to GLT for approval.
- The COO in concurrence with the CFO are delegated to file the Tariffs applications with relevant Regulatory bodies.

5.8.7 International Business Travel (including travel to African countries)

	Approval Authority
Below CE:OD level at Operating Division	COO
CE:OD	COO
Corporate Centre	CFO
Specialist Units	COO/CCO
GLT Members and Group Executives	GCE
Travel to African Countries	GE: Strategy, COO and COAM
GCE and Chairperson	User – Retrospective review by GCE or Chairperson and vice versa.

Business benefits, analysis and purpose to be demonstrated in the application to the respective approval authority.
Post travel a report back on the achievement of the above to be submitted to the respective approval authority.

5.8.8 Domestic Business Travel

	Approval Authority
Chairperson/GCE/GLT Member	User
CE: OD or GE of Specialist Unit	COO
General Managers/Extended GLT	CE:OD/, or CFO:OD/SU/ or Group Executive
All other levels	General Managers/Extended GLT

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All travel must be in line with the approved Travel Policy as amended in accordance with the provisions of National Treasury instruction Note 1 of 2013/14. Extended GLT Members at an OD/SU may sub-delegate to the appropriate lower level.

5.8.9 Communication

	Approval Authority
External communication on strategy and operations	GM: Public and Corporate Affairs or GCE or his Designate
Communication on operational issues relating to an OD	COO, COAM and CE of OD
Communication with the Shareholder Minister	Office of the GCE or Chairperson of the Board of Directors

Approval to attend seminars and or conduct presentations to external parties which may result in indirect communication may be approved by a CE: OD/SU or the GCE.

5.8.10 Establishment of Special Purpose Vehicles (SPVs), Public Private Partnerships (PPPs), Private Sector Participation (PSP) and Trusts

	Approval Authority	
Establishment of SPVs, PPPs, PSPs and Trusts	Board to approve after recommendation by ADC, the GCE, CFO, GE: Legal and Compliance as per the Materiality and Significance Framework contained in the Compact with the Shareholder if the transaction is specified in the Corporate Plan if not specified in the Corporate Plan then Board may approve the transaction up to but not exceeding capital risk of R100m. Capital risk in excess of R100m are to be recommended by the Board for Shareholder approval.	
	CBDO, COO,COAM and GE: Strategy	GCE
Commencement of due diligence/ feasibility studies for PSPs, PPPs and SPVs	Up to but not exceeding R5m for the study	Exceeding R5m for the study

The Company shall not without the prior written approval of the Shareholder Minister enter into any transaction which exceeds or falls outside of the limits prescribed by the Shareholder's Compact or the Significance and Materiality Framework.

5.8.11 Establishment of Joint Ventures or Consortia with Entities incorporated in foreign jurisdictions

To be read in conjunction with 5.8.10 above.

	Approval Authority
Establishment of Joint Ventures or Consortia with Entities incorporated in foreign jurisdictions	Approval to enter into an agreement or other binding document establishing a joint venture or consortium with an entity incorporated in foreign jurisdiction requires approval from the Shareholder Minister on recommendation from the Board and in addition, if it also contains foreign currency exposure, approval must be sought and obtained as per the monetary thresholds indicated in the second bullet under item 5.5.1.2 above. If capital risk is R100m or below, Board approval is required as per the Materiality and Significance Framework contained in the Compact with the Shareholder. Capital risk in excess of R100m for this transaction are to be recommended by the Board of Directors for approval by the Shareholder.

The Company shall not without the prior written approval of the Shareholder Minister enter into any transaction which exceeds or falls outside of the limits prescribed by the Shareholder's Compact or the Significance and Materiality Framework ("SMF").

5.8.12 Restructuring and sale of business

	Approval Authority
Restructuring or sale of business	Board in accordance with Section 54 of the PFMA

5.8.13 Pension Fund and Medical Fund Rule Amendments as recommended by the Board of Trustees of the Funds

	Approval Authority
Changes to the rules of the pension and medical fund that do not require Ministerial approval	CFO and GCE
Rule amendments that require Ministerial approval	Board to recommend to the Minister of Public Enterprises for approval

5.8.14 Application for Environmental Authorisation

- All environmental impact assessment or basic assessment applications must be prepared by a competent independent environmental assessment practitioner/consultant, unless exemption from this provision has been obtained in writing by the Department of Environmental Affairs and under the supervision of the Environmental Department in the OD/SU.
- The application for environmental authorisation must be signed as per the approval authority below.

	Approval authority to act as applicant for an environmental authorisation for Transnet SOC Ltd
Operating Division	Project Manager/ Operations Manager/Environmental Manager

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Specialist Unit (Transnet Property)	Chief Operations Officer of Property
Specialist Unit (Transnet Capital Projects)	Project Director

- The applicant remains legally responsible for the compliance with the environmental authorisation throughout the implementation of the authorisation.
- Should an authorisation for new capital projects contain operational elements after formal handover of the project by TCP, the DEA needs to be informed in writing of the change in names and acknowledgement from DEA be filed.
- Should any of the above applicants leave the Company, the DEA needs to be informed in writing of the new person responsible for the implementation of the environmental authorisation.

5.8.15 Application for Liquor Licences (all types)

	Approval authority to act as applicant for application for liquor licences for Transnet SOC Ltd
Operating Division	COO/COAM
Specialist Unit (Transnet Property and Transnet Capital Projects and Foundation)	GLT Member or COO
Corporate Centre	CFO

5.8.16 Company Membership of Industry Associations or International Organisations

Approval Authority	**GLT Member**	**GCE**	**Remunerations, Social and Ethics Committee**
	Up to but not exceeding R5m	Between R5m and R20m	Above R20m.

The relevance of such membership shall be reviewed annually by the COO

5.8.17 Enterprise Information Management Systems (EIMS) Governance Framework and Charter

The CIO is delegated to approve exemptions to the Framework.

5.8.18 Recommendation on Board-approved Policies

Deviation from Policy:	Board	Audit	Risk	ADC	Corporate Governance and Nominations Committee	REMSEC	GLT
Governance and Ethics Management Policies	FA				R	N	
HR related (succession planning, excluding executive directors)						FA	R
HR related (succession planning for executive and)	R				R		R
HR related (performance management)						FA	R
Procurement related	FA			R			R
Property related				FA			R
Risk related			FA/R				R
Treasury Related		FA					R
Tax related		FA					R
CSI related	FA					R	
Compliance related	FA	R					
Marketing and Advertising	FA					R	
Sustainability (Energy and Water)						FA	R
B-BBEE	FA					R	
PSP	FA			R			
Financial Policy w.r.t. Insurance		N	FA				R

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ANNEXURE PM 9

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Our ref 4433868
Matter ref JOBURG

04 September 2017

Dear Fred

REPORTABLE IRREGULARITY: CRRC ROLLING STOCK SA (PTY) LTD ("OUR CLIENT")

1. **INTRODUCTION**

1.1 We refer to your letter of 12 June 2017 addressed to our client, your letters dated 12 June 2017 and 11 July 2017 addressed to the Independent Regulatory Board of Auditors and the meeting held on Monday 14 August 2017, and attended by me by way of a conference call link ("the meeting").

1.2 In the meeting, we discussed the alleged "reportable irregularity" arising from a proposal which our client prepared for Transnet SOC Limited ("Transnet") and a business development services agreement entered into between our client and Business Expansion Structured Products Proprietary Limited ("BEX").

1.3 We understand that, at this time and on the basis of information provided to you, you are of the view that the proposal and the agreement contain alleged irregularities for the following reasons:

(a) the proposal significantly misrepresented to Transnet the cost of the relocation of a manufacturing facility from Pretoria to Durban; and

(b) a payment made by our client to BEX appears to "lack sound commercial substance and purpose".

1.4 Following the discussions at the meeting, it appears to us that you have not been given all the information and context surrounding the proposal, and the agreement, that you need to properly assess these documents, and we undertook to liaise with our client, and gather information and documentation with a view to addressing the allegations you have raised, and which allegations are disputed by our client.

1.5 We will set out the further information that we have received from our client, below.

2. BACKGROUND AND RELATIONSHIP BETWEEN TRANSNET, OUR CLIENT AND BEX

Our client has instructed us as follows:

2.1 As you know, during March 2014, Transnet awarded contracts to four equipment manufacturers, including Bombardier Transportation South Africa ("Bombardier"), to provide locomotives, the majority of which are to be manufactured in Pretoria or Durban, and our client was awarded a contract to manufacture and supply 232 diesel locomotives.

2.2 Following the award of this contract to our client, Transnet approached both our client and Bombardier to request a variation to the original contract. The variation concerned the relocation of the Transnet locomotive manufacturing facility from Pretoria to Durban, and our client prepared a proposal and costing for this variation ("The Project").

2.3 We understand that our client and Bombardier were approached by Transnet as they are the primary users of the manufacturing facility, although a part of the space is also used by Transnet. Our client has no knowledge of whether or not Bombardier submitted a proposal to Transnet.

2.4 Our client, having been asked to provide a proposal to Transnet, felt obliged to respond. Accordingly, our client put together a brief proposal to Transnet dated 28 January 2015 and a copy is attached as Annexure A.

2.5 As you will see from Annexure A, our client at this stage had only managed to put together a high-level proposal, which did not contain any breakdown of the costs of the Project. This proposal was discussed with a multidisciplinary team appointed by Transnet ("the Transnet Team") who advised that this proposal was not detailed enough as Transnet required more information and costing.

2.6 Our client then submitted a revised proposal to Transnet, which is dated 1 February 2015 and is attached as Annexure B. This proposal provided that "*the cost will be more than R100,000,000*" but did not provide any detailed break-down of the costs, At this stage, our client was not in a position to provide a detailed cost break-down, as a relocation of the type contemplated, was beyond its day to day expertise.

2.7 This revised proposal (Annexure B) was also discussed at a meeting between representatives of our client and the Transnet Team. Again, Transnet advised our client that the proposal was not comprehensive enough for them to properly consider.

2.8 **It should also be noted that our client is a Chinese Headquartered Manufacturing Group and it is accordingly not familiar with local costing and conditions.**

2.9 At this meeting, Transnet's Team advised our client to prepare a more professional proposal setting out *inter alia*:

(a) what would be required to complete the relocation of the manufacturing facility and the implementation of the Project;

(b) all of the ancillary issues which would need to be considered as part of the relocation (for example, insurance, warehousing costs, financing etc); and

(c) a detailed breakdown of the various project components with a more detailed analysis of the costs comprising each component of the Project

2.10 In a further effort to meet Transnet's requirements, our client then compiled a more detailed cost estimate, which was finalised in March 2015, and a copy of this is attached as **Annexure C**. You will see from Annexure C that our client attempted to make a further and more detailed proposal. However, this cost estimate, while more detailed than what had previously been submitted to Transnet, remained nothing more than an estimate, on an uninformed basis, of the costs, estimated by our client's factory engineers, based on what they believed a similar project would cost in China. In preparing this submission, our client's factory engineers, failed to factor in the significantly higher costs applicable in South Africa (such as increased labour costs).

2.11 Once again, this more detailed cost estimate set out in Annexure C, was not satisfactory to Transnet.

2.12 **Our client and BEX had originally met in 2014, shortly after our client was awarded the original contract by Transnet, at a railway exhibition. At that time, our client exchanged business cards with BEX.**

2.13 Subsequently, BEX visited our client at their offices to see whether BEX could assist our client with its business and this meeting was initiated by BEX, not by our client.

2.14 At this meeting our client mentioned to BEX that our client had been asked to provide Transnet with a proposal for the relocation of Transnet's manufacturing facility and that our client had been experiencing difficulty in putting together a proposal which met Transnet's requirements.

2.15 BEX offered to assist our client in putting together the required proposal and a cost breakdown which would meet Transnet's requirements. Our client was of the view that if BEX could provide the skill and expertise required to put a satisfactory proposal together for Transnet, our client was prepared to engage with them.

2.16 BEX provided our client with a copy of its company profile, a copy of which is attached as **Annexure D**, which our client was comfortable with. As our client was under substantial time pressure to submit a detailed proposal to Transnet as Transnet's financial year end was approaching, and as our client was unable to provide a proposal in the form required by Transnet, it required BEX's services in order to be able to do so.

2.17 In accordance with our client's request, BEX then analysed the project, and carefully considered the costing and applicable models and methodologies, and confirmed with our client that the estimated breakeven cost of the Project would be R580 million. This is, of course, higher than the R318 million which our client had calculated but, as mentioned above, this figure was an approximation of what the project would cost if it were undertaken in China, without looking at what the costs in South Africa would be. The main drivers to which the increased costs can be attributed are:

(a) labour costs;

(b) the impact of timing;

(c) hedging and risk management costs; and

(d) additional and material costs to be allocated to upgrading and renovating the Durban facility to ensure parity between it and the high quality of Transnet's Pretoria manufacturing facility.

2.18 Our client and BEX thereafter entered into a business development services agreement, pursuant to which BEX agreed to provide certain services in terms of the agreement attached as **Annexure E**

2.19 With respect to the fee that BEX would receive for providing these services, our client did not want to take any risk itself in terms of having to absorb additional fees from BEX. Our client was in no way assured of being the successful project bidder and, had it agreed to pay BEX's fees upfront, it would have been out of pocket had it not been successful in its bid.

2.20 As our client needed BEX's services in order to properly respond to Transnet's request for proposal, our client agreed a risk-sharing arrangement with BEX. As you know, it was ultimately agreed (as recorded in the Business Services agreement) that inter alia:

(a) BEX would assist our client in negotiating the "best possible price" with Transnet based on the Project benchmark cost of R580 million (this being the minimum amount which our client would need to receive in order not to make a loss from the Project);

(b) BEX would be entitled to an "agency commission" equal to the difference between the price awarded by Transnet and the project benchmark cost;

(c) Our client would be guaranteed its R580 million – i.e. if the total price agreed to by Transnet was R580 million or less, our client would have been entitled to the full price to be paid by Transnet and BEX would not have received any fee for their services.

2.21 Our client was of the view at the time that Transnet would not agree to a project cost of R580 million and that the final project cost might be lower than this. Based on our clients prior business experience, that our client believed that Transnet would require a discount on this amount. Thus our client believed that the final project cost would be closer to, R580 million. Hence they believed there was very little risk for them in agreeing an "upside" fee arrangement with BEX.

2.22 As to why our client was prepared to undertake this project on a break-even basis, our client has advised that they were prepared to do so, for strategic reasons. Our client had already been awarded a contract to provide 232 locomotives to Transnet and hoped to secure future work in South Africa. Being prepared to undertake the relocation project on a cost-neutral basis could further assist our client in securing any such future work. In addition, our client is ultimately a State-owned company in China and its mandate and strategy is to encourage investment outside of China. Hence the focus was on trying to ensure that our client did not make a loss as a result of the implementation of the Project, rather than trying to make a profit, and our client approached the matter on a strategic long term basis. It is clear from the above that there are cultural differences in how Chinese companies and South African companies do business and which has not been factored in by you.

2.23 After consulting with BEX, our client then issued a further project proposal and costing to Transnet, attached as **Annexure F**. While our client, based on advice received from BEX, believed that its break-even cost for the project was R580 million, the proposal submitted to Transnet contained a project cost of R635 851 786 to provide for cost increases due to labour costs, hedging and etc. and caused by the lengthy period required to execute the Project, and further to enable our client to accommodate any reductions in our clients proposed Project cost, that might be required by Transnet, and without necessarily putting our client into a position where our client would make a loss on the Project.

2.24 Unavoidably, and due to a time extension by Transnet, a further proposal, marked **Annexure G**, was required to be submitted to Transnet in an amount of R719 090 548, but building in a discount that would reduce the project cost to R647 181 494, and

Transnet accepted that the additional costs had arisen as a result of the extension by Transnet, and Transnet accepted the price and discount that our client had proposed.

2.25 Our client's proposal (Annexure G) was accepted by Transnet, and we attach Transnet's written acceptance as **Annexure H.** While our client is not privy to the facts on which Transnet based its decision to accept our client's proposal, it is likely that the time pressure that Transnet was under to initiate the relocation of the manufacturing facility and thereafter to start the Project as soon as possible may have played a part. Transnet itself refers to an *"extremely tight delivery schedule"* associated with this project (see **Annexure I**). Also, our client further assumed that Transnet would have considered bids from other parties for this project – particularly as our client was aware that Bombardier was approached to submit a proposal. Our client assumes that, in light of this, its proposal must have been favourable as compared to any other proposals that Transnet might have received, bearing in mind that our client's benchmark cost of R580 million was calculated on a breakeven basis, and that other bidders would not have submitted bids on this basis and would accordingly have built a profit margin into their bids. While our client anticipated that Transnet would push back on its proposal and try to reduce this, Transnet accepted that our client had already built in a 10% discount, and appeared comfortable with this.

2.26 Following Transnet's acceptance of our client's proposal, in an amount which was higher than what our client believed Transnet would agree to, our client issued an invoice to Transnet (see **Annexure J**) and BEX issued an invoice for its "fee" to our client – please see **Annexure K.**

2.27 We have asked our client as to whether, when the project price of R647 181 494 had been agreed to by Transnet, there had been any discussions with BEX about reducing the commission payable to BEX under the business development services agreement.

2.28 Our client has advised us that they did consider this and even, had a discussion with Mr Mark Shaw of BEX in which they raised their concerns that with hindsight the commission payable to BEX might be high. However, Mr Mark Shaw dismissed this, and on the basis that the fee or commission payable to BEX had already been contractually agreed. Our client then raised the issue with its parent company in China. The parent company asked what the likelihood of litigation would be if they tried to reduce the commission payable to BEX and our client advised that this was likely. On this basis, wishing to avoid protracted litigation and possible damage to its reputation, our client's parent company instructed our client not to pursue a claim or request for a reduction of the commission payable to BEX.

2.29 Ultimately, our client is of the view that, had they known at the outset that Transnet would have agreed to a project fee exceeding R580 million, they would not have been happy with, nor agreed to, the fee arrangements agreed with BEX as set out in the business development services agreement. At the time, our client was of the bona fide belief that the final project fee would be closer to R580 million, and did not contemplate that it could be significantly higher than this.

3. In conclusion, we trust that the above information provides you with a better context and understanding of the transactions which have been reported as alleged "material irregularities", and we reiterate that our client disputes that there were grounds to do so. Ultimately, BEX did receive a substantial commission for the services it provided to the company but, and as indicated above, there are commercial and bona fide reasons for this.

4. We further remind you of the so-called "business judgment rule" in terms of which it is presumed that in making a business decision, the directors of a company acted on an informed basis in good faith and in the honest belief that the action taken was in the best

interests of the company. It is evident from the information provided to you that, at all relevant times, Our client's management acted in the best interests of the company, and with the requisite degree of care, skill and diligence in respect of its dealings with Transnet and BEX, and any allegation to suggest that our client and/or its directors acted irregularly or in breach of their fiduciary duties are unmeritorious and specifically denied. Our client expressly denies that they were party to improper dealings, and have advised us that the transactions referred to herein are *bona fide* arms-length transactions between willing contractors.

5. In light of what is detailed herein, our client is of the view that it would not be proper or correct for KPMG to qualify its current draft financial statements, nor revise our clients financial statements for the prior financial year.

Yours sincerely

Vaughn Harrison

Partner

A

CNR Rolling Stock
South Africa

Durban Locomotive Factory Relocation Proposal

CNR Rolling Stock South Africa

2015-1-28

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CONTENT

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TIMU DRAFT

Since Spet.15th of 2014, CNR RS SA has provided the technical supports to TE in positive according to the requirements. The following items have been made big progress.

1. Manufacture Process Chart

In 2014, the draft version of "Information of Process Chart, Working Procedure and Machinery, Jigs & Fixtures for each Station" was provided to TE.

Latterly, when TE visit in Dalian, CNR production line of diesel locomotive was shown and introduced in details to TE, including Carbody fabrication line and assembly line, bogie frame fabrication line and assembly line, Combo fabrication and assembly line, wheelset assembly line, engine test bench, locomotive final assembly line, load test bench and running test bench and etc.

As per the request made by TE during their visit in Dalian, CNR Dalian updated the draft data sheet by adding the procurement information of Machinery and Jigs & Fixtures, and labor hours at each station etc. In this document, it indicated the product and procedure for the items like material preparation, carbody, underframe, cab, sidewall, partition wall, side door wall, cover, bogie frame, fuel tank, coolant structure, water tank, cowcatcher, driver console, wheelset assembly, bogie assembly, locomotive assembly and test etc. Meanwhile, process flow chart, procedure, machinery, jigs &fixtures, labor time, as well as procurement

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information of those jigs and fixtures like dimension, function, purchasing cycle etc. were indicated.

2.Technical support for Durban

In May of 2014, due to the new facilitate in Durban, we provided some suggestion on jigs and fixtures need to be equipped with in Durban to TE.

3.3P Technical Support.

Currently, we are preparing the documents needed during 3P as per the request by TE. The experts from CNR will come once all the document are ready.

4.Potential Cost Increased

Therefore, start from less experience to mature manufacture, it needs a complicated procedure. Due to the tight schedule, the facility and staff in Durban could be challenge on the project execution.
It is estimated that it will get the cost increased, this letter list some of the fields, it is draft but can be finalized during the execution in future.

CNR RS SA
January 28, 2015

B

CNR Rolling Stock
South Africa

Durban Locomotive Factory Relocation Proposal V2

CNR Rolling Stock South Africa

2015-2-1

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DRAFT V2

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It is estimated that it will get the cost increased, the cost will be more than R100,000,000, such as the following field:

- Transportation cost increased
- Human staff cost increased
- Technical support cost increased

this letter list some of the fields and estimated the additional cost, due to the manufacturing is not started, and the Durban situation and information of the site is not enough, the cost is draft but can be finalized during the execution in

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future.

CNR RS SA
Febrary, 2015

C

南非项目德班搬迁‡
Proposal Estimated Cost Increa

序号 No.	名称 Description	增加金额 （总计） Increased amount(total)
1	增加运输费用 Increased logistics cost	65, 430, 000
2	增加德班建立办事处和旅行费用 Increased cost for setupfacilities in Durban & travelling	29, 400, 000
3	全新、新设厂区的工艺布局技术指导，技术支持费用（比指导已有厂区需要等多的技术支持和指导）Increased Cost on technical support & guide on brandnew process layout(compared with the KDS)	48, 600, 000
4	培训全新生产厂员工的难度和费用增加（新生培训的深度和广度与既有熟练员工不同） Difficulty and cost increased on traning the new emplyees	31, 800, 000
5	供应商的机车生产现场服务成本增加 Increased cost for site service on site by supplier	47, 470, 000
6	我方延迟收到货款，货款的时间价值 Increased Financial cost for postpone the delivery due to the relocation	96, 000, 000

曾加费用预算
ısed on Durban Relocation

备注 Remark
table1
办事处房租：60万每年*7=420万；住宿房租（30人）：30万每月*12个月*7年=2520万兰特 Office rental:600,000 Rand/year*7=4,200,000Rand;rental(30 persons): 300,000/month*12*7=25.2million Rand
800R（小时费率）*7.5小时*30人*270个工作日 800R(hour rate)*7.5hours*30persons*270 working day
每台多10万兰特；212台合计=2100万兰特；（可以从培训TE人总数上验证一下）；培训总人数： 100,000Rand per loco increased;21million rand total in 212 locomotives; (to be verified on TE traning)
现场服务按照采购总额（除TE)的10%计算，搬迁导致增长10%计算。 On site service will be calculated according to 10%of procument amount(excludes TE), and the relocation will increase 10%.

7	保险	2,726,851
	总计	318,700,000

D

BEX Structured Products (Pty) Ltd

ABOUT BEX:

BEX Structured Products ("BEX") is a professional service advisory business that specialises in business enterprise optimisation using financial modelling, derivatives and engineering techniques.

BEX works with the executives of leading South African and multinational corporations to solve their most important, complex and recurring challenges; and to exploit their opportunities. In so doing we are able to add sustainable, verifiable and significant value to clients.

Where appropriate BEX will advise on capital raising utilizing either debt or equity funding. In this regard BEX, has significant experience in funding all aspects of industrial, financial, insurance, telecoms and marketing businesses as well as having participated or advised in transactions in the mining and property sectors.

OUR EDGE:

We differentiate ourselves by always employing rigorous financial techniques and technologies, fused with an intimate understanding of the practical business context and detail. It is through this fusion that we are able to advise our clients on a course of action that is value enhancing and cost effective and at the same time feasible to implement. This enables them to practically attain their objectives in the most efficient and effective manner.

Merely being 'strategically' or 'directionally' correct is insufficient for us. We operate in a world of deliberate precision, and absolute accuracy. Our task is to embrace complexity and then refine it into objective clarity.

BEX operates through an established network of professional partners to deliver client focused solutions thus providing access to some of South Africa's leading corporate financiers, engineers, mathematicians, actuarial scientists and software programmers, working seamlessly across their respective disciplines in order to deliver advice to clients that will result in significant and tangible value.

We define optimisation as:

A rigorous scientific process designed to discover the configuration of components of a business system (enterprise and/or industry) that will result in greatest achievement of the desired outcome or objective function.

OUR CLIENTS

Some of the Optimisation projects that BEX and our partners have been involved in historically:

Within the Long Term Asset Optimisation Realm:

Client	Engagement Summary
Major Mining Multi-Commodity Conglomerate	Development of probabilistic capacity models for the validation of production plans and business cases for new investments
Major Mining Multi-Commodity Conglomerate	New Mining Technologies in Rock Cutting – Scenarios were designed to formulate business cases for different rock cutting technologies relative to other conventional mining methods
Major Platinum Producer	Modelling, optimisation and the implementation of new mining technologies and methods in the mining industry, Financial Analysis, Strategy, Stochastic scheduling & analysis (Risk Management), Extensive layout design & analysis of New Mining Technologies, Implementation of New Mining Technologies & Mining Methods within the Mining Industry, development of a Management Operating Systems for Underground Mines, Operational Time Studies, Analysis & Mining Method Optimisation, Mining Method Visualisations.
Major Platinum Producer	Probabilistic analysis of underground operations' production schedules using Monte Carlo techniques to validate their long term plans.
Major Global Gold Producer	Production scenario planning for several key mines.
Major Platinum Producer	Half level optimisation and costing.
Major South African Gold Producer	Life of Mine scenarios - the development and implementation of detailed NPV and cash flow models focused on evaluating multiple what-if scenarios for their competent persons report at all their Underground Gold operations.
World Leader in Alloying Metals	Opex modelling of a new investment in South Africa of the French based company.
Major Open Pit Platinum Mine	Expansion Validation - Using stochastic discrete event simulation, Cyest tested the [illegible] of a [illegible] - year life of mine plan. The purpose was to determine whether the mine could deliver sufficient material to support the planned plant expansion. Our team determined the confidence level associated with the target, and recommended specific interventions to raise the confidence to an acceptable 80% level. As a result, the mine now plans to use stochastic discrete event simulation to validate their short - term plans as well.

OUR WORK: [illegible]

Examples of different optimisation scopes:

Capital Optimisation

The objective functions here could be Maximise Value (NPV); or Maximise Returns (ROCE, ROI, etc.) or Maximise Capital Efficiency (economic profit); or minimise Risk.
And the constraints would typically include – capital (funding), availability of investment pipeline, etc.

Asset Optimisation

Asset Optimisation occurs after the investment decision has been taken (during the capital optimisation stage) and the problems tackled here refer to how the assets (plant and equipment) can be configured to achieve the desired objective function.

Examples of sometimes-conflicting objective functions here include goals such as – maximising asset life, ensuring the lowest unit cost, or yielding the greatest return, highest short-term profitability etc. Examples in this realm would include – the design and layout (of a plant, a mine, a logistics network); the allocation and scheduling of assets, etc.

Resource Optimisation

This realm of optimisation is the most operational / granular and occurs once the assets have been decided upon and configured during the asset optimisation exercise.

Resource optimisation refers to how resources are organised around the assets in order to for example – minimise unit cost, or minimise total cost, or increase margin, or maximise profits, etc.

In other words the asset configuration and physical capacity becomes the constraint around which resources must be organised. Examples of decisions in this realm include – resource type, quantum and allocation, production schedule, etc.

Within the Operational Resource Optimisation Realm:

Client	Engagement Summary
A Leading Global Export Coal Group	Capacity analysis for Load and Haul operations using Discrete Event Simulation to establish unit cost reductions of 20%.
A Leading Global Export Coal Group	Development of fleet management diagnostics using Android devices to assist in parking haul trucks.
Major Platinum Producer	Design of an underground mechanised mining management operating system for piloting new mining methods and technologies.
Major Diamond Producer	Value Driver Tree implementation and support for operational diagnostics purposes of an open pit mine.
Major Mining Multi-Commodity Conglomerate	Development of a virtual reality centre to deliver enterprise wide experiential learning to 1,500 people per year.
South African Ferro Chrome Producer	Production and Budgeting model - development and implementation of budgeting model for a Ferro Chrome processing plant.
Major Diamond Producer	Implementation of a plant model to track operational progress, activity based costing, scenario analysis and blend optimisation.
Large Copper Operation	Developed a model allowing the planners at a large open cast copper mine to schedule trucks and shovels that would allow for maximum production efficiency, and allow the planners to quickly optimise the value chain on a shift level basis across the value chain.
Leading Iron Ore Producer	Built a capacity analysis model for an iron ore mine that allowed them to identify constraints and opportunities to increase production by 15%.
Major Platinum Producer	Development and implementation of detailed OPEX cash flow model focused on evaluating multiple what-if scenario for new projects.
Major New South American Iron Ore Operation	Mining simulation – The operation had developed a production ramp-up plan for their new processing facility. The question was, what would be the equipment requirements to meet this plan with adequate confidence. Using stochastic discrete event simulation techniques, Cyest Analytics determined the correct fleet sizing to deliver ore with 80% confidence. Additionally, we showed the incremental benefits of additional equipment. The mine continues to use the model to validate its short - term planning.
Major New South American Iron Ore Operation	Plant simulation - In conjunction with the mining simulation, the operation required a plant simulation model that would validate the production ramp - up plan and also quantify the likely impact on production of various risks that the operation had identified. Using equation - based modelling and Monte Carlo techniques, Cyest Analytics delivered a system that would fulfil this role. The operation continues to use this model to test their ramp - up strategies and steady - state delivery expectations.

Within the Capital Raising Realm:

BEX has successfully been involved in capital raising for privately owned and Public Companies across a number of sectors and industries. Our success in this area of business is a result of our long-standing and trusted relationships with financial institutions and "High Net Worth" family offices both in South Africa and Europe.

CONTACT US:

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Highlands North,
2037

Contact:
Email: enquiries@bexstructuredproducts.co.za
Telephone: + 27 11 684 1701
Telefax: + 27 086 586 0643

E

BUSINESS DEVELOPMENT SERVICES AGREEMENT

CNR ROLLING STOCK SOUTH AFRICA PTY LTD.
(Registration No. 2014/016892/07)

with

BUSINESS EXPANSION STRUCTURED PRODUCTS PTY LTD.
(Registration No. 2009/020420/07)

AGREEMENT DATE: APRIL 25, 2015

This Agreement is entered into by and between the following parties:

BUSINESS EXPANSION STRUCTURED PRODUCTS PTY LTD (hereinafter, referred to as "BEX") (which expression includes its associates, subsidiaries, affiliates, successors and permitted assigns), a company duly incorporated and existing under the Companies Act in South Africa, and having its registered offices at 1st Floor, 24 Crescent Drive, Melrose Arch 2076, Johannesburg, duly authorised and represented by Mr. Mark Shaw

and

CNR ROLLING STOCK SOUTH AFRICA PTY LIMITED (hereinafter referred to as the "Company") (which expression includes its successors and permitted assignees), a company duly incorporated and existing under the Companies Act in South Africa, and having its office address at 3rd floor, 95 Grayston Drive, Sandton 2196, Johannesburg, South Africa, duly authorised and represented by the person signing this Agreement., duly authorised and represented by Mr. Gang Wang, signing this Agreement.

(Hereinafter, BEX and the Company may be individually referred to as a "Party", and collectively as "the Parties".)

WHEREAS:

A. BEX, a professional service advisory business that specialises in business enterprise optimisation using financial modelling, derivatives and engineering techniques, with its long-subsisting relationships in the Territory of South Africa (hereinafter "The Territory") has acquired a familiarity with regulatory, social, cultural and political framework whereby it is capable to closely co-ordinate with the designated authorities to comprehend the applicable Government policies, identify the opportunities of participation in various Government and Private projects, lend consultancy on participating in various tenders and bidding processes and thus facilitating trade of goods and services concerning such projects.

The COMPANY is a global company specializing in the manufacture of Locomotives and Spare Parts for the same, with a focus on emerging markets. The COMPANY has approached BEX to provide advisory services in respect of the Project and for expanding their business in the Territory and help it in achieving their BEE (Black Economic Empowerment) objectives in the Territory on a long-term basis.

B. The Parties have, after mutual discussions, acknowledged and agreed that they have suitable and complementary resources to jointly harness the opportunities in the Territory through this Business Development Services Agreement, whereby BEX will play an active role in providing advisory services in respect of the Project, Business development and BEE structuring and management in the Territory.

C. In view of the above-set background, the Parties have agreed to reduce in writing their mutual understanding and their respective fundamental interests, rights, duties, obligations and liabilities in relation to the agency, their respective roles in this regard, the terms and conditions on which the Parties would implement the agency relationship and certain other matters thereto.

1. Definitions and Interpretation

1.1. Definitions

Certain terms are defined within the recitals and within the body text of this Agreement. In addition, the following terms shall have the following meaning:

"Affiliate" means, with respect to any Person, any other Person that, directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with such person.

"Agency Commission" the difference between the price excluding VAT awarded to the Company by TFR and the Project Benchmark Costs of R580 million excluding VAT

"Agreement" means this Agreement, including the recitals and schedules hereto, as the same may be varied or amended from time to time in writing by agreement of the Parties;

"Agreement Date" shall mean and refer to APRIL 25, 2015, being the date of execution of this Agreement;

"BEE" means Black Economic Empowerment as set out in the BEE Charter of the Republic of South Africa.

"Business Day" means any day on which banking institutions in South Africa are open for business.

"Force Majeure" means any of the following events or occurrences: (i) Acts of God, such as fires, floods, thunderstorms, earthquakes, unusually severe weather and natural catastrophes; (ii) civil disturbances, such as strikes, lock outs and riots; (iii) acts of aggression, such as explosions, wars, and terrorism which are not foreseen; or (iv) acts of government or actions of regulatory bodies which significantly inhibit or prohibit either Party from performing their obligations under this Agreement.

"Nominee" means any juristic person or company that may be nominated by BEX with the prior written consent of CNR from time to time to continue with and fulfil the obligations of this Agreement and/or to provide the necessary services and any expertise required for executing the commercial aspects of this Agreement.

"Person" includes any individual, company, corporation, firm, partnership, consortium, joint venture or association, whether a body corporate or an unincorporated association of persons.

"Price" shall mean the amount paid by TFR for the implementation

	of the project
"Product"	means the Company's related products and Services.
"Project"	shall mean the change in scope whereby Transnet Engineering (TE) a division of Transnet SOC Limited requires the Company to change the location of the local manufacture programme from the TE Koedoespoort Gauteng facility to their Bay-Head Durban facility.
"Project Benchmark Costs"	shall mean R580m (Five hundred and eighty million Rand) excluding VAT
"Scope Deviation"	shall mean costs associated with the implementation of the Project
"Territory"	means Republic of South Africa.
"Third Party"	means a person who is not a Party to this Agreement and does not include Affiliates of any of the Parties.
"TFR"	means Transnet Freight Rail, a division of Transnet SOC Limited

1.2. Interpretation

1.2.1. References to this Agreement or to any other instrument shall be a reference to this Agreement or that other instrument as amended, varied, novated, or substituted from time to time.

1.2.2. The headings in this Agreement are for ease of reference only and shall not affect the interpretation or construction of this Agreement.

1.2.3. References to Recitals, Clauses and Schedules are references to recitals, clauses and sub clauses and schedules to this Agreement.

1.2.4. Words importing the singular number shall include the plural and vice versa and words importing the masculine gender shall include the feminine and the neuter gender and vice versa.

1.2.5. Each of the representations and warranties provided in this Agreement are independent of other representations and warranties and unless the contrary is expressly stated, no Clause in this Agreement limits the extent or application of another Clause.

1.2.6. "In writing" includes any communication made by letter or fax or e-mail.

1.2.7. The words "include", "including" and "in particular" shall be construed as being by way of illustration or emphasis only and shall not be construed as, nor shall they take effect as limiting the generality of any preceding words.

1.2.8. References to a person shall be construed so as to include:

1.2.8.1. individual, firm, partnership, trust, joint venture, company, corporation, body corporate, unincorporated body, association, organization, any government, or state or any agency of a government or state, or any local or municipal authority or other governmental body (whether or not in each case having separate legal personality);

1.2.8.2. that person's successors in title and assigns or transferees permitted in accordance with the terms of this Agreement; and

1.2.9. References to a person's representatives shall be to its officers, employees, legal or other professional advisers, sub-contractors, agents, attorneys and other duly authorized representatives.

1.2.10. References to statutory provisions shall be construed as references to those provisions as are respectively amended or re-enacted or as their application is modified by other provisions (whether before or after the date of this Agreement) from time to time and shall include any provisions of which they are re-enactments (whether with or without modification).

1.2.11. All warranties, representations, indemnities, covenants, guarantees, stipulations, undertakings, agreements and obligations given or entered into by more than one person are given or entered into severally unless otherwise specified.

1.2.12. In the event that the date on which any act or obligation specified in this Agreement to be performed falls on a day which is not a Business Day, then the date on which the act or obligation is to be effected or performed shall take place on the next Business Day.

1.2.13. This Agreement is the result of negotiations between, and has been reviewed by, the Parties and their respective counsel. Accordingly, this Agreement shall be deemed to be the product of the Parties, and there shall be no presumption that an ambiguity should be construed in favour of or against any Party solely as a result of such Party's actual or alleged role in the drafting of this Agreement.

2. <u>Preamble</u>

2.1. Whereas TE requires the Company to change the location of the local manufacture programme from the TE Koedoespoort Gauteng facility to their Bay-Head Durban facility.

2.2. And whereas the Company has approached BEX to assess and formulate the entire strategy and planning to quantify and benchmark the costs associated with the re-location as per Clause 2.1.

2.3. And whereas BEX has agreed to undertake the work at their sole risk and at no cost to the Company if the agreed Project Benchmark Costs are not recovered from Transnet Freight Rail (TFR).

2.4. After extensive research and negotiations with both the Company & TFR, BEX and the Company have agreed that the Project Benchmark Costs will be fixed at R580 million (Rands Five hundred and eighty million only) excluding VAT.

2.5. Since BEX has undertaken to negotiate and finalize the deal with TFR on a risk basis, it is agreed between both parties that BEX be entitled to an Agency Commission as detailed in Clause 6.

3. Scope and Purpose of the Agreement and key principles

3.1. The Parties have entered into this Agreement to record their mutual understanding as regards their relationship and the manner in which the Project shall be implemented through this Agreement.

3.2. The scope of this Agreement is the regulation of the rights and relationships of the Parties, both among themselves and with respect to Third Parties, with the aim of executing the Project and other services in the Territory.

3.3. In order to achieve their joint commercial objectives, the Parties shall operate this Agreement as per the terms and conditions set out herein.

3.4. Each Party agrees to co-operate with the other Party on a best effort basis.

3.5. Each Party hereby agrees and undertakes towards the other Party to perform and observe all of the provisions of this Agreement.

3.6. The Parties acknowledge that the broad parameters for the conduct of this Agreement (subject always to the terms and conditions of this Agreement) is to implement the Project in the Territory and to enhance the economic value of the Parties.

4. General Conditions of appointment

4.1. The Company hereby appoints BEX to provide advisory and consulting services in respect of the Project and to aid Business Development and to assist in achieving the Company's BEE objectives in the Territory.

4.2. The Parties hereby agree and acknowledge that they are independent contractors. No partnership, joint venture or employment is created or implied by this Agreement.

5. Duties and Responsibilities of BEX

5.1. BEX shall provide advisory services in respect of the Project and will assist in the implementation of the processes related to the Project on a risk basis.

5.2. BEX shall assist the Company to achieve its objectives in the Territory.

5.3. BEX shall not make any representation on behalf of the Company except in conformity with express written permission from the Company.

5.4. BEX will have two years from the Agreement Date to implement the Project.

5.5. BEX will inform the Company timeously in writing if it wishes to appoint a nominee or assign the provisions of this Agreement. The appointment of such nominee or assignee shall be effected after the written consent of the Company.

6. Remuneration, payment terms etc.

6.1. For the Project Scope deviation (referred hereinabove), BEX shall assist the Company to negotiate the best possible price with TFR based on the Project Benchmark Cost of R580 million (Rands Five Hundred and Eighty million only) excluding VAT.

6.2. The Company agrees that BEX will be entitled to an agency commission equivalent to the difference between the price excluding VAT awarded to the Company by TFR and the Project Benchmark Cost of R580 million excluding VAT. For example if the price awarded is R680 million, then BEX will be entitled to an agency commission of R100 million(excluding VAT) i.e. R680m less R580m.

6.3. The Company will be entitled to the Project Benchmark Cost of R580 Million irrespective of whether the total Project value is negotiated lower than the R680 million by TFR.

6.4. BEX shall be entitled to the agency commission irrespective of whether the Project Benchmark Cost arise from the supply of services, main product or any spare part or ancillary item thereto.

6.5. The agency commission as stated above will be due and payable in full as and when i) the Company and TFR has entered into an agreement that the Company will be awarded the Price more than the Project Benchmark Costs by TFR, and ii) the first payment of the Price is received by the Company.

6.6. The company shall pay BEX within 10 business days after from receipt of the invoice from BEX.

7. Term and Termination

7.1. This Agreement shall be effective from the Agreement Date and will remain valid for a period of two years and for such time that the Company remain eligible for the award of the Scope Deviation.

7.2. Once the agreement for the Scope Deviation has been signed by the Company, this Agreement shall remain in force until full payment due to BEX under this Agreement is made by the Company.

7.3. If either Party hereto commits a breach of this Agreement or defaults in the performance of its obligations, and if such default or breach is not rectified within 14 (fourteen) business days after the same has been called to the attention of the defaulting Party by a written notice from the other Party; then the non-defaulting Party. at its option. may declare a dispute and hereby consent to the arbitration being dealt with in terms of the expedited Rules of arbitration of AFSA within 30 days. The arbitration shall be determined in accordance with the provisions of South African law and the Parties submit to South African jurisdiction for the purpose of this arbitration

7.4. Any expiration or termination of this Agreement pursuant to Clause 7.2 shall be without prejudice to any other rights or remedies to which a Party may be entitled hereunder or at law and shall not affect any accrued rights or liabilities of either Party.

8. Liability provisions

8.1. Each Party undertakes to cause its employees, agents, and Affiliates, as long as they are associated with terms of this Agreement, to respect and comply with this Agreement.

In any case, each Party undertakes to collaborate in good faith with each other to avoid or minimize any disadvantage or harm affecting the other Party.

8.2. The provisions of Clause 8 shall continue to apply following the expiration or termination of this Agreement and for a period of Five (5) years thereafter.

9. Confidentiality

9.1. During the course of this Agreement, one Party (the "Discloser") may, on a case-by-case basis, disclose to the other Party (the "Recipient") certain Confidential Information all of which shall be regarded as confidential. "Confidential Information" means any information as the Discloser may from time to time provide (or have supplied or disclosed on its behalf) to the Recipient, including all financial or other information relating to its business affairs or the business affairs of the Affiliates, whether orally or in a written, physical or visual form, regarding the products, activities, including (without limitation) data, software systems, information technology, products, applications together with analyses, compilations, forecasts, studies or other documents prepared by the Discloser (including, but not limited to, lawyers, accountants, consultants and financial advisers) and/or its Representatives which contain or otherwise reflect information about the Discloser and/or its Affiliates.

9.2. The Recipient shall at all times during the term of this Agreement and for a period of five (5) years following its termination, hold all Confidential Information which it acquires from Discloser under the terms of this Agreement, or otherwise, in strict confidence and shall not disclose such information to any third party or duplicate, transfer, or use directly or indirectly, the Confidential Information other than in Recipient's performance of its obligations under this Agreement.

The foregoing restrictions shall not apply to any information which: (i) is or becomes generally available to the public other than as a result of a breach of obligation by Recipient; or (ii) is lawfully acquired from a third party who owes no obligation of confidence in respect of the information; or (iii) Recipient is required to disclose by law (provided that Recipient shall assert the confidential nature of the information and give immediate written notice to Discloser and assist Discloser in obtaining a protective order against such disclosure).

9.3. Upon request of Discloser, or upon the expiration or any earlier termination of this Agreement, Recipient shall promptly return all copies of the Confidential Information in whatever form or media, to Discloser or, at the direction of Discloser, destroy the same. Recipient shall certify in writing to Discloser such return or destruction within ten (10) days of the date of Discloser's request.

9.4. Subject to all other terms of this agreement, this Agreement and its Annexes are also Confidential Information and either party shall not disclose, advertise or publish the terms or conditions of this Agreement or the Annexes without the prior written consent of the other party.

10. Miscellaneous

10.1. All notices required or permitted to be given under this Agreement shall be in writing, shall be given to the other Party and shall be deemed given to a Party when:

10.1.1. delivered to the appropriate address by hand and by email or by overnight courier service (costs prepaid);

in each case to the following addresses and marked to the attention of the person (by name or title) designated below (or to such other email address, facsimile number or person as a Party may designate by notice to the other Party):

BEX:
BEX Structured Products Pty Ltd
For the attention of: Mr. Mark Shaw
Address: 24 Crescent Drive, Melrose Arch 2076, Johannesburg and by email at enquiries@bexstructuredproducts.co.za

The Company:
CNR ROLLING STOCK PTY LTD.
For the attention of: Mr. Gang Wang
Address: 3rd Floor, 95 Grayston Drive, Sandton, 2196, Johannesburg

All correspondence, exchange of information, documents between the Parties, with Customers / third parties shall take place in English language.

10.2. No Party may assign any interest, benefit, right or obligation under this Agreement to any Person without having obtained the prior written consent of the other Party which consent shall not be unreasonably withheld. In the event of assignment as specified above, the assigning Party shall continue to guarantee the performance of the new participant under this Agreement and in any event of assignment, it shall also continue to be bound by the exclusivity and confidentiality provisions set forth herein.

10.3. If any provision of this Agreement is or becomes illegal, unenforceable or invalid under the law of any jurisdiction applicable to the Parties, neither the legality, validity or enforceability of the remaining provisions of this Agreement nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall be in any way affected or impaired thereby; provided, however, that if such severability materially changes the economic benefits of this Agreement to a Party, the Parties shall negotiate an equitable adjustment in the provisions of this Agreement in good faith.

F

BEX Structured Products

Analysis of Cost Increase

for

Locomotive Delivery

and

Locomotive Factory Relocation

from

Pretoria, Gauteng to Durban, Kwa-Zulu Natal

in terms of

Manufacturing Facility Relocation for Class 450 Locomotives Supply Project

Executive Summary

We have been requested to analyse the Cost Increase for the Locomotive Delivery and Locomotive Factory relocation in terms of Manufacturing Facility Relocation for Class 45D Locomotives Supply Project. The decision to relocate from Pretoria, Gauteng to Durban Kwa-Zulu Natal will cost an estimated R636m.

Description	[illegible]	[illegible]
Labour costs	54 467 333	9%
Material costs	178 822 793	28%
Logistical costs	6 420 941	1%
Technical support	70 000 000	11%
Transportation	79 794 785	13%
Delta to Warehouse costs	74 888 245	12%
Other costs	171 557 688	27%
Total	635 851 786	100%

Introduction

In order to be able to relocate the entire operation of manufacturing, production, assembly and servicing from Pretoria to Durban, there are several incremental costs, risks and material changes that will need to be considered.

These considerations can be broken down into:

- Labour costs
- Material costs
- Operational and logistical effects
- Technical support
- Physical transportation of materials and resources
- Incremental warehousing costs
- Financing and risk costs due to time constraints and delays

Each of these areas carry a substantial weight on the total cost of relocation, considering the move from a skilled factory with high end technology in a nationally central location to an environment where locomotive manufacturing skills are limited and supply of manufacturing engineers is limited. Added to that, being the largest industrial port in South Africa, industrial property is highly sought after, especially in and around railway areas due to the high traffic on the railway lines between Durban and Johannesburg.

The largest non-operational and logistical cost faced is also the 4-month delay in production, which is placing substantial currency hedging risk, import and inflationary risk, insurance, and training costs.

All-in-all, there will also be ancillary benefits in using the same team to relocate as will be running the day-to-day operations in Durban. This will minimise team friction, hand-over wastage and delays, lack of accountability and a host of expertise related risks.

[illegible] of each of the above mentioned sections, justifying the detailed cost analysis of the relocation project.

Cost Breakdown

The total cost implications of the relocation and the inherent costs of relocating manufacture to Durban from Pretoria amount to an estimated R636m. Importantly, this amounts to less than 10% of the total Class 45D locomotive manufacturing project. The attached outline details and explains the R636m.

Labour Costs

Total cost R54.4m 9% of relocation costs

The amount is broken down below. This is ~9% of total relocation cost.

- Manufacturing costs, amounting to R38.3m, relate to the added size of each team that will be required in order to complete each locomotive build. Due to the lack of skills and experience in Durban, the average team size per locomotive (of 23) will need to be increased [illegible] to maintain production levels of 12 locomotives per month, which is imperative for the success of the project. The increase in team size accounting for the R38.3m over the period of production is available on request.
- Quality assurance relates to the increase in supervision labour required to inspect and monitor production of locomotives due to the lack of experience in the new Durban factory. An additional 6 specialists will be required to mentor and supervise the production of 12 locomotives per month, with each supervisor monitoring the production of up to 2 locomotives at a time. This additional cost amounts to R4.6m over the period.
- Customer Service Team ("CST") will need to increase marginally to account for the increase in pressure derived from dealing with more supplier and client issues from a remote location. This will require an additional 8 agents and the setting up of a CST infrastructure sufficient to manage the CST requirements. This will total R8.1m over the period.
- Program management for the relocation and new operation will require an additional 3 senior managers due the sustained increase in [illegible]. This will amount to an additional R3.4m over move and the initial production phase.

Labour Costs	Manufacturing related costs	(Avg Cost per Emp * Num Durban Emp Required) (Avg Cost per Emp * Num Pretoria Emp Required)	38 280 000
	QA	Num Supervisors * Cost per Supervisor	4 640 000
	Customer service	Additional Emp * Cost	8 064 000
	Program mgt	Senior Managers Req * Cost Per Manager	3 383 333
Total			54 367 333

Material Costs

Total cost R178.8m: 28% of relocation costs

Additional material costs amount to R178.8m as a result of the relocation. This has the largest impact on relocation, amounting to ~28% of relocation cost.

- Inflationary costs equating to R162.1m will be incurred, based on a 4-month delay. This is calculated using the South African inflation rate of 5.5%pa, decomposed to 1.8% over the 4 months.
- Incremental estimated procurement costs of R16.8m. Considering that certain raw materials will not be available in South African warehouses at the outset of the project, and considering the target of 12 locomotives per month, we estimate 3 months' storage to various warehouse suppliers will cost approximately R[illegible] over the 4-month delay.

Material Cost	Inflation due to schedule shift	4-month Inflation * Total Project Cost	162 064 173
	Additional procurement costs	Raw Materials * 4 months Financing Cost * % of Stock on Hand for 3 Months	16 758 621
Total			178 822 793

Operational & Logistics Costs

Total cost R6.4m: 1% of relocation costs

Impact of changes to logistics and operations will amount to R6.4m. This is ~1% of total relocation cost.

- Administrative costs to rework logistics will be required, as the roll-out and execution of the relocation and final manufacturing [illegible]
- A new environment will require to be thoroughly tested, in order to maintain the required level of quality and delivery. This will amount to R475k.
- Additional staff travel costs due to the move will amount to an estimated R2m.
- Higher inventory requirements will be required due to the distance from Gauteng. This will result in a cost of R2.2m.

Logistics Costs	Admin costs to re-work logistics		1 731 158
	Dry run in new environment	As per Fixed Quotation	474 576
	Additional travel costs		2 024 410
	Higher inventory - cost of capital		2 190 797
Total			6 420 941

Technical Support

Total cost R70m: 11% of relocation costs

Additional technical support will be required, amounting to R70m. This is 11% of total relocation cost.

- The additional technical support comprises the additional technical and engineering teams that will need to be available on the ground beyond the initial ~19month production phase. These specialised teams will be in addition to the requirement [illegible] the lack of expertise in maintenance and post-production servicing currently available in Durban. This will amount to R24.5m.
- There will also be an increased cost of on-site service by suppliers due to the increase in travel and relocation of Gauteng-based suppliers. This is estimated at R45.5m over the pre- and post-production periods.

Technical Support	Increased cost of tech support		17 500 000
	Engineering	As per Fixed Quotation	7 000 000
	Increased cost of on-site service by suppliers		45 500 000
Total			70 000 000

Transportation

Total cost R79.8m: 13% of relocation costs

Physical transportation from Pretoria to Durban will amount to R79.8m. This is ~13% of total relocation cost.

- There will be a R567k cost saving to being based in Durban due to proximity to an industrial port.
- Physical transportation of assembly parts of locomotives is estimated at R50.4m, explained as follows: the cost of road logistics in South Africa is estimated at (average) 5% of pre-transport costs. Assuming the project is transporting ~R1b worth of raw materials. The total is thus estimated at R50.4m.

- Short-term insurance on the value of transported goods will amount to R22.5m, based on industry-level Goods in Transit Insurance premiums of between 0.25 and 0.8% of value.
- Transport protection, express shipments (for time-sensitive delivery), Trucks for handover and Testing goods when received are directly inherited costs of the relocation, amounting to incremental costs of R7.6m.

Transportation	International shipments	As per fixed Quotation	567 104
	Car body - Durban Bogie - Durban Traction Chain - Durban Delta supply chain - Durban	% Cost of Road Logistics * Cost of Raw Local Materials	50 400 000
	Insurance	Insurance Premium % * Total Insurable Value	22 500 000
	Transport protection		[illegible]
	Express shipments	As per Fixed Quotation	895 427
	Truck for handover		1 492 978
	Locos testing		1 790 851
Total			79 794 785

Incremental Warehousing Costs

Total cost R74.9m - 12% of relocation costs

Additional warehousing costs will amount to R74.9m, which is ~12% of total relocation cost.

- As a result of the scarcity of prime industrial factories in Durban, the cost per square metre is substantially higher than Pretoria by between R35/sqm-R55/sqm. This will result in an increase in lease cost of R16.8m over the long-term period.
- Fencing, security and office furniture of R300k.
- [illegible] Based on an estimated office space of ~850sqm.
- The project necessitates that ~5-15% of total factory space is used for shelving and storage. This will result in an additional cost of R11.2m. This is based on a calculated build cost of R12 200/sqm.
- Additional forklifts and stacking trucks will be required that would not have been as necessary or as costly in Pretoria. This will amount to 20 forklifts and trucks in total, at a cost of R5.3m.
- Additional delivery vehicles and (new) systems to be implemented in the new factory will amount to R7m.

- Additional staff & personnel will be required, incurring a substantial relocation cost to bring in skilled labour from Gauteng (~90 personnel). With incentive salaries and a relocation incentive, this amounts to R24.5m.
- Due to the lack of experience of the new teams, external labour, and professional consulting/supervisory teams will need to be brought it. Four of these engineering consultants will be needed during the primary production phase, costing R5.8m.

Delta to warehouse costs	Additional Lease costs	Incremental Cost Per Sqm * Total Sqm	16 800 000
	Fencing/Security	As per Fixed Quotation	110 395
	Civil works upgrades/office construction	Office Sqm * Rate per Sqm	9 927 000
	Office & Warehouse furniture	As per Fixed Quotation	188 899
	Racks & Shelving	# of Sqm * Cost per Sqm	11 200 000
	Local forklifts/stacker trucks	(Cost per Truck * Num Trucks) + (Cost per Forklift * Num Forklifts)	5 300 000
	Additional delivery vehicles	As per Fixed Quotation	9 924 552
	Technology & Inventory systems	As per Fixed Quotation	9 133 999
	Additional staff & personnel	(Team To be Relocated * Salary increase) + Once-off Relocation incentive	24 503 400
	Extra outside labour & services	Engineer Consulting Fees * Num Engineers	5 800 000
Total			74 888 245

Financing & Risk Costs

Total cost R171,6m: 27% of relocation costs

Financing costs are the second biggest cost to the relocation, amounting to R171,6m, or ~27% of total cc...

- Labour inflation due to the 4-month delay and the additional required resources will amount to R9,7m, based on 5.5%pa CPI.
- Finance cost as a result of rolling over forward currency (USD) contracts are estimated at R63m. The buy and sell spread on forward contracts equals 2 x ZAR 0,12.
- Bond / debt instrument costs increase will amount to R18m based on cash flow risk and upfront payments.
- Contingency risk of 4% on assumptions, amounting to R25,9m.

There will be increased insurance costs amounting to R1.8m due to the relocation and new teams involved.

Training costs of additional teams and new staff will be required, amounting to R3.6m based on industry standard of 6% training costs.

There is a risk provision of 9%, amounting to R55m. This risk is primarily focused around the pressure the relocation will put on the final locomotive production project. The overall effect on a large scale relocation, with new teams, staff, specialists, expertise and a less known environment will create substantial risk in meeting deliverables and timelines.

Finance Costs	Labour Inflation original contract	Additional Staff Costs * CPI	3 643 790
	Finance costs on forward contracts	% Premium * 2 * ZAR 0.12 Spread on USD	63 000 000
	Bond costs increase	Duties * Total Value Added	18 000 000
	Contingency	4% on Cost	25 867 599
	Increased insurance costs	As per Fixed Quotation	2 750 000
	Increased training costs	6% Training Costs [illegible] Additional Staff	3 587 623
	Risk provision increase project	9% on Cost	54 708 676
Total			171 557 688

Costing Summary

The above-mentioned breakdown, detailed in the attached cost spreadsheet, outlines the need for the further investment of R636m for the relocation of operations and manufacture to Durban. Although this is a marginal cost in terms of the total project, it should be treated as material to the final project production. In order to not impact on the quality of service, manufacture and delivery of this crucial element of the total locomotive project, it makes sound business sense to maintain the same teams throughout the relocation and manufacture, allowing the seamless handover between the two phases, and maintaining the level of skill and experience throughout.

The above breakdown should address any issues pertaining to the costs of the relocation. If not, please do not hesitate to contact us for further details, relating to any or all of the summarised figures.

References & Sources

Labour Costs

Based on manufacturing and engineering market standard rates, and applied to skill requirements of different roles in relocation and final project.

Material Costs

Based on actual projected manufacturing project costings.

Transportation Costs

Industry quotations applied to actual project expectations.

Financing Costs

Inflation as per SARB CPI projections;

Forward Contracts as per standard quoted forward contract spreads and rates.

Risk & Contingency premiums derived from financial expert analyses detailing risk profiles in manufacturing in South Africa.

Industrial Property Costs

Based on leading property market experts, with primary and secondary research conducted to compare analysis.

1. Increasing the team size does not make sense considering the learning curve will mitigate this requirement within a short time. RE: The team size was increased to compensate for the increased number of inexperienced personal in Durban.

2. Negotiating with suppliers will eliminate the inflationary cost related to the 4 additional months. In any case material costs generally don't increase on a monthly basis, thus the impact should not be as large as 1.8 %. Also 1.8 % for 4 months does not equal 5.5 % but rather 7.2 % which is excessive.
RE: The SARB annual inflation rate is 5.5% this has been calculated based on 4 mths / 12 mths to account for the 4 month delay, which is in fact 5 months now.

3. From the explanation provided the incremental cost of procurement does not relate to the move to Durban. This should not be charged. In any case 8 % interest is excessive RE:

4. The additional technical support requirement in Durban does not make sense. The cost of this technical support should have been included in the original price.
RE: Due to relocation to Durban, new facilities are to set-up and staff trained. CNR has to contribute more technical support as a greater percentage of the project will be based on foreign vs local manufacture.

5. On site service by technicians should have been included in the original price. R 31.5 m for travel and relocation seems excessive.
RE: Most of suppliers of CNR are located in JHB. Now the manufacture site is relocated to Durban, the suppliers in JHB have to travel to Durban for on-site service as well as to train up the unskilled staff in Durban. All these costs were not planned as part of the original price and therefore are additional.

6. Can the transport not be done by TFR via rail containers? If so then insurance costs would also be minimal as would be internally insured.
RE:

7. R 11200 psm for shelving seems excessive?
RE: This was based on quotations received for the required shelving and related warehouse components.

8. Has consideration been given to TE or TRK property for the warehousing?
RE: The warehouse of TE was not considered. As per the agreement, the warehousing is planned to be rented by CNR and the warehousing of TE should be managed by TE itself at the cost of TE itself, this is not included into this proposal.

9. Why the additional forklifts?
RE: The workshops and facility areas are increased owing to increase in import component.

10. How much is the incentive and relocation cost per staff member?

11. Labour inflation does not increase on a monthly basis. The impact could possibly only be at the end of the project.
RE: Annual inflation rate has been applied for the relevant period as per standard calculations of this nature.

12. Labour inflation rate applied at 6.5 % for the full year, whereas it should only be for 4 months (Cell E23 in "Staff" sheet).
RE: fair point (mistake in formula) the impact of changing for this is about R3m.

13. Contingency risk of 4 % and risk provision of 9 % is unexplained and seems to be additional profit. This seems excessive.
RE: fixed percentages used based on market standards for projects of this nature.

14. Obtain a detailed list of suppliers being used in Durban versus those in JHB.

15. The cost of the long term maintenance consulting does not relate to the move to Durban (Cell E23 "staff"). This should not be charged as it should have been included in the original contract.
RE: Based on the cost of the additional 20 staff members needed over the 4 year project period owing to the relocation to DBN.

16. Labour inflation is double counted (ref cell D7 & cell E23 "staff")
RE: cell D7 is part of the workings only to demonstrate the assumptions used wrt labour and material related costs. ONLY the calculation in cell E23 from the staff schedule relating to labour inflation has been used in calculating the cost increase based on the original contract.

Key References		
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Road Freight Logistics	www.rflogistics.co.za	
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Finance Costs		
South African Reserve Bk	www.resbank.co.za	
Consulting with various finance experts		consulting
Standard Bank		
SASFIN		
Bidvest Bank		
Labour Related Research		
SA Board for People Practices		
EVA Solutions	www.evasolutions.co.za	
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Standard Bank Property		banking portfolio assistance
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[illegible]		
Industry experts in manufacture		consulting
Industry experts in mining & efficiencies		consulting
Industry experts in cost-optimisation		consulting
Trading Economics	[illegible].tradingeconomics.co.za	
Manufacturing Circle	[illegible].manufacturingcircle.co.za	

ANALYSIS OF COST INCREASE

	Costs	% of Total Relocation	Notes
Labour Costs	R 54 367 333	[illegible]	
Manufacturing related costs	R 38 280 000	6%	
Increase quality assurance	R 4 640 000	1%	
Customer service	R 4 064 000	1%	
Program management	R 7 383 333	1%	
Material Cost	R 178 322 783	[illegible]	
Inflation due to schedule shift	R 162 063 173	[illegible]	
Additional procurement costs	R 16 258 623	3%	
Logistics Costs	R 6 420 941	1%	
Admin costs to re-work logistics	R 1 731 358	0%	Fixed Quotation
Dry run in new environment	R 424 376	0%	Fixed Quotation
Additional travel costs	R 2 074 410	0%	Fixed Quotation
Higher inventory – cost of capital	R 2 190 797	0%	Fixed Quotation
Technical Support	R 70 000 000	11%	
Increased cost of tech support	R 17 500 000	3%	
Engineering	R 7 000 000	1%	
Increased cost of on-site service by suppliers	R 45 500 000	7%	
Transportation	R 79 794 785	13%	
International shipments	R 467 104	0%	
Car body, Bogie, Traction Chain, Delta Supply chain	R 50 400 000	8%	Fixed Quotation
Insurance	R 22 500 000	4%	
[illegible] protection	R 3 215 231	1%	
Express shipments	R 895 427	0%	Fixed Quotation
Truck for handover	R 1 497 374	0%	Fixed Quotation
Lace testing	R 1 750 253	0%	Fixed Quotation
Delta to warehouse costs	R 74 888 245	12%	Fixed Quotation
Additional lease costs	R 16 800 000	3%	
Fencing/Security	R 130 395	0%	
Civil works upgrades/office construction	R 3 927 000	1%	Fixed Quotation
Office & warehouse furniture	R 388 899	0%	
Racks & Shelving	R 11 100 000	2%	Fixed Quotation
Local forklifts/stacker trucks	R 5 300 000	1%	
Additional delivery vehicles	R 3 924 952	1%	
Technology & inventory systems	R 5 139 999	1%	Fixed Quotation
Additional staff & personnel	R 24 569 400	4%	Fixed Quotation
Extra outside labour & services	R 5 800 000	1%	
Other Costs	R 171 557 [illegible]	[illegible]	
Labour inflation original contract	R 2 843 790	0%	
Forecast costs on forward contracts	R 63 000 000	10%	
Bond costs increase	R 18 000 000	[illegible]	
Contingency	R 25 862 589	[illegible]	
Increased insurance costs	R 3 750 000	[illegible]	Contingency Risk [illegible] & Fixed Quotation
Increased training costs	R 3 587 624	[illegible]	
Risk provision increase project	R 54 708 625	[illegible]	Standard RIBC - Fixed %
Total	R 635 252 746		

Global Variables		
Diesel Locomotives	232 locomotives	
Locomotive Weight	200 tons	
Project Value	9 000 000 000	
SA Value	5 850 000 000	65%
Delay	4 mths	

Inflation		
Annual Inflation		5.5% SARB CPI
4months Inflation		1.8%
Total Cost	9 000 000 000	
Inflation	162 064 173	

Additional Cost		
Raw materials	3 600 000 000	
Interest	9% pa	
Cost	108 000 000	
% on hand	16%	
	16 758 621	

Assumptions & Variables	
Team per Loco	25
Total Locos	232
Locos per Month	12
Working on Locos pm	300
Number of Months	19
Per Loco	
Unskilled	5
Skilled	17
Managers	3
Avg Cost per Employee	17 500
Unskilled	10 000
Skilled	20000
Manager	25 000
Calculated Avg	19 800
Total Cost per Team	495 000
Total Cost pm	5 940 000

Increased Training Costs	
Additional Staff	4 503 400
Manufacturing Related costs	8 280 000
	12 783 400
Additional Training	6%
Training Total	3 587 023
Annual Employee Cost	700 000
1 year MBA	40 000
%	6%

QA due to Inexperience	
Number of Locos pm	12
Locos per Supervisor	2
Number of Supervisors	6
Cost per Supervisor pm	40 000
	4 640 000

25%	Portion of Total Costs for Labour
9 000 000 000	Total Value
30%	Margin
6 300 000 000	Costs
1 205 000 000	Labour
39 705 722	Labour Inflation

5 051 503	Calculated Inflation
280 527 931	Total Original Labour Cost
14 168	Total FTE (over period)

Extra outside labour & services	
Engineering Costs	500 000
pm	75 000
Period	1 650 000
Number of Experts	4
Total	6 600 000

Labour Inflation original contract	
Additional Payment	58 250 733
Inflation	[illegible]
Total Cost	3 648 700

Long Term Maintenance Consulting	
Years	7
Avg Salary	1 000 000
Number of Engineers	10
	70 000 000 pa
Weighting	
Tech Support	3
Engineers	1
Suppliers	7

Customer Service (Increase in #)	
Additional Team	8
Cost	12 000
	8 064 000

Mtc Change Due To Inexperience	Old	New
Unskilled		
Skilled	5	5
Managers	17	20
Per Loco	3	6
Direct Labour per Loco	0.725	31
Total Cost	495 000	580 000
Diff	114 840 000	135 120 000
	20 280 000	

Additional Staff & personnel	
Relocation %	30%
Total Team	300
Relocated Team	90
Salary Growth	25%
Relocation Cost	100 000
Total Cost	17 913 000
Additional Staff	72
Incremental Salary	25%
Total Cost	6 850 000
Grand Total	24 908 400

Program Management	
Senior Manager for Relocation	200 000 pa
	16 333 pm
Total	1 127 778
Number	3
Total Cost	3 383 333

Bond cost increase	
Total Value	9 000 000 000
Value Added (margin)	20%
Total Value Added	1 800 000 000
Duty	1%
Duty Amount	18 000 000

Forward Contract Cost		
Imported Value	3 150 000 000	
12c Spread on Fwd	0.12	
Paying Double for Buy-Sell	0.24	Rand to the USD
R/USD	12	ZAR/USD
Additional Cost %	2%	
Total Cost	63 000 000	

Insurance on Transportation	
Standard Insurance	200 000
Insurance	500
	0.25%
Value	9 000 000 000
Insurance	22 500 000

Additional Lease costs				
	600 000	R pa		
Industrial Rent Pta	350 000	10 000	sqm	35
Industrial Rent Durban	550 000	10 000	sqm	55
Diff	200 000			
	15 800 000			

Racks & Shelving	
10%	of sqm
10 000	sqm
11 200	cost per sqm
11 200 000	

Small Office	
850	sqm
55	R/sqm
3 927 000	

Local forklifts/stacker trucks		
#	R	
15	120000	lifts
5	700000	trucks
	5 300 000	

Car body, Bogie, Traction Chain, Delta Supply Chain		
Cost of Road Logistics	5%	of Total Costs
Total Raw Materials	40%	of Costs
Total Imported Value	3 150 000 000	original cost
Margin	20%	
Total Costs	2 520 000 000	
Raw Materials from Costs	1 008 000 000	
Logistics on Materials	50 400 000	

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Executive Summary

We have been requested to analyse the Cost Increase for the Locomotive Delivery and Locomotive Factory relocation in terms of Manufacturing Facility Relocation for Class 45D Locomotives Supply Project. The decision to relocate from Pretoria, Gauteng to Durban, Kwa-Zulu Natal will cost an estimated R719 090 548.

On this amount we happy to offer a settlement discount of 10% amounting to R71 909 054 Therefore the reduced amount due to CNR after deducting the settlement discount amounts to R647 181 494.

In order to align the balance of the payment with the project execution, the settlement discount assumes the following settlement terms.

- 50% payable within 14 days of signature and the balance R323 590 747
- 50% payable in 24 equal instalments of R13 482 948 ("the relocation payment") commencing the end of the first month that the project commences
- Therefore CNR RS SA will invoice for 24 monthly instalments of R13 482 948
- Please note that the relocation payment will be invoiced separately from the milestone payment invoice as per the Locomotive Supply Agreement for the manufacture of the 212 locomotives ("the LSA"), which will be paid as per the document approved by Transnet. In addition, the relocation payment should not reduce nor increase or affect the milestone payment stipulated in the LSA.

Description	Cost (R)	% of total
Labour costs	34 867 533	8%
Material costs	223 982 441	31%
Logistical costs	6 420 941	1%
Technical support	70 000 000	10%
Transportation	94 194 785	13%
Delta to Warehouse costs	75 650 745	10%
Other costs	194 474 302	27%
Total	719 090 548	100%

Due to the tight time for preparation, there are some elements which affect this Durban relocation project, we reserve the opportunity to give the clarification.

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Introduction

In order to be able to relocate the entire operation of manufacturing, production, assembly and servicing from Pretoria to Durban, there are several incremental costs, risks and material changes that will need to be considered.

During the execution of this project, in order to complete the technology transferring, manufacturing, training, testing and maintenance tasks for this locomotive project successfully, as well as the empowerment of the black economy, the manufacturing facilities are relocated from Pretoria to Durban. Thus this proposal is submitted. This proposal is seen as the project document as per the contract.

These considerations can be broken down into:

- Labour costs
- Material costs
- Operational and logistical effects
- Technical support
- Physical transportation of materials and resources
- Incremental warehousing costs
- Financing and risk costs due to time constraints and delays.

Each of these areas carry a substantial weight on the total cost of relocation, considering the move from a skilled factory with high-end technology in a nationally-central location to an environment where locomotive manufacturing skills are limited and supply of manufacturing engineers is limited. Added to that, being the largest industrial port in South Africa, industrial property is highly sought after, especially in and around railway areas due to the high traffic on the railway lines between Durban and Johannesburg.

The largest non-operational and logistical cost faced is also the 5-month delay in production of entire 232 locomotive, which is placing substantial currency-hedging risk, import and inflationary risk, insurance, and training costs.

All-in-all, there will also be ancillary benefits in using the same team to relocate as will be running the day-to-day operations in Durban. This will minimise team friction, hand-over wastage and delays, lack of accountability and a host of expertise-related risks.

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Below is a breakdown of each of the above-mentioned sections, justifying the detailed cost analysis of the relocation project

Cost Breakdown

The total cost implications of the relocation and the inherent costs of relocating manufacture to Durban from Pretoria amount to an estimated R719m. Importantly, this amounts to less than 10% of the total Class 45D locomotive manufacturing project. The attached outline details and explains the R719m.

Labour Costs

Total cost R54.4m: 8% of relocation costs

The amount is broken down below. This is ~8% of total relocation cost.

- Manufacturing costs, amounting to R38.3m, relate to the added size of each team that will be required in order to complete each locomotive build. Due to the lack of skills and experience in Durban, the average team size per locomotive (of 25) will need to be increased to 31 (i.e. 6 additional mentorships from CNR) in order to maintain production levels of 12 locomotives per month, which is imperative for the success of the project. The increase in team size accounting for the R38.3m over the period of production is available on request.
- Quality assurance relates to the increase in supervision labour required to inspect and monitor production of locomotives due to the lack of experience in the new Durban factory. An additional 6 specialists from CNR will be required to mentor and supervise the production of 12 locomotives per month, with each supervisor monitoring the production of up to 2 locomotives at a time. This additional cost amounts to R4.6m over the period.
- Customer Service Team (CST) will need to increase marginally to account for the increase in pressure derived from dealing with more supplier and client issues from a remote location. This will require an additional 8 agents and the setting up of a CST infrastructure sufficient to manage the CST requirements. This will total R8.1m over the period.
- Program management for the relocation and new operation will require an additional 3 senior managers due the substantial increase in team size, logistical complexity and supervision. This will amount to an additional R3.4m over move and the initial production phase.

Labour Costs	Manufacturing related costs	(Avg Cost per Emp * Num Durban Emp Required) - (Avg Cost per Emp * Num Pretoria Emp Required)	38 280 000

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	QA	Num Supervisors * Cost per Supervisor	4 640 000
	Customer service	Additional Emp * Cost	8 064 000
	Program mgt	Senior Managers Req * Cost Per Manager	3 383 333
Total			54 367 333

Material Costs

Total cost R224m: 31% of relocation costs

Additional material costs amount to R203m as a result of the relocation. This has the largest impact on relocation, amounting to ~30% of relocation cost.

- Inflationary costs equating to R203m will be incurred, based on a 5-month delay. This is calculated using the South African inflation rate of 5.5%pa, decomposed to 2.3% over the 5 months.
- Incremental estimated procurement costs of R21m. Considering than certain raw materials will not be available in South African warehouses at the outset of the project, and considering the target of 12 locomotives per month, we estimate 3 months' storage to various warehouse suppliers will cost approximately 9% per annum over the 5-month delay.

Material Cost	Inflation due to schedule shift	5-month Inflation * Total Project Cost	203 034 165
	Additional procurement costs	Raw Materials * 5 months Financing Cost * % of Stock on Hand for 3 Months	20 948 276
Total			223 982 441

Operational & Logistics Costs

Total cost R6.4m: <1% of relocation costs

Impact of changes to logistics and operations will amount to R6.4m. This is ~<1% of total relocation cost.

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- Administrative costs to re-work logistics will be required, as the roll-out and execution of the relocation and final manufacturing project will need to be altered. This amounts to R1.7m.

- A new environment will require to be thoroughly tested in order to maintain the required level of quality and delivery. This will amount to R475k.
- Additional staff travel costs due to the move will amount to an estimated R2m.
- Higher inventory requirements will be required due to the distance from Gauteng. This will result in a cost of R2,2m.

Logistics Costs	Admin costs to re-work logistics	As per Fixed Quotation	1 731 158
	Dry run in new environment		474 576
	Additional travel costs		2 024 410
	Higher inventory - cost of capital		2 190 797
Total			6 420 941

Technical Support

Total cost R70m: 10% of relocation costs

Additional technical support will be required, amounting to R70m. This is 10% of total relocation cost.

- The additional technical support comprises the additional technical and engineering teams that will need to be available on the ground beyond the initial ~19month production phase. These specialised teams will be in addition to the requirement from the Pretoria plant due to the lack of expertise in maintenance and post-production servicing currently available in Durban. This will amount to R38,5m.
- There will also be an increased cost of on-site service by suppliers due to the increase in travel and relocation of Gauteng-based suppliers. This is estimated at R31.5m over the pre- and post-production periods.

Technical Support	Increased cost of tech support	As per Fixed Quotation	28 000 000
	Engineering		10 500 000
	Increased cost of on-site service by local small business supplier		31 500 000

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Total			70 000 000

Transportation

Total cost R94.2m: 13% of relocation costs

Physical transportation from Pretoria to Durban will amount to R94.2m. This is ~10% of total relocation cost.

- There will be a R567k cost saving to being based in Durban due to proximity to an industrial port.
- Physical transportation of assembly parts of locomotives is estimated at R64.8m, explained as follows: the cost of road logistics in South Africa is estimated at (average) 5% of pre-transport costs. Assuming the project is transporting ~R1.3b worth of raw materials. The total is thus estimated at R64.8m.
- Short-term insurance on the value of transported goods will amount to R22.5m, based on industry-level Goods In Transit Insurance premiums of between 0.2% and 0.8% of value.
- Transport protection, express shipments (for time-sensitive delivery), Trucks for handover and Testing goods when received are directly inherited costs of the relocation, amounting to incremental costs of R7.5m.

Transportation	International shipments	As per Fixed Quotation	-567 104
	Engine - Durban	% Cost of Road Logistics * Cost of Raw Local Materials	64 800 000
	Brake System - Durban		
	Traction Chain Durban		
	Delta supply chain - Durban		
	Insurance	Insurance Premium % * Total Insurable Value	22 500 000
	Transport protection	As per Fixed Quotation	3 283 231
	Express shipments		895 427
	Truck for handover		1 492 378
	Locos testing		1 790 853
Total			94 194 785

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Incremental

Warehousing Costs

Total cost R75.7m: 10% of relocation costs

Additional warehousing costs will amount to R75.7m, which is ~10% of total relocation cost.

- As a result of the scarcity of prime industrial factories in Durban, the cost per square metre is substantially higher than Pretoria by between R35/sqm-R55/sqm. This will result in an increase in lease cost of R16.8m over the long-term period.
- Fencing, security and office furniture of R300k.
- Office construction and civil works upgrades will amount to R3.9m, based on estimated office space of ~850sqm.
- The project necessitates that ~5-15% of total factory space is used for shelving and storage. This will result in an additional cost of R12m. This is based on a calculated build cost of R11,200/sqm.
- Additional forklifts and stacking trucks will be required that would not have been as necessary or as costly in Pretoria. This will amount to 20 forklifts and trucks in total, at a cost of R5.3m.
- Additional delivery vehicles and (new) systems to be implemented in the new factory will amount to R7m.
- Additional staff & personnel will be required, incurring a substantial relocation cost to bring in skilled labour from Gauteng (~90 personnel). With incentive salaries and a relocation incentive, this amounts to R24.5m
- Due to the lack of experience of the new teams, external labour and professional consulting/supervisory teams will need to be brought it. Four of these engineering consultants will be needed during the primary production phase, costing R5.8m.

Delta to warehouse costs	Additional Lease costs	Incremental Cost Per Sqm * Total Sqm	16 800 000
	Fencing/Security	As per Fixed Quotation	110 395
	Civil works upgrades/office construction	Office Sqm * Rate per Sqm	3 927 000
	Office & warehouse furniture	As per Fixed Quotation	188 899
	Racks & Shelving	% of Sqm * Cost per Sqm	11 962 500
	Local forklifts/stacker	(Cost per Truck * Num Trucks) + (Cost	5 300 000

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	trucks	per Forklift * Num Forklifts)	
	Additional delivery vehicles	As per Fixed Quotation	3 924 552
	Technology & inventory systems	As per Fixed Quotation	3 133 999
	Additional staff & personnel	(Team To Be Relocated * Salary Increase) + Once-off Relocation Incentive	24 503 400
	Extra outside labour & services	Engineer Consulting Fees * Num Engineers	5 800 000
Total			75 650 745

Financing & Risk Costs

Total cost R194m: 27% of relocation costs

Financing costs are the second biggest cost to the relocation, amounting to R194m, or ~27% of total relocation cost.

- Labour inflation due to the 5-month delay and the additional required resources amounts to R1.8m, based on 5.5%pa CPI.
- Finance cost as a result of rolling over forward currency (USD) contracts are estimated at R87m. The buy and sell spread on forward contracts equals 2 x ZAR 0.12.
- Bond /debt instrument costs increase will amount to R18m based on cash flow risk and upfront payments.
- Contingency risk of 4% on assumptions, amounting to R25.9m.
- There will be increased insurance costs amounting to R2.8m due to the relocation and new teams involved.
- Training costs of additional teams and new staff will be required, amounting to R3.6m, based on industry standard or 6% training costs.
- There is a risk provision of 9%, amounting to R54.7m. This risk is primarily focused around the pressure the relocation will put on the final locomotive production project. The overall effect on a large-scale relocation, with new teams, staff, specialists, expertise and a less-known environment will create substantial risk in meeting deliverables and timelines.

Finance Costs	Labour inflation original contract	Additional Staff Costs * CPI	1 810 405
	Finance costs on forward contracts	% Premium * 2 *ZAR 0.12 Spread on USD	87 750 000
	Bond costs increase	Duties * Total Value Added	18 000 000

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	Contingency	4% on Cost	25 867 599
	Increased insurance costs	As per Fixed Quotation	2 750 000
	Increased training costs	Std % Training Cost * Value of Additional Staff	3 587 623
	Risk provision increase project	9% on Cost	54 708 676
Total			194 474 302

Costing Summary

The above-mentioned breakdown, detailed in the attached cost spread-sheet, outlines the need for the further investment of R719m for the relocation of operations and manufacture to Durban. Any costs attributable to TE with regards to the Durban relocation have not been taken into account in the cost or R 719m.

Although this is a marginal cost in terms of the total project, it should be treated as material to the final project production. In order to not impact on the quality of service, manufacture and delivery of this crucial element of the total locomotive project, it makes sound business sense to maintain the same teams throughout the relocation and manufacture, allowing the seamless handover between the two phases, and maintaining the level of skill and experience throughout.

The above breakdown should address any issues pertaining to the costs of the relocation taking into account a 5month delay. If not, please do not hesitate to contact us for further details, relating to any or all of the summarised figures.

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Definition

1. **TRANSNET SOC LTD**(acting through its Transnet Freight Rail division), a public company incorporated in South Africa (registration number 1990/000900/30) and referred to in Section 2 of the Legal Succession to the South African Transport Services Act, No 9 of 1989 (the Company);
2. **CNR RS SA**, a company registered under the laws of South Africa(registration number 2014/016892/07) and, subject to a name change, to be known and registered as CNR ROLLING STOCK SOUTH AFRICA PROPRIETARY LIMITED (the Contractor);
3. **TE,** means Transnet SOC Limited acting through its TRANSNET ENGINEERING Division (registration number 1990/000900/30) (the "Subcontractor");
4. **Local Supplier,** means the suppliers in South Africa other than TE;
5. **Locomotive,** means collectively or individually, the locomotives to be manufactured and supplied to the Company by the Contractor in accordance with this Agreement, with each individual locomotive being identified by its vehicle number;
6. **Training,** means the training to be provided by the Contractor to the Company personnel in accordance with Part 12 (Training) of Schedule 3 (Agreement Management);

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Communication Manager

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	Costs		% of Total Relocation		Notes
Labour Costs		R 54,367,333		8%	
Manufacturing cost increase	R 38,280,000		5%		19
Increase quality assurance	R 4,640,000		1%		3
Customer service	R 8,064,000		1%		3
Program management	R 3,383,333		0%		3
Material Cost		R 223,982,441			3
Inflation due to schedule shift	R 203,034,165				
Additional procurement costs	R 20,948,276		3%		2
Logistics Costs		R 6,420,941		1%	2
Admin costs to re-work logistics	R 1,731,158				
Dry run in new environment	R 474,576				Fixed Quotation
Additional travel costs	R 2,024,410				Fixed Quotation
Higher inventory – cost of capital	R 2,190,797				Fixed Quotation
Technical Support		R 70,000,000			Fixed Quotation
Increased cost of tech support	R 28,000,000		4%		
Engineering	R 10,500,000		1%		3
Increased cost of on-site service by suppliers	R 31,500,000		4%		3
Transportation		R 94,194,785			3
International shipments	-R 567,104				
Parts Transportation to Durban	R 64,800,000				Fixed Quotation
Insurance	R 22,500,000				6
Transport protection	R 3,283,231		3%		4
Express shipments	R 895,427		0%		Fixed Quotation
Truck for handover	R 1,492,378		0%		Fixed Quotation
Locos testing	R 1,790,853				Fixed Quotation
Delta to warehouse costs		R 76,650,745			Fixed Quotation
Additional Lease costs	R 16,800,000		2%		
Fencing/Security	R 110,395				5
Civil works upgrades/office constr	R 3,927,000		1%		Fixed Quotation
Office & warehouse furniture	R 188,899				5
Racks & Shelving	R 11,952,500		2%		Fixed Quotation
Local forklifts/stacker trucks	R 5,000,000		1%		5
Additional delivery vehicles	R 3,924,552		1%		5
[illegible]	[illegible]		[illegible]		Fixed Quotation
Additional staff & personnel	R 24,503,400		3%		[illegible]
Extra outside labour & services	R 5,800,000		1%		3
Other Costs		R 194,474,302			3
Labour inflation original contract	R 1,810,405		0%		
Finance costs on forward contracts	R 87,750,000		12%		3
Bond costs increase	R 18,000,000		3%		4
Contingency	R 25,867,599		4%		4
Increased insurance costs	R 2,750,000		0%		Contingency Risk - Fixed %
Increased training costs	R 3,587,623		0%		Fixed Quotation
Risk provision increase project	R 54,708,576		8%		3
Total		R 719,090,546			Standard Risk - Fixed %

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Global Variables		
Diesel Locomotive		232 locomotives
Locomotive Weight		200 tons
Project Value	9,000,000,000	
SA Value	4,950,000,000	[redacted]
Delay		5 mths

ons & Variables	
Loco	25
·os	232
· Month	12
n Locos pa	300
· Months	19
Per Loco	
	5
	17
	3
per Employee	17,500
	10,000
	20,000
	35,000
d Avg	19,800
· per Team	495,000
· pa	5,940,000

l Training Costs	
l Staff	24,503,400
ring Related cost	38,280,000
	62,783,400
l Training	6%
Total	3,587,623
ployee Cost	700,000
A	40,000
	6%

inexperience	
Locos pa	12
Supervisor	
rom CNR	2
Supervisors	6
Supervisor pa	40,000
	4,640,000

35%	Portion of Total costs for Labour
9,000,000,000	Total Value
30%	Margin
6,300,000,000	Costs
2,205,000,000	Labour
49,7[illegible]3,370	Labour Inflation

5,[illegible]31,503	Calculated Inflation
223,[illegible]20,675	Total Original Labour Cost
11,309	Total FTE (over period)

Extra outside labour & services	
Engineering Consulting	
Fees pa	
pa	900,000
Period	75,000
Number of Experts	1,450,000
Total	4
	5,800,000

Labour inflation original contract	
Additional Payments for Staff	80,250,733
Inflation	2.3%
Total Cost	1,810,405

Long Term Maintenance Consulting		
Years	4	
Avg Salary	1,000,000	
Number of Engineers,	20	
	70,000,000	pa
Weighting		
CNR Tech Support	8	
CNR Engineers	3	
Local Small Business Supplier		
	8	

Customer Service (increase in #)	
Additional team	
Cost	8
	12,000
	8,064,000

Mix Change Due To Inexperience & CNR Additional skill training/mentorship Support

	Old	New
Unskilled	5	5
Skilled	17	20
Managers	3	6
Per Loco	25	31
Direct Labour per Loco	495,000	560,000
Total Cost	114,840,000	153,120,000
Diff	38,280,000	

Additional staff & personnel	
Relocation %	30%
Total CNR Team	300
Relocated Team	90
Salary Growth	25%
Relocation Cost	100,000
Total Cost	17,613,000
Additional CNR Staff	72
Incremental Salary	25%
Total Cost	6,890,400
Grand Total	24,503,400

Program management		
Senior Manager for Relocation	700,000	pa
	58,333	pm
Total	1,127,778	
Number	3	
Total Cost	3,383,333	

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Bond cost increase		
Total Value	9,000,000,000	
Value Added (margin)	20%	
Total Value Added	1,800,000,000	
Duty	1%	
Duty Amount	18,000,000	

Forward Contract Cost		
Imported Value	4,050,000,000	
12c Spread on Fwd	0.13	
Paying Double for Buy-	0.26	Rand to the USD
R/USD	12	ZAR/USD
Additional Cost %	2.2%	
Total Cost	87,750,000	

Insurance on Transportation	
Standard Insurance	20,000,000
Insurance	50,000
	0.25%
Value	9,000,000,000
Insurance	22,500,000

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Additional Lease costs

	600,000	R pa		
Industrial Rent Pta	150,000	5,000	sqm	30
Industrial Rent Dur'	350,000	5,000	sqm	70
Diff	200,000			
	16,800,000			

Racks & Shelving

17% of sqm	
5,000	sqm
14,500	cost per sqm
11,962,500	

Small Office

850	sqm
55	R/sqm
3,927,000	

Local forklifts/stacker trucks

#	R	
15	120,000	lifts
5	700,000	trucks
	5,300,000	

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Parts Transportation to Durban		
Cost of Road Logistics		5% of Total Costs
Total Imported Materia		40% of Costs
Total Imported Value	4,050,000,000	*original cost*
Margin	20%	
Total Costs	3,240,000,000	
Materials from Costs	1,296,000,000	
Logistics on Materials	64,800,000	

CNR Rolling Stock South Africa

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Key References

South African Reserve Bank	www.resbank.co.za	Macro-economic analysis on trends, growth in manufacture, currency risk, inflation and interest movements and general market speculation on risk.
Stats SA	www.statssa.gov.za	
Fin24	www.fin24.com	
JSE News	www.jse.co.za	

Transportation References

Department of Transport	www.transport.gov.za
Durban Clearing	www.durbanclearing.co.za
Road Freight Logistics	www.rflogistics.co.za
South African Railways	www.southafricanrailways.co.za

Finance Costs

South African Reserve Bank	www.resbank.co.za	
Consulting with various finance experts		consulting
Standard Bank		
SASFin		
Bidvest Bank		

Labour Related Research

SA Board for People Practices	
EVA Solutions	www.evasolutions.co.za
Exceed HR Consulting	www.exceed.co.za

Property Research

Seeff Property Agency	www.seeff.co.za	agency
Property24	www.property24.com	non-agency
Standard Bank Property		banking portfolio assistance
Nedbank Preferred Property Guide		banking portfolio assistance
FNB Property		banking portfolio assistance
Industrial Listings	www.industriallistings.co.za	
SA Commercial Property News	ww.sacommercialpropnews.co.za	

Factory & Materials Costs

Industry experts in manufacture		consulting
Industry experts in mining & efficiencies		consulting
Industry experts in cost-optimisation		consulting
Trading Economics	www.tradingeconomics.co.za	
Manufacturing Circle	www.manufacturingcircle.co.za	

H

Siyabonga Gama, Acting Group Chief Executive

TRANSNET

Mr Jeff Wang
CNR Rolling Stock South Africa
95 Grayston Drive
Sandton
Johannesburg
2196

Dear Sir,

Variation order to finalise the relocation of the construction of 233 Class 45D locomotives by CNR Rolling Stock South Africa (CNR) to TEs facilities in Durban

Your proposal dated July 2015 regarding the above refers.

This letter serves to confirm the acceptance of the Variation Order issued by Transnet in accordance Paragraph 2, Schedule 3, Part 7 clause no.2 (Company Proposed Variations) of the Locomotive Supply Agreement between Transnet SOC Limited and CNR Rolling Stock South Africa dated 17 March 2014.

Accepted Variation Order is as follows:

1. TFR Class 45D: Locomotive Supply Agreement - Durban Variation Order for an amount of R647 181 494.00.

2. Proposed payment terms as follows:

   - 50% payable within 14 days of signature amounting to R323 590 747.00. The remainder, being 50% payable in 24 equal instalments of R13 482 948.00 ("the relocation payment") commencing the end of the first month that the project commences provided that the project is on track.

   - Therefore CNR RS SA will invoice for 24 monthly instalments of R13 482 948.00.

Kindly submit detailed invoicing based on the variation order and payment terms stipulated.

Yours Sincerely,

Siyabonga Gama
Acting Group Chief Executive
Date: 2015 · 07 · 23

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1990/000900/30

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Directors: LC Mabaso (Chairperson) B Molefe* (Group Chief Executive) Y Forbes GJ Mahlalela PEB Mathekga N Moola ZA Nagdee VM Nkonyeni MR Gobodo SD Shane BG Stagman PG Williams A Singh* (Group Chief Financial Officer)
*Executive

Group Company Secretary: ANC Cuba

www.transnet.net

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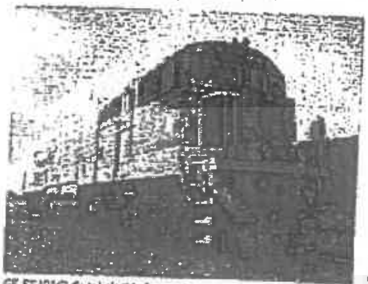
Written March 17 2014

Transnet: 1,064 locomotives, $5 billion

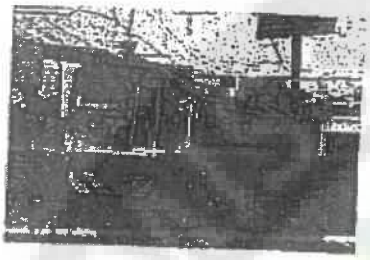
Written by William C. Vantuono, Editor-in-Chief



GE ES40ACi diesel-electric locomotive

Transnet, South Africa's state-owned freight transport and logistics company, on March 17, 2014 awarded US$4.7 billion in contracts for 1,064 locomotives to four global original equipment manufacturers—General Electric South Africa Technologies (a unit of U.S.-based GE Transportation), CNR Rolling Stock South Africa (Pty.) Ltd., CSR Zhuzhou Electric Locomotive, and Bombardier Transportation South Africa. The acquisition is the largest-ever locomotive supply contract in South Africa's history and the single-biggest investment initiative by a South African corporation.

The majority of the locomotives will be deployed in Transnet's Freight Rail GFB (General Freight Business) division, which does not include the company's dedicated heavy-haul lines for iron ore and coal. Transnet said it expects Freight Rail, which accounts for roughly 50% of the company's revenue and capital expenditure requirements, to grow its volumes to 350 million tonnes from the current 207 million tonnes. Just over 60% of the growth is expected to come from GFB.



The locomotive acquisition is divided among the four builders as follows: GE will produce 233 Evolution Series GE ES40ACi diesel-electric locomotives for the Transnet Freight Rail network. This is in addition to the 143 locomotives that Transnet has ordered from GE since 2010. CNR Rolling Stock South Africa will supply 232 diesel-electric locomotives. CSR Zhuzhou Electric Locomotive and Bombardier Transportation South Africa will supply 599 electric locomotives.

In line with South Africa's commitment to boost its manufacturing capacity, all the locomotives except 70 will be built at plants in Koedoespoort, Pretoria, and Durban operated by Transnet Engineering, Transnet's engineering, manufacturing, and rolling stock maintenance division. Transnet Engineering's role in the agreement has been defined "to ensure that it transforms into an OEM over time," the company said. "Transnet Engineering will share approximately 16% of the total build program, about one-third of which will be outsourced to [illegible] capability for locomotives and related products, as well as drive South Africa's regional integration objectives. In total, the localization elements are expected to contribute over US$8.4 billion to the South African economy."

The contracts have stringent local content, skills development, and training commitments as dictated by the Supplier Development Programme, a government initiative led by the Ministry of Public Enterprises, whose main goal is to localize the production of imported machinery and equipment.

Transnet said the four suppliers have complied with and exceeded the minimum local content criteria for rolling stock of 60% for electric locomotives and 55% for diesel locomotives. "Once all these locomotives are delivered, Transnet would have met all the rolling stock requirements needed to successfully execute our Market Demand Strategy, our record-breaking US$28.7 billion infrastructure investment program," said Transnet Group Chief Executive Brian Molefe. He added that the contracts "mark a significant milestone in our company's history together with substantial socio-economic benefits for South Africa. The drive to modernize our fleet is intended to improve locomotive reliability and availability. This will improve customer satisfaction, ultimately leading to our crucial goal of road-to-rail migration of cargo in line with government's objectives, and transform the South African rail industry by growing existing small businesses and creating new ones. We are going to create and preserve approximately 30 000 jobs."

The core components of GE's 233 ES40ACi locomotives, including the engines, will be made in the U.S., with final assembly occurring at a facility in South Africa. "This technology will help Transnet lower fuel and maintenance costs over the long run," said General Electric South Africa President and CEO Tim Schweikert. "GE South Africa Technologies is honored to be awarded the opportunity to partner with Transnet in revitalizing South Africa's rail sector. Over the past five years, GE South Africa Technologies has delivered more than 115,000 hours of training, more than 35% manufacturing of local content, social upliftment in communities, and technology transfer."

Transnet's contract awards followed a public tender process overseen by its Board of Directors through a subcommittee of independent directors. In addition, Transnet Internal Audit monitored the bid evaluations to ensure that the process complied with South Africa's Public Finance Management Act.

The bid evaluation process had six stages involving Broad Based Black Economic Empowerment and Supplier Development; technical ability (including details of technical offers from the potential suppliers); and commercial. The latter included pricing, total cost of ownership and contractual terms, and compliance to the supply agreement.

The final locomotive is expected to roll off the production line within three and a half years. [illegible] per year at 48 per month," said Molefe. Commenting on the rationale for splitting the work among four suppliers, Molefe said, "Ability to stick to an extremely tight delivery schedule was one of the key considerations in assessment of the bids. It is our view that no single supplier would have the capacity of resources to deliver within the timelines we had envisaged."

CNR Rolling Stock South Africa (Pty) Ltd [illegible]

CNR Rolling Stock South Africa

Tax Invoice

DATE : 03/08/2015

C/N NR CNR00015080301

FOR : SAP Contract :4600016730
R301-232 Class 45D Locos

3rd Floor
China Construction Bank Building

95 Grayston Drive
Sandton

2196

VAT No : 4660265242

BILL TO : Transnet SOC Limited
Transnet Freight Rail
Carlton Centre
150 Commissioner Street
Johannesburg

VAT No : 4720103177

Description	Amount
Durban Relocation 60% payment	R 323,590,747.00
In accordance Paragraph 2 , Schedule 3 ,Part 7 Clause No.2 of the	
Locomotive Supply Agreement	
SUB TOTAL	R 323,590,747.00
VAT (14 %)	R 45,302,704.58
TOTAL	R 368,893,451.58

Bank Details:
Bank name: First national Bank
Branch No: 250655
Account No: 62253129566
Reference: CNR Rolling Stock South Africa (Pty) Ltd 676031170001

K

Business Expansion Structured Products (Pty) Ltd 1st Floor 24 Crescent Drive Melrose Arch 2076 VAT 4740258264	Date 07/09/15 Page 1 Document No INA10082
CNR Rolling Stock South Africa (Pty) Ltd 3rd Floor 85 Grayston Drive Sandton 2196 VAT 4660266262	Att : Allen Lee -CNR Rolling Stock South Africa (Pty) Ltd 3rd Floor, 85 Grayston Drive Sandton Email: liyongzhi[illegible]@163.com

Account	Your Reference	Tax Exempt	
CNR001		N	

Code	Description	Exclusive Ex VAT Price
1000000	Re: Agency commission with respect to the project scope deviation associated with [illegible] of Transport engineering's local manufacture programme from the TE Koedoespoort Gauteng facility to their Bay-Head Durban facility	
	Total agency commission:	
	The price awarded to CNR by TFR for the Project Scope deviation ZAR	647,181,494.00
	Less: the project benchmark cost per the Business Services Agreement between CNR and BEX dated 23 April 2015 ZAR	580,000,000.00
	Total agency commission due to BEX (ex VAT) ZAR	67,181,494.00
	Work performed in terms of Scope Deviation in terms of Business Services Agreement- Business enterprise optimization and advisory services including: a) Conduct detailed market research and produce a comprehensive cost analysis with detailed explanations with regard to changing the location of Transport engineering's local manufacture programme from the TE Koedoespoort Gauteng facility to their Bay-Head Durban facility on a risk basis (the Project) c) Advise on the social, cultural and political framework in South Africa and to identify various opportunities to participate in similar projects d) To co-ordinate with appropriate counterparties to advise on applicable Government policies with regard to the successful execution and implementation of the Project	

[illegible]
Standard Bank,
Rosebank Branch Code
004305,
Account Number 002 054 833
Payable upon presentation

[illegible]		
Discount @	0.00%	0.00
Amount Excl Tax		67,181,494.00
Tax		9,405,409.16
Total		76,586,903.16

ANNEXURE PM 10

TRANSNET SOC LTD

ACQUISITIONS AND DISPOSALS COMMITTEE MEETING NUMBER 7-16/17FY

HELD AT JOHANNESBURG

DATE: 2017-02-13

Boardroom 4901
49th Floor Carlton Centre
150 Commissioner Street

PRESENT:

1.	Mr SD Shane	Chairperson
2.	Mr SI Gama	Member (Group Chief Executive)
3.	Ms LC Mabaso	Member
4.	Mr ZA Nagdee	Member
5.	Mr GJ Pita	Chief Financial Officer
6.	Mr M Sigonyela	GM: Office of the Group Chief Executive
7.	Mr N Silinga	Chief Legal Counsel
8.	Mr E Thomas	Chief Supply Chain Officer
9.	Ms L Beaumont	Company Secretary
10.	Ms B Ndlovu	Deputy Group Company Secretary
11.	Mr R Nair	Chief Executive: TRF
12.	Ms S Mackay	Chief Procurement Officer: TRF
13.	Ms MA Mosidi	Group Chief Information Officer
14.	Ms L Sangqu	Chief Information Officer: TRF
15.	Mr K Reddy	Chief Capital Officer
16.	Mr M Shongwe	GM: Capacity Development Services: Group Capital

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SOUND FILE : ADC 13 Feb 2017(1)

CHAIRPERSON: ...back from Pretoria, it sounds like he had an exciting morning. I want to beg everybody's indulgence and ask that when he arrives, he asked to caucus with myself and the Chair and I assume Mr Pita, so we will just take a break. In the meantime we will deal with the formalities. We can start with the security briefing all the way down there. It is one of those movies where the husband and the wife sit right at the end. [Laughs].

MS MABASO: It is more (inaudible) where you sit.

CHAIRPERSON: Cut us off as often as they like.

[Emergency procedure video for Carlton Centre being played].

CHAIRPERSON: Thank you very much. Directors' interaction and interests will be circulated, are those being circulated?

MS MABASO: It is circulated.

CHAIRPERSON: List of Supply Chain that we are at. Matters for approval, I think we can probably press ahead with the items and as I said, we will caucus when Mr (Inaudible) arrives. Item 5.1, capital budget and investment plan in the seven-year pipeline, from what I can gather, this is the Committee members have seen this by the Board. Mr Pita, is that more or less correct?

MR PITA: Yes, Chair. Could I ask that we, given that the two matters are linked, do 5.1 and item 6.3 together? The Capital Expenditure Report and then also if we can invite Richmond who is the GM of GCI who is outside, if we can bring him in and just introduce him to the Committee. He is the newly appointed General Manager of Group

Capital Integrated Assurance, he has been with the team for quite a while and when it comes to the ranks just (inaudible) things, so I just wanted him to get some exposure to the ADC.

And also, I just wanted to highlight to the Committee that the capital budget and investing plan who are in the seven-year pipeline, is on our work plan, our annual work plan and it is not necessarily for approval. You know, you will see that the actual (inaudible) says that is promoting so that the ADC note, because we have actually presented the seven-year plan to the recent Board Meeting on the 24th and we will also be presenting the final corporate plan on the 22nd next week.

So while they try to locate Richmond, let me just start off and if you will allow me, on item 5.1, as you see from again here, it talks about requesting a Committee to note the latest capital plan. The capital plan is as was presented at the Board, we do have a yearly very specific capital plan which then obviously comes through to the ADC. If I remember, it basically highlights what we have done based on the Board's decisions where we, the Board asked us to fill the reduced capital and to include new initiatives around MNA, *et cetera*, so the capital plan must include the (inaudible) and acquisitions, 20-billion.

The Board also requested us to cut cost around APEX (inaudible) dealing specifically with capital. So if you look on page 2 of the memo, page 2 of the memo actually highlights the full corporate plan for the seven-year period of 229.162-billion and it also highlights the budget per annum excluding MNA and including MNA. So for the year that it is about to commence, in 2017/2018 we have a capital of 23.375 and a MNA budget of 1-billion. We also then highlight, let me just take to the actual slides if I may, 5.1(a).

Do you have that little thing that I can do the slides? So Chair, Richmond has just joined us, so we would like to welcome him to the ADC. He will introduce himself when he does the second part of the presentation to the capital expenditure report and as I have said, he has been newly appointed so Richmond, welcome to the party. He has been part of the GCI for a number of years. In fact he was the Executive Manager (inaudible) start GCI from scratch based on best practice, based on platinum standards, looking at (inaudible). So I think we have a… (intervenes)

MS MABASO: What is his name again?

MR PITA: You can introduce yourself.

MALE SPEAKER: Thank you Chair, my name is Richmond.

MS MABASO: Oh, welcome here. You will record yourself, welcome man.

MR PITA: So Richmond, I am hoping that you do not for future endeavours (inaudible)… (intervenes)

MS MABASO: And your surname?

MALE SPEAKER: My surname is Givenchy(?).

MS MABASO: Okay, thank you.

MR PITA: Okay, so if I can continue with the first presentation on the seven-year plan, just looking at these slides, the first slide, you will see that we have actually highlighted per year what the capital, pure capital requirements is. We have also highlighted what it emanated on and it is very importantly as discussed at the previous Board, we have highlighted the penalties that potentially could arise through renegotiation of some of the capital deferrals and optimisations.

I think just to be prudent, they might not arise, in fact my office will keep their budget at a group level and both Mr Gama and I will then release it depending on negotiations, but we are going to push hard so that we have little to no penalties. There obviously is risk associated with it, but I just wanted to show you how we moved. If you look at slide 2, we went from an original submission of 289-billion from the divisions to 218 in November and then we dropped it down to 209.2, that includes the 4.2 (inaudible).

So we have actually adhered to the Board required deferral. I believe that when the rating agency is coming and knocking to visit, in fact the 23 February, the day after our Board Meeting we are seeing Rudicks for a full assessment. A lot of the questions (inaudible) around the Capital Investment Programme and what we are doing with MNA. And I think that this proactive step from Transnet will go well for us as it looks to this rating cycle.

So just very quickly what we also highlighted in the presentation which is something that the ADC should take note of, is that we have deferred and optimised in certain areas, we are highlighting the projects in slide 4 that have actually deferred. For example, DCT (inaudible), we have deferred it by one year. It is an important project. A lot of these projects are political, a lot of these projects are in the environment or are on the Presidential Coordination Committee, so the 1064 we are looking at renegotiating, we will provide feedback to this Committee on all of these areas on an ongoing basis. We have reduced capital maintenance.

Now that makes sense because if your volumes have reduced, you do not have to maintain the locos, the wagons and the permanent rails as much. TFRG... (intervenes)

CHAIRPERSON: Is that for SAPEX or APEX?

MR PITA: So this is for (indistinct) on APEX we have also reduced the (inaudible). We have certain TPT feed acquisitions, more than 3.3-billion in value that we deferred, but at risk because in some of those areas we might (inaudible) as a Board for operating efficiencies, risk (inaudible) by hour *et cetera*, but we are doing a balancing act because we are also deferring capital. Now Project Phakisa, another politically charged government project where we are only looking at land related infrastructure, is being funded, so all the rest we (inaudible) PSP.

That might require a tough discussion with our shareholder, because if we guard in PSP and nobody is interested, is it financially viable for the country? So that is something we need to think about. Manganese, we also looked at further optimisation of the project, and we deferred parts of Waterberg and we are looking at scope optimisation with Tipla. Things that we have not deferred is finalising the coal, 81-million tons, the Overvaal tunnel that we have discussed in this Committee that is such a high risk, Waterberg phase 2 because we have already contracted certain (inaudible) NMPP phase 1 because we had the 80 (inaudible) date that we have confirmed with NURSA, it is a non-negotiable, it is November 2017.

Mainly phase 1 was the Rail Project for 2. something here (inaudible), we are nearing completion so we might defer it and then the regulator portfolio, some of the regulated portfolio we have not deferred because we get a return. But the risks that come out of this are obvious, we could have potential penalties on the locos, but deferring some of the locos because of affordability, you are going to have to bring in some of the old fleet which means maintenance cost increase and you might have reliability issues.

So for the next two years it is a balancing act and we just wanted to highlight that. Project Phakisa I already highlighted and the Durban (inaudible) might cause some noise on the regulator side because in some instances we put some of the capital into our port tariff applications and then on Manganese as well, the first worn ship will only be estimated at May 20, 23 which is a year later than what we anticipated, but we are working on trying to get that final ones and there are some issues around the licensing for Port Tabuga.

So Chair, basically for this presentation we just wanted to ask the ADC to note that we have successfully reduced capital from 277.8 down to 209.2 excluding 20-billion for MNA which includes 4.2 for penalties, and we also wanted you to note that we are proactively looking at contractual implications of all of these renegotiations and we are coming up the fence, but I think it would be prudent from a risk perspective for us to then report back to this Committee as to how we are doing as we enter into these renegotiations on a balance.

So Chair, I will just pause there at the moment. Is there any questions on this presentation before we hand over to Richmond who will do the Capital Expenditure Report?

CHAIRPERSON: Colleagues?

MALE SPEAKER: No.

CHAIRPERSON: Chair?

MS MABASO: I just want to really ask one thing. You remember (inaudible) the slide, this one, I do not know what page is it, page 1?

MR PITA: Yes.

CHAIRPERSON: Page 1 of the slides.

MS MABASO: Just, I always say talk as if you are talking to a layperson. How can you explain the ratio that is pulling up, up, up, up, now it is 42.2, then it is going down? What, just explain to me in a layman's language.

MR PITA: Okay, so…

MR GIVENCHY: Thank you, Chair. I think the big message is because of the financial challenges we face in the first three years, we have deferred… (intervenes)

MS MABASO: Ja.

MR GIVENCHY: We have differed a lot of the key interventions that would have been required by the business.

MS MABASO: Ja.

MR GIVENCHY: So you will find that in the first opportunity where the cash flow becomes available, there is going to be that abnormal spike that comes up and then after that you will see that the trend actually normalises.

MS MABASO: Ja.

MR GIVENCHY: So if you look at that 30-billion, I think it is a very good reflection of our true capacity both to execute successfully and then to replenish your business from a sustaining, whilst sustainably expanding you know, capacity. So if you look at that 20, 21 year, I think that is the first year that we are actually saying TPT would have a spike in expenditure to then catch up on anything that has happened around the fleet and also if you look at the wagons and so forth, there is actually very minimal wagons in the first two years of the corporate plan.

So you are going to find that the volumes will pick up in those particular years, you are also expecting reciprocal movements in capital, so wagons should also be going up at that stage and if you look at our locals, the renegotiations that we are trying to do, we are actually hoping that the bulk of that deferment will then actually only be finishing off in that 20, 21. So you will find that CNR and BT, the larger payments should then be happening in that last year there and that is just to put a few on... Manganese would also be in execution, by then you will hear from Garry speaking about that, the end date is 20, 22, 23.

The majority of that execution span then will also be happening around then. Overvaal by then would be approaching the commission date as well, so I think those are some of the (indistinct) to name a few.

MS MABASO: Okay. Just the last thing, Garry, you mentioned there, I would say prolonged projects, you said most is because of political issues like the Saldanha Tipla and the, what was it, the other one? It is, what is it? Is it... (intervenes)

MR PITA: Phakisa?

MS MABASO: Yes. No, not Phakisa, it is Waterberg Phase and the Overvaal Tunnel. I am just worried about those ones.

MR PITA: Chair, what I meant to say was, a lot of these projects that will be deferred or atomised due to the rules that the Board had agreed in terms of MPVs and affordability, might create political issues because for example, Phakisa is a government run project which government report on in public and then if Transnet is not seen to be trying to aggressively invest in Project Phakisa, it might create some reputational ramifications in the press. That is what I meant there, but it was not, the decisions were not different because of any political agendas.

The deferral of Waterberg is based on feasibilities that have been done and business cases, so NTS and what we have said to the public, is that it will always be based on validated customer demand. If a customer demand is not there for a take or pay as an example to guarantee the money, then we should not go and reinvest with a hope that the coal industry turns around globally, because if it does not, we will have all of that capital invested with no returns coming in. So if the customers give us take or pay, sure, we will go and invest, but we have to do so responsibly, that is why at the bottom of the slide it talks about all the projects.

The top talks about the projects we deferred, the bottom talks about the projects we continue with, we will see Waterberg Phase 3 to 5 has been pushed out by two years because of discussions we have had with the customer, but Waterberg at the bottom, Phase 2, volumes already have been contracted with the company called (Inaudible). That means we are guaranteed, our monies are also (indistinct) a good investment to continue with. That is really what we were talking about. Saldanha took the tip, but we are continuously looking at how we can try and fix that. The costs are considerably (inaudible) so we start atomisation here as well.

MS MABASO: Thank you.

MALE SPEAKER: Nagdee?

MR NAGDEE: Ja, I have a question on penalties. I note from you, from page 1 of the presentation, if I understand that correctly that you are talking about potential penalties of 1.8 in this year, 2.1 next year and .4 the year after, and that is largely relating to the locomotive contract or what does that relate to?

MR PITA: Yes, so basically we did a calculation based on the worst-case scenarios with experts and we came up with a potential 4-billion and I believe personally that we will not get even close to that. It mainly relates to the locomotives but we have provided for that just in case because we do not want to get caught at a point in time where we have to actually put the penalties in. When we go and present this to the public, for example now our yearend results, we will talk about a globular capital number.

CHAIRPERSON: Correct.

MR PITA: And if we do not then the penalties is to be a saving in capital which will only help us.

CHAIRPERSON: Just to put in perspective, what is the value? So would it be the penalty on the full contract, so it is a 50-billion contract if I am correct here?

MR PITA: 54.4.

CHAIRPERSON: It is a 54.4 contract and our penalties relating to the delays, on the GCE the penalties on the delays would be, could be as much as 4?

MR PITA: It could be worst-case scenario but Chair, we do not believe that that will eventually happen. We believe we have sufficient information and leverage and then negotiation to be able to limit that and our approach in fact, is zero penalties because in many instances you will see in the later presentation on the 1064, the status, in some instances some of the OEMs are not where they needed to be based on the original agreement, so why should be paying penalties?

So we do not believe in certain instances we will be paying penalties. There is other contracts for example Manganese where there is a PCF contract that has been already brought onto the sites and maybe doing work. Now if we are going to be deferring that, there is going to be some give or take in those negotiations, so we are just being prudent with the respect of it.

CHAIRPERSON: I understand. I just want to be prudent with the way in which we disclose it, given my paranoia about the potential distributability of facts outside of this closed forum and therefore I think if we could record them as a contingent CAPEX liability from the Committee's perspective? So we are saying look, we are acknowledging your doubt of them as well and we are saying look, it is not first price for us to pay for R4-billion worth of penalties, you know so from a management point of view, but to the GCE and to the GCFO and to your team, obviously if we can negotiate our penalties to nought, that is very good, 4-billion, not so good.

MS MABASO: No, no… (intervenes)

MALE SPEAKER: If we can record that, it is a contingent and a prudent provision rather than an expected expenditure.

MR PITA: Correct, correct, ja.

MALE SPEAKER: GC, you are welcome then, thank you, I did relay your apologies, as we did also disclose that we wanted to caucus for a few minutes with the GC. I have been away, unfortunately I wanted to meet with him before. We are going to finish this item if that is okay, that we are on item, combined items 5.2.1, 5.2 sorry. I have not… (intervenes)

FEMALE SPEAKER: 5.1 and 6.3.

CHAIRPERSON: So we are doing 5.1 and 6.3 together, they are, at large you have dealt with that at Board Level, GCE as well, but we are going to hear a presentation on 6.3. So if there are no further questions then in relation to the CAPEX budget that is for noting for the Committee and I think we are happy with it, we have seen that in detail at the Board as well and I think that we have, we also note, sorry my other point was we note the acquisition part which had been put aside of 20-billion over the next five years.

I think you have calculated it and we are excited by some potential opportunities in that space, I am sure that GCE will fill us in as it becomes relevant.

MR GAMA: Mr Chair, just to withdraw item 5.6.

CHAIRPERSON: We are going to withdraw item 5.6, Ms Secretary, thank you. Good, then let us proceed then with 6.3 if there is no further questions on 5.1. I also appreciate by the way, the way in which this matter was disclosed to the committees, it is good, it is succinct, it had got enough detail for us and it has not got too much detail and I think it outlined everything that we would need to have, so it is a very good submission.

6.3, Capital Expenditure Report, then Richmond, do you want to just give us two minutes on your background for everybody's clarification and for the minutes, who are you, where did you come from? I know that she asked your name but maybe disclose a bit more, your qualifications or your modelling career and something.

MR GIVENCHY: Thank you, Chair. My name is Richmond Givenchy. Professionally I am a Chartered Accountant, I qualified in 2003. I also hold a Masters in Business Administration from Greater School of Business which is UCT, University of Cape Town. I have been with Transnet, a very exciting career since 2012. I think I joined at the time when the MDS was I think the buzzle for the country and I think I have been privileged to have walked this journey with this leadership team as well. I have had, one of the inevitable challenges of starting GCA as you have heard.

I was one of the original two or three executive management in that team with Mohammed here I think who you know well as well. I recruited I think probably 80% of the team that is there presently. Obviously I could not recruit the other guys that were my level at the time, but I think I have enjoyed my tenure there and I think we have gone through the various phases from the corporate plan. I wrote my first corporate plan in 2013 and I think I am honoured to have at least shared the current year one in a tough financial environment, but I believe it drives right at strategic comparatives.

I am also excited by the 20-billion award just as well. In terms of any other background, I think I have overstepped my two minutes, I do not know if maybe there is anything else?

CHAIRPERSON: Maybe before Transnet.

MR GIVENCHY: I have got a lot of experience in Professional Services, I have been an auditor with PwC and E&Y. I did a stint in East Africa, I have also done time in New York and I was a Senior Manager at the E&Y Johannesburg office for three years as well. I had a successful portfolio there before I then joined the mining houses. I joined the Anglo Group, I was there for three years and then after that I then came to Transnet.

CHAIRPERSON: Good. Any other questions? An impressive CV, thank you. Take us to your presentation.

MR GIVENCHY: Thank you, Chair. I would like to believe that you have seen the two Capital Investment Reports. There was one done for December and another one done for January. I would like just to take the pack as read and just speak to the content of the January one, to just talk about where we are. I think the big thing to note is the Board set us a target of 25.6-billion. We took a very conservative view and where we (inaudible) have actually budgeted internally for a target of 23.1-billion because we wanted to make sure that if any risk factors came up, we then do not exceed the Board target.

I am pleased to report that we are actually trending around that 23-billion mark. As of the reporting date, I think it was around 22.8, so we would actually come and within the compacted target of 22.8 from a shareholder's perspective. Important highlights speak to the shareholder compact performance where because of the aggressive optimisation that we needed to do, certain targets are no longer feasible in line with the original shareholder's compact. We have written to the shareholder to obviously highlight our concerns to say because of we have done to improve our balance sheet position, certain targets will not be met.

We are still awaiting feedback from the shareholder on the acceptance of those specific targets, so in terms of shareholder compact performance, you will note that we are presently at 53% against the approved shareholder compact. However, if these numbers are adjusted, I think we will get closer to 87% as at the end of January. So it is very important that we do get that feedback from the shareholder on the revision of those targets.

In terms of actual performance of the key projects, I think Garry did allude to the performance of the locomotives, so in terms of TFR you will notice that CSR is struggling from a performance perspective, so they are experiencing certain challenges with the (inaudible) and the production there and in terms of the CAPEX as well, there is some challenges with some (inaudible) taking longer than expected. From a TMK perspective, one of the key things is the crafts have taken longer than anticipated in terms for approvals.

One of the issues there is obviously the changes in legislation with National Treasury requiring such an approvals, has meant that the (inaudible) arbitrator has have to go through some different approval processes than would have been anticipated when the original business case was written. So there is some rollovers that we were anticipating from TMK, from I think to the extent of maybe 4 to 500-million moving into the next financial year and there are also other challenges in terms of move to Durban for some of the capital. In terms of the TPT and TPL, I think everything is on track.

TPL, the settlement was done, so I think the number looks more reasonable in terms of what we will achieve at yearend. There is some optimisation that they have also given us, so you will see a much-reduced latest estimate for TPL as well. Would that Chair...?

CHAIRPERSON: Colleagues, questions?

MALE SPEAKER: Ja. Sorry, sorry, through you Chair, sorry, on TPL, I thought the amount was 750, the settlement amount?

CHAIRPERSON: At the bottom of page 4.

MALE SPEAKER: On page 4, sorry. TPL.

CHAIRPERSON: The Group 5 number was 629, we had approved 750.

MALE SPEAKER: 750, ja.

CHAIRPERSON: It is good, we paid less.

MALE SPEAKER: Ja, you paid less, the (inaudible), you have paid less.

MR PITA: 750, (inaudible) the 120 element relates to the timing of this particular report, it was part of the settlement but it actually came back, so you will see that even in the provision for payment through the Audit Committee, there was actually an amount key to this that we actually reversed on the payment, because the 900 odd million that Group 5 wanted, we got down to 750, therefore we won to a level, that is why there is some underspend. The expected pay we did, so it does not relate to the 750, the 750 was the amount.

CHAIRPERSON: Chair?

MS MABASO: I just wanted to ask there, page 1, risk to latest (inaudible) estimated. Risk to latest estimated, that unforeseen payment of 680-million was paid to CSR for (inaudible) business, spares, you will see (indistinct) as part of the maintenance, just explain a bit about it.

MR PITA: So Chair, I can assist there. That is on the December report, not on the report that is on the stream. There was a payment that was made in terms of started costs for the maintenance service agreement which was awarded to CSR through the Board and through this Committee. You will recall that actually came through the Committee, it is part of the CSR Fleet where we have a hundred locos previously, 95 locos as well as the 359 locos on the 1064. As those locos came out of warrantee, they need to be maintained and this was part of the maintenance service agreement which was unanticipated for this financial year.

MS MABASO: Okay.

CHAIRPERSON: And it was budgeted for future use?

MR PITA: It was to, so it is a bit of an in and out. So in any given cycle you might have something, for example on TNPA we were delayed in some of the areas, they actually were unforeseen going into next year and you have to obviously balance the books and make sure that you get savings to keep to your budgeted number. Like in this year the Board expected 22.8, we then came back to you with a 25.6 which you then approved based on our estimate at the time.

We pushed hard internally where we spoke to a couple of months ago about 24.8-billion and we even believe we can get under that number now as Richmond has highlighted.

MS MABASO: Sorry Garry, if it was budgeted, I do not know, why do you call it unforeseen then?

MR PITA: This one was not budgeted for in this period, that is why it is unforeseen.

CHAIRPERSON: This period it was budgeted for.

MR PITA: This period.

MS MABASO: Oh.

MR PITA: Correct, it is budgeted just for the future.

MS MABASO: Oh, okay. And another thing, Richmond, you said something about the shareholder's compact that is going to change end of January, you mean this January? End of this January? No, no, no, it is far-gone now, I am sorry, sorry, I am caught in a time (inaudible). [Laughs].

MR GIVENCHY: Yes Chair, I think what we did as a business is, we proactively wrote to the minister in November and indicated all the optimisations that we have done and any deferrals that we have done in line with the broader capital optimisation, so we are just eagerly awaiting for the shareholder to respond back to us. It has taken time for them to respond, but that letter is with the shareholder.

MS MABASO: Thanks.

CHAIRPERSON: You are happy? So if we can just, I know it is a presentation but on page 1, unforeseen payment of 618 in this period, is that correct?

MR PITA: Correct.

CHAIRPERSON: Those period, before it gets published somewhere (inaudible) option. I also have a question for Richmond on the NMPP, also on page 4. To what extent are you guys keeping track on

NMPP?

MR GIVENCHY: Thank you, Chair. I think we have internal processes that speak to a prudency working group that is aggressively looking at all the reports that have come from CRESCO which is externally from the Regulator and then internally we have got our own consultants that we use to make sure that the prudency is actually closing that gap in line with what CRESCO had reported. We also leverage KPMG, so we are actively working on that and we hope to report back to the Committee soon.

From a TGC perspective, I believe Mr Reddy will be able to comment on the active management processes that they have been going through in terms of managing costs, the execution schedules, productivity issues and the like, yes.

MR PITA: Chair, if I can also add to that, we have a prudency working group that Richmond have highlighted prudency. If you are looking at from a Transnet perspective what we believe is prudent, where we have got KPMG working in that team, looking at an independent source which we will then use to discuss the CRESCO and any new (inaudible) directions under prudency.

That prudency working group reports into a NMPP Governance Steering Committee, actually after this meeting we have that Governance Steering Committee taking place, where all the levels of assurance, integrated assurance providers, they are at risk. We have Legal Net who also forms part of that team, we have Finance, we have Internal Audit, we have management themselves as well as the prudency teams and then we determine whether the correct governance processes are taking place and that is when that thing is split up into ADC and to the Board through the TBC which is Krishna's department.

CHAIRPERSON: I understand that Krishna is responsible for it, but I am assuming that you guys are keeping an eye on that through these subcommittees?

MR PITA: (Indistinct) true.

CHAIRPERSON: Is it called the prudency subcommittee?

MR PITA: So the prudency working group is a working group subcommittee of the Main Governance Committee which is called the NLPP Governance Steering Committee.

CHAIRPERSON: So they are putting accountants in charge of things, they make committees now called the Prudency Committee. Okay. All right if there are no further questions, then I think it is clear to us on where we are with the capital expenditure situation and further minutes, ADC takes note of the December 2016 Capital Investment Report which we read in conjunction with the overall seven-year capital budgets. Good. It is then I beg everyone's indulgence, perhaps we could use the Chair's Boardroom. Chair, would it be possible?

MS MABASO: Okay.

CHAIRPERSON: Will it be possible?

MS MABASO: Okay, yes sir, no problem.

CHAIRPERSON: And then I will ask Mr Gama and the two of us and

Mr Pita to just caucus for a few minutes, so we are begging everybody's indulgence. So just from an eminent point of view, we have done 5.1, we have done 6.3, we removed 5.6, so we will deal with 5.2 on our return. Thank you.

MS MABASO: Oh, are we going out?

CHAIRPERSON: Ja.

MS MABASO: Okay.

[End of recording]

MEETING ADJOURNS

MEETING RESUMES

SOUND FILE : ADC 13 Feb 2017(2)

CHAIRPERSON: All right, everybody thank you for your patience. It is like a flight, you can catch up time as well. Thank you everybody, we are going to move straight back into the agenda, item 5.2. Secretary, is that correct?

MS BEAUMONT: Yes.

CHAIRPERSON: You have got a full agenda that goes in here, is it not? Engagement of ICT with third parties for submission of CRM proposal. If my memory serves correctly, this used to be called Need to Cash. Is that correct?

MS BEAUMONT: Yes.

CHAIRPERSON: It has brought on a new identity. GCE, will you be speaking to that? Mr Siyabonga?

MR GAMA: Chair, I do not know enough but just to give you the background. I think as you correctly say, this is the Need to Cash which was approved some time ago, then allowed TFR to go and work on what they called the blueprint sort of stage to determine the architecture of this. Subsequent to that, it was felt that this project is very important for the whole group, that we should do it for the whole of Transnet, so in terms of the formal levels made, it was only for one division which is our biggest division, TEMPA.

So here is the scope change to the request that we approach the supplier and that we have two or three black empowered supply development partners that they must choose to work with them. And I think Chair, our view is that we must apologise first to this Committee because this has taken a long time and the whole issue of implementation is of the essence and we must (indistinct) we need to move quickly to start to be executing.

CHAIRPERSON: Apology noted. I think we have been on this item since December 2015. Is that when you have approved that?

MR PITA: Before that.

CHAIRPERSON: Before that? So we are the end of the road, everybody, so and I am not quite sure what you want to present to us other than this very fancy conceptual architecture overview, but far away and we are here for (inaudible) good times, (indistinct) times. Let us get…

MALE SPEAKER: Thanks very much Chair, and thanks for the GC. I think the GC has articulated in essence what it is that we are asking for approval here. We are requesting the ADC to approve the SCPs approach in terms of the previously approved, confined and award approved by the ADC in October 2015. For the purpose of requesting a new RFP, the RFP will include the detailed business requirements, solution design and it will (inaudible) approach so that we can provide yet a proposed solution, associated timeframes and indicated costs in the response to the new RFP.

We commit Chair, that the previous approved budget of 979-million will not be off stand, now that this has become a transversal project across the entire Transnet, we will still manage it within the 979-million and I have also requested the team to make sure that the timeframes that were previously approved which was four years, we still push to finish it within the four years and now it is... (intervenes)

CHAIRPERSON: No.

MALE SPEAKER: Including the year that has passed, that has been actually lost, so it is actually three years.

CHAIRPERSON: It is actually three years, né.

MALE SPEAKER: So we want to commit to that, Chair. So Chair, in essence that is the request that we have come to this Committee for.

CHAIRPERSON: Ja, let me clarify, the 979, is that not the expectation we had which is... (intervenes)

MALE SPEAKER: Uhm-uhm.

MALE SPEAKER: Chair, remember it is an estimate at the end of the day. Look, what the team has done is, they have looked at efficiencies and trying to do a reconsolidated (inaudible) group as opposed to just one particular item. We kind (inaudible) a year to prove a more explanation from an IT perspective that management's understanding is that instead of just doing TFR, it is a good opportunity for us to now to consolidate all the divisions because we have to speak to each other in an intermediate supply chain from a Need to Cash and a (inaudible) perspective in any event.

So I think that is an expected amount that we were paying to reduce, but obviously the process must be, we believe it must run.

MR NAGDEE: In fact Chair, so if I may just add to that, if I remember correctly, the number was in the vicinity of about 850, of which there was going to be an element of training and that amount was going to be reduced even further by about 60 or 70-million for training if I remember correctly. So I am a little concerned about (indistinct), but anyway.

FEMALE SPEAKER: Chair, thank you. I think just as the GCE has explained, we have looked at the whole organisation because we are actually pursuing the one (inaudible) view and because all of our cash, it is all of the cash, whether it is in TFR or in TPT or in TMPA, we just instead of creating duplicate architectures which will cost us duplicate money, it would be prudent of us just to bring all the architectures together and actually have one process that will actually address this and because TFR is one of the biggest ODs within Transnet, it is just a given that we will use them and once it is up and going we will be able to consolidate it with the TAP one which is already advanced in terms of in order to get it.

So Chair, this request is to allow us to be able to redesign and look at the blueprint and be able to award it in Trans, knowing that it will actually address transversal wide and not just TFR ones. Thanks, Chair.

CHAIRPERSON: Colleagues, questions? Nothing. Is there nothing?

MS MABASO: If I heard you correctly, it was a, this, there was a big delay there.

CHAIRPERSON: October 2015.

MS MABASO: October 2015. For me, my concern is the competency of the team. I just want you to emphasise that we are, we are a big machine and Transnet is one of the biggest SOEs and really it just, just for me it is a, I want it that the competence of the... We have corporate governance's laws in the company. This thing, these are the things which I have been talking about even with the Board previously, that these things, we do not want such things, so I just wanted to emphasise it to the team and said listen, these things should not happen. It just reflects not good, not bad but... (intervenes)

MR NAGDEE: Very badly.

MS MABASO: Yes, there you have said it, so that is what I wanted to say.

MR NAGDEE: In fact, sorry, to add to what the Chair is saying, this was one of the projects that was actually highlighted in one of the newspapers and if we are going to basically cancel and reissue, I do not know what the impact, what the fallout of that is going to be. But that is the one question, I have one or two other questions if you do not mind. It relates to, I guess it is going to integrate with the Order to

Cash, okay, but our understanding was initially that Need to Cash was going to cover all the (inaudible).

Now Order to Cash have gone someway in, it is rolling now Order to Cash. What did that cost, because that is a separate project, we did not have sight of that? Okay, in the interim, so that is a separate project, so to me leads to cash, if it is a Transnet wide project, that element of order to cash, how much did that cost? It should have been, like we should have had line of sight of that as well and that is the first question. Sorry, if I may just...?

The second part of this and it was very, very key, if I remember correctly, at the last, one of the meetings that we have had, one of the ADC Meetings we had, the Chair mentioned something very, very critical and he said we have got to make sure that 40% because it was in the print milieu, 40% of this must go to women now, black owned disabled companies, okay and we have got to make sure that when, we have got to ensure that that process is followed because I remember there was, I think there was another company mentioned, there was no mention of any of the women owned or black owned or disabled companies in that particular meeting, okay.

<u>FEMALE SPEAKER</u>: Chair, thank you. I think this is the most critical transformational project that you can ever had, have in Transnet. If you listen to what the clients have been saying to us, for us to achieve the single view of Transnet, what people talk about is actually this project. It is not an easy project and we cannot actually play

around and actually fraud it, because otherwise we will end with an (inaudible) offence.

So just responding to the Order to Cash for example, which is a project running within TNPA, tomorrow and Wednesday we are having a session to combine both designs and architectures of Order to Cash to see how this particular project is going to be fast-tracked by actually plugging in the portion of Order to Cash, because all what we get is Order to Cash, whether it was in TE or whether you were in TEMPE or whether you are in TFR.

So Order to Cash is going to plug into this once we have actually defined whether it should be for everyone else. In terms of the cost Chair, I am not able to actually comment on it because I have not really looked at it deeply, but it is my believe that once we redesign and we look at the blueprint for this particular Need to Cash, will be able to send them the total cost of the Need to Cash, including the Order to Cash is actually at this point and in my view I do not think that it will be anything beyond the number that we have seen now which is almost R1-billion.

So I am quite comfortable that the work that we have done, the design that we have made, the blueprint that we are expecting, the engagements that we have had with SAP, we will actually be able to come in at a much lower, well not much lower but at least we meet the same requirements but also at the same amount that we have. If it is lower it will all be the better. And Chair, about the women owned and the BEE owned, all I can say I think Procurement can comment on that, but that is actually what we always drive and maybe I will ask Shantell to look at it and tell us how they have structured it.

MS MACKAY: Thank you, Chair. From a supply development perspective, if it is a 40% it will be listed in our RFP as a mandatory requirement in terms of this, the approach that the confined (inaudible) will take and we will then, I think with regards to approval that will be granted, we will then list the requirements as per the approval that is given in ADC to date, to ensure that the supplier meets Transnet's minimum requirements, okay.

MR PITA: Chair, just to highlight again, we do not dictate to a supplier who or how they decide.

CHAIRPERSON: That is important, ja, ja.

MR PITA: But we had very particular developmental mandates, we talk about black ownership, black women ownership, youth, people with disabilities.

CHAIRPERSON: Ja.

MR NAGDEE: As per our Supply and Development Policy.

CHAIRPERSON: GCE?

MALE SPEAKER: Just for Mr Nagdee, we are not cancelling the old one, but we are amending the scope basically and so that is really the context within which we are asking for that.

CHAIRPERSON: Ja, I think that there is confusion if we look at paragraph 21.3.1 which you would like to clarify and that is Mr Nagdee's worry but I will read it carefully. I will read it for everybody, but before I do that I just want to say one thing, this contract is the contract that appeared on, in the *Sunday Times* in May 2016. May, July, I cannot remember, somewhere around there, so the real issue I suppose one could argue is, when they write the next *Sunday Time* article, why is it taking us so long to supply this large German company with R1-billion? That is if I was writing the article in a negative light, how I would word it.

So first of all we are now 18 months down the line of getting this contract which is now yet to be awarded which we are going to deal with in a second in terms of the actual wording of what we want to do. The second issue is from a, and never mind what the press would not say about it, from a mission critical point of view, the business needs this, guys and we need... (intervenes)

MR NAGDEE: Absolutely.

CHAIRPERSON: We need and the GCE will propose a timescale, we need to close this thing with a, you know, we will just get the wording right for now. We need to get it going and if SAP is going to do it with the 40% minimum SD component, it has got to get done. Guys, sign it off, get it implemented, get it done. We cannot come back here and say look, remember that great idea we had about managing our CRM expectations and this is what the client wants and what the client needs?

No wonder those client response surveys do not bode well for us, because you know, we have not go it, the system is not in operation. So GCE, your timelines?

MR GAMA: Thanks, Chair. My view is that we have another ADC where I would like for them to come and report on the 13 March, it is a Monday, the whole 2017, so that you do not think it is March 2018. So it is 31 March 2017, it is a Monday and it is next month, that you come and report to us and I think the way that we would want to frame the approval is that they continue with SAP, we use SAP as our ERP system and that we have the two or three SD entities that SAP must choose and that we have SD of between 40 and 60%. So the minimum is 40 and 60% and that you come and report to this Committee the finalisation of the contract.

CHAIRPERSON: Okay, so that is fine.

MR NAGDEE: Sorry Chair, can I just add and I guess it is going to be in that format, that it relates to your project plan.

MALE SPEAKER: Yes.

MALE SPEAKER: Sorry, through you Chair, can I just make absolutely sure so we meet your expectations? So in that one-month period we come in with a recommendation to award? That is what you are looking for?

MR GAMA: Ja, with the project plan and all of those.

MALE SPEAKER: With the project plan?

MR GAMA: Ja and all the supply and development issues must all be finalised.

CHAIRPERSON: So Chair… (intervenes)

MS MABASO: Can you repeat what you said?

MALE SPEAKER: I just want to make absolutely sure we, there is an expectation gap, so my understanding from the Committee is that we will come back to this Committee at its next meeting, having finalised the process and recommending awards so that we start the programme with a detailed project plan and start hearing for…

MR GAMA: Ja.

CHAIRPERSON: So for clarity sake, I need to understand, the submission reads as follows, 23.1… So let us go and look at recommendations which means that the ADC note that since its approval of the confinement in October 2015, the RFP validity date has expired, rendering the transaction to be closed and thus not able to proceed further. So that cannot be the case.

MR GAMA: Ja, because actually what we are amending is the whole, is… So the dates have expired but we are saying we are also amending the scope and want to go back to the same people. So the impact of the decision that we make today, is it allows them to approach SAP again.

CHAIRPERSON: Right.

MR GAMA: On a revised scope, but I think we, we cannot recall it in the manner it has been… (intervenes)

CHAIRPERSON: No.

MALE SPEAKER: So what I am going to do is… (intervenes)

MR GAMA: I think what we should do, it expired and then we cancel everything after expiry, ja, on 21, 21.

CHAIRPERSON: Mr Thomas, how do you usually deal with these things?

MR THOMAS: So Chair, basically I think what we need to do is, we need to basically note that the confinement that has been approved is the procurement mechanism that the ADC has approved. To execute the procurement mechanism you issue a RFP, so it is two separate entities, a confinement and then the RFP. Now the RFP, the validity period had expired, but my confinement still stands.

CHAIRPERSON: Ja.

MR THOMAS: So we still need to do the confinement executed which is my approved mechanism and I need to now issue a new RFP in regards to that. So effectively I would suggest that our recommendation basically means that the ADC approves that we approach SAP for an update in RFP in terms of the previously approved confinement.

CHAIRPERSON: Okay, so let us amend the wording so that it reads exactly like that. Let us just say it slowly for the record, so under paragraph, I am going to ask that we strike paragraph 21 and we replace paragraph 21 with the following recommendation and the recommendation is, Mr Thomas?

MR THOMAS: That the ADC approves that we issue a revised updated RFP to SAP in terms of the previously approved confinement.

CHAIRPERSON: All right.

MR THOMAS: A confinement and award.

MALE SPEAKER: Yes.

MR THOMAS: And then secondly that we delegate authority to the GCE to sign all the documents to the new process.

CHAIRPERSON: GCE, are you happy with that?

FEMALE SPEAKER: Yes.

CHAIRPERSON: Chair?

MS MABASO: None, Mr Chair.

CHAIRPERSON: Mr Nagdee?

MR NAGDEE: Ja no Chair, I mean that is basically what is said in our 3.1.1.

CHAIRPERSON: Ja, I just do not want to use the word requesting a new RFP. The wording is… (intervenes)

MALE SPEAKER: So updates and the (inaudible).

MALE SPEAKER: Will be updated.

CHAIRPERSON: Ja, so let us be clear, SAP received the confinement, we are now going to receive an updated RFP.

MS MABASO: Yes.

MALE SPEAKER: Ja.

CHAIRPERSON: Which will enable us to implement this project which was approved in October 2015 and… (intervenes)

MALE SPEAKER: And it will now be included in the updated business requirements which were lacking in the previous one.

CHAIRPERSON: Exactly and the reason, that for the delay as we maybe wanted to provide an integrated solution for the entire organisation and all the ODs, and we are now in a position to be able to implement and the delay was so that we could encompass the whole organisation's CRM requirements in one fell swoop, correct.

FEMALE SPEAKER: Okay, if I can just, just if you will allow me, I think the GCE gave us up to the 13 March which is quite a compressed timeframe if we are... Because I am going to give them the requirements, they will have to respond, they will have to (indistinct) and I hope it will be adequate for them.

CHAIRPERSON: Not as I hope.

FEMALE SPEAKER: I was going to ask for at least April, Chair. If we finish in March, we will come through.

MR GAMA: You can issue it today.

MALE SPEAKER: Exactly.

FEMALE SPEAKER: It is ready Chair, but I know they always want... (intervenes)

MR GAMA: If it is approved, then I am ready to sign it.

CHAIRPERSON: I think that in terms of our work is done, now the question is how they respond and they have got 30 days to pull it and we do not mind if they work nights, because for R1-billion they can work at night, so.

FEMALE SPEAKER: Thanks, Chair. It is just a caution, because I know how service providers are, they would be wanting enough time.

CHAIRPERSON: I have got it and I think that GCE has set down the 13 March as the cut-off date. Let us leave it at that and if we have got to deal with it later, we can deal with it later. GCE?

MR GAMA: No, we will not change the dates Chair, and as you say there are 24 hours in a day, they must work all of that.

MALE SPEAKER: (Inaudible) night.

CHAIRPERSON: Okay, is there anything further? Colleagues, are everybody happy?

MS MABASO: Yes, Chair.

CHAIRPERSON: Good, then in that case I wonder, is it the same team that is going to deal with 5.4?

MALE SPEAKER: Chair, it is just myself and Shantell who came to deal with 5.4, the feedback on the 1064 locomotives.

MALE SPEAKER: 6.4?

MALE SPEAKER: 6.4.

CHAIRPERSON: 6.4. Okay, so let us do that, those two 6 points whilst you are here, I mean we will do 6.4 then.

MALE SPEAKER: Yes.

CHAIRPERSON: Is that right?

MALE SPEAKER: Thanks very much, Chair. I think… (intervenes)

CHAIRPERSON: Thank you ladies, thank you very much, good luck. Just take SAP for lunch and break it to them gently.

[Ladies exits the boardroom].

MALE SPEAKER: Thanks, Chair. On the 1064 loco update, we have submitted a progress report in terms of the delivery schedule update together with the SD, the components tracking and the progress to date. I will take the report as read. On the locomotive delivery side… (intervenes)

CHAIRPERSON: I am sorry mister, just to interject before I forget, just while we are doing the notes or the minutes, I am sorry, on the last matters, so to be clear because I said it myself, I can hear it and reading it in the newspaper, the SAP contract is going to have a minimum of its 40% SD, a minimum 40% as to the requirement.

FEMALE SPEAKER: Yes.

CHAIRPERSON: And you will by the 13 March also report back to us, some ideas on where that is going and if it is on track, *et cetera, et cetera.*

MALE SPEAKER: Mr Chair, if it is RFP, we would ask them for their full supply and development plan like any other tender.

CHAIRPERSON: All right.

MALE SPEAKER: And they will have to comply with the minimum of 40% and we would then provide with plan as Mr Nagdee has highlighted, the full plan, not that we will come back to you in 30 days with an additional planning.

FEMALE SPEAKER: Ja.

MALE SPEAKER: They have to qualify with that as a minimum requirement.

CHAIRPERSON: Ja, fine. So we, are you saying that we will know largely when… (intervenes)

MALE SPEAKER: That is our working plan itself.

CHAIRPERSON: Tell me what the SD planned.

MALE SPEAKER: They might not specifically tell us the degree of detail, but we will know their plan and if they are qualified.

MALE SPEAKER: Yes.

CHAIRPERSON: So we are going to call this the SAP CRM model. Maybe we do not call it the SAP CRM, maybe we call it the CRM model. Need to Cash actually was a good name, so maybe we should leave it at that.

MALE SPEAKER: Ja, leave it as is.

CHAIRPERSON: Sorry. Thank you, sorry.

MALE SPEAKER: Thanks, Chair. So we will take the report as read, the two components as I have indicated earlier is the loco delivery schedule updates as well as the SD and development. The SD we nearly tracked what the OEMs actually are progressing at the moment. On the loco delivery schedule update and in so far we have received a 182 locomotives, a 102 from GE, 80 from CRRC and I take the report as written. Is there any questions? We will respond to that.

CHAIRPERSON: Colleagues? Chair?

MALE SPEAKER: I must just add one other thing, Chair. We are currently negotiating with all OEMs, revised delivery schedules as we move into the new financial year in terms of our affordability as well as requirements basically.

MS MABASO: No, thanks.

CHAIRPERSON: Mr Nagdee?

MR NAGDEE: It is fine.

CHAIRPERSON: GCE?

MR GAMA: I am fine. No, nothing further Chair, just to ask the Committee to note the progress on the report and maybe just to add that part of the bottleneck that we have is that they can only test about seven locomotives per month in terms of bringing them into production and we have asked Mr Nair and his team to lean that process so that they could bring more because certainly I have seen more locomotives at TE and that are just standing there which if we brought them into the system quicker, we would start making money a little bit quicker within the constraints of course of the optimised capital budget.

CHAIRPERSON: Can I just drill down into this delivery schedule which is on page 2 of your, 3 of your presentation? So let me understand this, if we take the CRRC at the top, accept it into service there as 80, planned delivery was 142, revived delivery is a 100, meaning we have got 80 of a 100 now, because we have now reduced from 142 to a 100. Is that correct?

MR GAMA: Yes.

CHAIRPERSON: Have we... (intervenes)

MR GAMA: That is correct, Chair.

CHAIRPERSON: Have we been penalised for reducing?

MR GAMA: No Chair, not penalised for reducing.

CHAIRPERSON: Okay and we are on track because we have got 80 out of a 100 and therefore we have got zero and that is why you say we have got zero delayed locos? Okay, good.

MALE SPEAKER: That is correct, Chair.

CHAIRPERSON: Okay, on the next one, PTSA, we said we accepted into service so far nought. We had planned to receive 137. Is that correct?

MALE SPEAKER: That is correct Chair, in terms of the original contract.

CHAIRPERSON: Okay and then we have received nought but we are still on track because we are waiting for this revived delivery schedule. The reason I am asking these questions is, because we also had some faint relation to the locomotive testing which was very deftly, adroitly handled by the GCE and her team. So okay, I have got it. So there the BT ones have not been delivered and that, but there is no problem with that. This next one, there seems to be a problem because of that no in that column there.

GE, we have accepted a 102 out of a 126, but we are not on track. Is that right?

MALE SPEAKER: I mean the system (inaudible) Chair, we have to be on track on the GE. The fact that GE, even in December we accepted extra locomotives than what we planned, we accepted 18, ja 21 in December, so GE we are actually on track Chair.

CHAIRPERSON: So other than that, no should be a yes here?

MALE SPEAKER: It should not be a no, my apologies for that Chair, it should be a yes.

CHAIRPERSON: Okay, so we have got no delays there, we are on track with them and the reason that I raised this, is that as Board members we get asked how is it going with the locos. If we say we are on track with our revised delivery schedule based on the change and volumes as a result of the new movement in the economic environment and the commodity market, so and CRRC (inaudible), is this the famous newspaper of the locomotives?

MALE SPEAKER: That is correct, Chair.

CHAIRPERSON: So this we actually, we are testing, is this the two that we are testing or the one that we are testing?

MALE SPEAKER: The two that we are testing, Chair.

CHAIRPERSON: And these are the ones that are, that were received the press about the vibration problems. Is that correct?

MALE SPEAKER: Yes, correct.

CHAIRPERSON: And so we have not accepted any inter-service yet, but we do not expect that there will be a problem, we are just testing it the way we should be testing it?

MALE SPEAKER: Correct Chair, we are not accepting any sales at the moment and neither TFRT in China at the moment. We are working with CRRC, as CRRC have indicated that they managed to solve the problem. So we sent a team to verify that some of the initial testing problems like the vibration and all that have been sorted out.

MR GAMA: Maybe you want to share with the Committee our view in terms of when you want to accept them into service, because I think you still have a minute of time, because these are just prototypes that people were worried about, they call them locomotives but it is a prototype. A prototype is always allowed to fake.

MALE SPEAKER: Yes. Chair, that is correct, as we stand at the moment, we are under no pressure from a marketing in my point of view for the CRRC locomotives. We are not under any pressure for that at the moment. We have got diesel locomotives that are filling that gap at the moment, so we have done a revised schedule that we have provided to CRRC and we have asked them to come to us, so that, obviously that is based on the fact that they resolved the vibration on the first two, but the revised schedule has an indication that we for the new financial year 2017/2018, we could accept and bring to service anything between 25 and 57 locomotives, but we are not in any particular hurry for them to come in immediately like in right now.

<u>CHAIRPERSON</u>: Fine, so I think that my point on this is, first it is a very good and succinct presentation which the Committee enjoys as you know, but if you look at page 5 at the heading, I would enjoy a newspaper headline which reflects this, because actually this is not about two locomotives with vibration problems, actually we have accepted a 182 of our 1064. Actually we are 17% on the way there which is more or less on track, give or take depending on how you... That is actually the headline that we need to have and that is where we need to get some PR exposure on.

<u>MALE SPEAKER</u>: Ja.

<u>CHAIRPERSON</u>: We are on track, with a 182 locomotives we are supplying an enhanced product which is now able to service our clients better and this is the spin that we need to get into *Engineering News* and into the newspapers and to anyone basically who will listen to us, you know. And I think that focusing on two locomotives out of a 184 is really proving the (inaudible) scum that we are dealing with in the press, you know, and you know it is something that at a TFR level you guys need to be making inroads with your own PR as well as working obviously with the GCE to get an overall feeling, but you know, we are on track, we are delivering what we said we will deliver.

We are not dealing that too quickly, we do not have to advertise that, but from a cash (inaudible) point of view you are keeping the GCFO happy I am sure, and we are meeting our market demand strategy based on what the market demand is and this is what we should be highlighting, not the two trains that are vibrating and anyway.

MR PITA: Chair, as I am (inaudible) in the previous presentation around the capital, that is why we believe that we can renegotiate little to no penalties and if anything, we will (indistinct) because we have an original schedule, there are revised schedules and if they are behind me, the customer, not them, they are the supply, so we are in the front, we charge penalties, they do not charge penalties for us and that is the going position which I think is important for the Committee to know.

MALE SPEAKER: Ja and I think Chair, if I could just add to what you have mentioned, you know we also have a press statement that Transnet issued. We emphasise the fact that we already have, because the media article that was criticising us on locomotives, Chinese locomotives failing, wants to create the impression that these so-called Chinese locomotives do not work, when in fact at the moment we have 80 Chinese locomotives that are working perfectly in TFR.

CHAIRPERSON: But guys, what I am saying to you is that the, at the cold face the reading public do not know about this, that is what they do not know, they know about the two faulty locomotives, they do not know about the 80 that have been working for the last year and how long they have been in operation for. So you know, there is a PR who is out there and now is looking to be our friend and it bleeds into a lot of other issues that we have, you know we have to keep our head down and be doing the...

Okay good, so thank you, I do not have any further... Just on the SD target, Mr Thomas, where are we on that? It is reflected here as 26% of contract, it is on the last page of the presentation.

MR THOMAS: Chair, we achieved 26% of the SD value that was contractually committed which is effectively still on schedule with the SD delivery schedules of the various OEMs, because the SD will be delivered during the course of the contracts and should be completed and reach 100% of SD delivery when the final loco has been delivered.

CHAIRPERSON: And again that is something that needs to be emphasised at a publicity level, is that we are ahead of track, we are track with your SD.

MALE SPEAKER: Okay.

MR PITA: Chair, just another point, the GC and I were talking the other day around this exact point, because you look at, let us call it for at the time of this report, a 180 delivered, so let us call it just shy of 18%, call it 16% delivery and 26% SD that shows you, it paints a picture and the SABS, South African Bureau of Standards have been, normally it is about Treasury to perform verification of loco contents (inaudible) SABS, because we feel that we can work closely with them on all the completed locos, provide context as to the status of the other locos so that they actually go out in the press and announce that successful localisation is happening and it is an independent source, so GCE and I have discussed it and we believe that we can work closely with the SABS, assisting them on the localisation and brief the action process.

It is all about facts, the true on the ground facts that need to come out there as oppose to the sensationalism that actually happens in the press at the moment.

CHAIRPERSON: And unfortunately no one is looking out for us for a good story, but this is a good story and we need to try and get it out there one way or another.

MALE SPEAKER: Rightly so, we will talk to Group Communications and look at how we can the good story out there.

CHAIRPERSON: Thank you. Is there anything further or we can release these hardworking executives?

MS MABASO: Yes... Oh I wanted to ask rather something. While we are... It came to my attention that PRASA have a lot of trains that they need to be repaired. GC, have you heard about it?

MR GAMA: Yes, Chair.

MS MABASO: And we are here, TE, we need work.

MR THOMAS: Chair, we are currently negotiating or we are currently assisting Mr (Inaudible) to negotiate and supply PRASA. We have already identified some locomotives that we will not need. New ones that we can replace, so there is old ones and we have already provided the locomotive numbers to Mr Jones so he is in those discussions with PRASA at the moment to see how TE could start supplying their services to PRASA again.

MR PITA: Chair, what will happen there is because we will be needed at the time, we will provide some sort of an operating lease at the point in time, so TFR together with the Finance office will be looking at it and ensure we have got a fair price and helping TE to also accelerate sales before yearend.

MS MABASO: Yes. Okay, all right.

CHAIRPERSON: Okay, thanks. You are released.

MALE SPEAKER: And good luck with the (indistinct) matter.

CHAIRPERSON: I was going to say PRASA is not the world's best customer necessarily as I understand it.

MR GAMA: No, from what I have heard, sometimes they do not pay, not (indistinct) their country, because Transnet is not important, they pay other people (Inaudible).

MS MABASO: There is an attitude.

MR GAMA: Ja.

CHAIRPERSON: Item 5.3, review of the ISCM shareholder's compact targets, including (inaudible) targets for 2017/2018. Is that, can we do that in the ISCM Report at the same time?

MR THOMAS: We can, Chair.

CHAIRPERSON: Thank you, Mr Thomas. You are doing (inaudible), né?

MR THOMAS: Yes.

CHAIRPERSON: Fire away. Eddie?

MR THOMAS: Ja sorry Chair, I have too much for (inaudible) here, okay. My apologies, I was a little bit confused there. Thank you very much. In terms of the shareholder's compact targets, the group team sent the shareholder compact targets to the Board in January and the Board has requested that they go back and discuss with me the revision of certain of these targets. The Supply Chain targets have not been affected by this and the targets as presented in this report are the targets that have been at, to this stage being provisionally agreed with DPE.

We are just asking that the Committee approve these targets as they stand and if there are any changes from the DPE we will let the Committee know if there is anything further from our shareholder with regards to these targets. Just one feedback, a position of feedback, as previously these targets used to reside under annexure B of the shareholder compact, but now with the revision that is currently underway, these will now fall under annexure E which talks to industrialisation.

So basically all the targets relating to Supply Chain currently will fall under annexure E with an additional target that relates to Transnet Engineering regarding research and development which they will be reporting on. There are not any substantial changes, we are hoping that the, with implementation of the new PPPFA Regulations we should be able to drive performance on our black youth owned, people living with disability, QSE, EME and women owned targets which we are hoping to improve into the next financial year. I will take any questions on the shareholder compact targets.

CHAIRPERSON: Colleagues?

MS MABASO: No.

CHAIRPERSON: Nothing?

MS MABASO: Nothing.

CHAIRPERSON: Have the new codes impacted on this thing at all?

MR THOMAS: The new codes do not impact on our shareholder compact targets, the CHOBE(?) percentage would have an impact but currently we are measuring ourselves, our CHOBE stand and we are currently overachieving this target currently which will then obviously be sustained into the future. Chair, then in terms of the ICM Report, you will see I have produced the report for (indistinct) as well as the report for January. I would like us to go and have a look at the December report where I can give feedback... (intervenes)

CHAIRPERSON: Just one sec Mr Thomas, I just want to know for the record if it concludes 5.3, ADC recommends to the Board a conclusion in the final shareholder's contract and the approval of the procurement and transformation targets as proposed to DPE for inclusion in the 2017/2018 shareholder's compact. So that will be presented to our Board Meeting next week.

MR PITA: Correct.

CHAIRPERSON: Thank you, all right. Next item... (intervenes)

MR PITA: Chair, remember, this is a process where ADC approves the element of ICM related KPIs. It is still subject to that process we are following with DPE where we are looking at final (inaudible) with them, so it might be actually a bit longer but not... (intervenes)

CHAIRPERSON: Significant.

MR PITA: Ja.

CHAIRPERSON: Good.

MS MABASO: I just, sorry, I wanted to ask about, did the shareholders review on the ICS shareholder's contract targets? Under discussion, paragraph 6:

> "The target relating to black youth owned has been set as a minimum by DPE which would be a serious stress for Transnet as a result of the nature of the KPI as it relates to the age of shareholders. Black youth owned companies who are developed by Transnet, would seized to be black youth owned as they reach their target (inaudible) not allow and assist anyone growth on the targeted KPI.
>
> Just quickly explain that to me.

MR THOMAS: So Chair, in our search for organisations that will provide services, goods and services to Transnet, we identified a company that might have a shareholder who is the 30 years old.

MS MABASO: Okay.

MR THOMAS: And therefore he qualifies, that organisation qualifies as black youth owned but in five years' time he turns 35 and therefore he is not deemed to be black youth anymore.

MS MABASO: Okay.

MR THOMAS: And therefore the company actually changes status and the users, it is black youth owned company status and then any stint we have against him does not count towards our stint for black youth owned companies. So there is a, it is a continual cycle that you have to keep on actually replacing like I say in inverted commas, old companies, old black owned companies with new youth black owned companies.

So there is a counter to counter-intuitive KPI, but we do work to drive and strive to create opportunities for black youth and black youth organisations to be able to enter into the South African economy and participate, but we do have the cycle that we cannot report on them once they hit their target age.

MS MABASO: Sorry that, just to ask or to deal with the fact, just, are you talking about the source shareholder or maybe the, let us just assume there are five shareholders and one of them maybe, let us just assume there is 21 and the other one now turns 35, what happens? So all of them must be youth?

MR THOMAS: So in terms of the, I do believe the rules allow for a shareholder that is black youth and we will then allow them to meet the criteria and at a point in time the youth part of the ownership will c change if they do not replenish their ownership with youth. So they need to potentially also focus on continuing driving youth within their ownership structures.

MS MABASO: Okay.

MR PITA: But Chair, just to assist, the Act, the fines on black owned, black women owned and black youth owned, black owned is going to 50% black owned, whether it be men, women or youth for (indistinct), black is the keyword there as defined in here. Then black women owned is defined as 30% black women ownership, it has got this black women owned.

MS MABASO: Okay.

MR PITA: Black youth owned, I think it is a lower amount but I think it is 10% of the entire company that is owned by black youth and black youth is that you must be black and between the age of 16 and 35.

MS MABASO: Oh.

MR PITA: The minute you become 36, then we are dealing with this company but you are no longer black youth owned, so you do not need that KPI.

MS MABASO: Okay.

MR PITA: I think that is what Mr Thomas wanted to say... (intervenes)

MR THOMAS: And one of the other shareholders also owns 10%?

MR PITA: Correct.

MR THOMAS: Which is under those... (intervenes)

MS MABASO: Okay, thank you.

CHAIRPERSON: Okay, and I think these things are, they are in imperfect science and they try and make them into a perfect science, so it is a very difficult thing, but conceptually it is good to develop companies which have got young shareholders in them. Item, oh sorry, 6.1.

MR THOMAS: Thank you, Chair. On item 6.1 I have produced the report for our December performance as well as our January performance. Including the reports by the (inaudible) of performance is some feedback on our CHOBE verification process, so Chair with your indulgence I would like to use the December report to give feedback on the CHOBE verification process and then to do the next quarter and our January performance.

So if we can go to item 6.1(a) and we go to the circular that talks about our CHOBE verification process dated 18 January 2016, we have completed our verification process for our 2015/2016 reporting period and we have maintained after all the status as a Level 2. This verification still was concluded in terms of the old codes as the new transport (inaudible) codes have still not yet being gazetted and I will just give some feedback on the second half of this report.

So in terms of our Level 2 status, we are still up there with the majority, there is a page on how to compare with other stated owned entities where we are still maintaining our status with the others. We can actually see the Development Bank of South Africa, their latest level has moved from Level 2 to a Level 6 as a result of the implementation of the new codes.

CHAIRPERSON: (Inaudible)?

MR THOMAS: The new codes are very, very stringent and it actually has potential for Transnet to (inaudible) a worst scenario which I will keep back into the second part of the report.

CHAIRPERSON: So ownership no longer becomes the overriding factor here?

MR THOMAS: So ownership would not be an overriding factor for the SOC. The problem arises in terms of preferential procurement (indistinct) and schools development which are problematic. On our current performances, only one of our ODs, Transnet Properties... (intervenes)

CHAIRPERSON: So Eddie, where are you on... (intervenes)

MR THOMAS: I am on page 12, small 12 of the implementation.

MALE SPEAKER: The second one?

MR THOMAS: On the December report.

CHAIRPERSON: Okay, that is the first one. Right, I have got you, thank you. We are at page 12, I have got it.

MR THOMAS: So there you can see that Transnet Properties is the only division within Transnet whose PEE Level has worsened. I have asked the Transnet Property leadership team to come up with a new plan in terms of how they are going to impact on those areas. Thomas, can you bring that slide up again, that presentation? Then the next section of the report talks about the new code status and what our current performance is looking like and as I have mentioned here, is that the charter has been issued out for public comments, it has closed.

It closed quite a while ago in June 2016 and since June 2016 we have actually been expecting the codes to be gazetted but they have not yet been gazetted. There is some discussion in, doing the rounds that they are expecting the codes to be published in February. In terms of our new status, if you go to slide 16 which are under two boards, this is showing our current position as at here to date, December where we are currently scoring a potential Level 7.

In our forecast of the activities that is going to happen for January through to March and if we can close on prices, supply and development, the additional areas there, we can potentially reach a Level 4 in terms of the new codes on our 2016/2017 year. We are behind on our skills development, but that is also as a result of some of our cost saving measures in terms of where we are moving to.

So we do believe we should be able to achieve the Level 4 with some hard work in the remaining parts of February and March on the preferential procurement and enterprise development area.

MR PITA: Mr Chair, can I just... (intervenes)

CHAIRPERSON: Are we getting a (inaudible) for those?

MR THOMAS: I can put up a (inaudible) on this thing, so.

CHAIRPERSON: Oh.

MR PITA: For the entire (inaudible) communities dealing with the same new codes that are coming into effect, everyone is expected to three to four levels based on the stringent requirements. It is a reality, but we think as Transnet as a state owned company being raised the new codes, (indistinct) for transformation and empowerment. We will obviously ensure that we align a lot of our processes.

You know, we talk about Level 4 being our best case scenario initiation and we are going to push to that, but the indications upfront were a significant drop to Level 7 if we were doing that and we are not doing nothing, we aimed for four but you know, my personal gut feel is that we might be given a 5 initially and then work our way back into Level 2 over time.

CHAIRPERSON: So is nobody here at Level 2?

MR PITA: You have got certain exemptions where there is automatic Level 1s and Level 2s, for example EMEs or black owned, *et cetera*, and it has to go through the... (intervenes)

CHAIRPERSON: Where the turnover is less than 20-million or... (intervenes)

MR PITA: So basically it is trying to encourage small business not to go through a huge administrative burden with the consultants, trying to get certificates, but rather then apply an element of pragmatism.

CHAIRPERSON: So what you are saying is, for example skills development 400, that is the code number in the Act all right, (Inaudible) purchased 25, we got 22.2, now we are going to get... I do not understand, 17.9?

MR PITA: Yes, out of 28.

MALE SPEAKER: It is based on new criteria.

MALE SPEAKER: That is what it is.

CHAIRPERSON: Wow, okay.

MALE SPEAKER: Chair, can I ask a question through you? If I remember correctly, at one of the ADC's we contracted, a request to contract, I think it is three or four companies to assist with incubation, I think it is on black companies and youth owned companies and companies with disabilities. How is that process working? Have you, I know you identified five, four companies, I cannot remember the names right now, but how is that (indistinct)?

MR PITA: So in terms of the various incubation processes that are being driving through, the obvious area of concern is still you are bound by the (indistinct). We are hoping from the 1 April with the implementation of the new regulations for us to get some form of relaxation to be able to bring these companies into the direct procurement fault, so we are developing these companies to enable them to be able to participate, but the thing is, they still have to participate with really old rules, processes where they are not guaranteed then to be in the business.

So we are hoping from the 1 April that we would be able to be more proactive in actually getting them in obviously at the correct benchmark prices. They need to meet the minimum requirements for it to come in, but then that is why, that is where the incubation is for that to be developed in going forward.

CHAIRPERSON: Just then I think for good order, if we can have a look at your initiatives on page 17, initiatives to improve that our B-BBEE level which will get us on the 7 to the 4 and that is skills development. Well this end column confuses me.

MR PITA: So on the end column we basically say what potential score, can we move the score of 17.93 to that would give one additional score, can we get as a result of the initiatives and on the skills development side there is no certainty whether the year's funding will actually come in for, in time for business actually to execute (inaudible) utilising those funds and as you can see, we have about six weeks left and this might be problematic for the skills development team to actually roll this out.

So we are on, bargaining on any additional score and skills development pillar where we are bargaining on getting anything between 16 to 20 additional points on the enterprises supply development areas where we have spent money and now we just need to identify beneficiaries who will be driving these benefits forward for a period of time and we do believe we should at least get a minimum of 16 of those points that are still payable to us.

CHAIRPERSON: Okay.

MS MABASO: I want to know something, based on what you said Garry, if they get what the Level 1 and Level 2 are going to like to be (inaudible) like they are going now and then percentage wise?

MR THOMAS: So from percentage wise, I mean as you saw earlier that other slide where the Development Bank actually moved from a Level 2 to a Level 6, we do not expect any of the state owned entities to get to a Level 3 even, some of them might be able to achieve a Level 4. In general if you have a look at your supply base, EMEs and QSEs are normal suppliers and an increase in Level 1s, so there in terms of our spend we are looking at about 8% of our spend and 7%, (inaudible) is EMEs, will contribute more to our B-BBEE then where some of our other large OEMs whom we have got big contracts with, they will, their levels will drop.

But currently we are reporting our B-BBEE performance based on the new codes and we are maintaining POHLA with what we had done before. But yes obviously, it just depends on if we need to make payments to some of the larger OEMs that during the remainder of the year that might actually drop that percentage you know, because your spend on smaller companies are more consistent and your big capital projects, your cash flows are not smooth and that can have an impact and an influence on how our B-BBEE is then reported.

But to date as you will see on the January report, we are still maintaining above the 100% B-BBEE spend which is good for us in terms of how we are reporting our expenditure.

MS MABASO: Thank you.

MALE SPEAKER: Sorry Chair, my question relates to the capital projects. Are any of the suppliers that we do have, where we do then a request of 30 or 40% has to go to B-BEE companies, we obviously take that 40% and we do then, aggregate it back into our performance?

MR THOMAS: Unfortunately we cannot do that, so basically you get it will all be spend on the company that you pay. We are looking at other options of in partnership with the suppliers, that we are looking at a joint payment process with paying the subcontractors, but they are still under investigation to see if we can utilise that as part of our process in terms of showing proof for us developing the organisations that we are in development.

MALE SPEAKER: Ja, because that will make a big difference to our members.

MR THOMAS: It will make a phenomenally huge difference.

MALE SPEAKER: So why are they not allowed to do it?

MR THOMAS: That is (indistinct) to the codes that had been written in terms of how you measure the performance. You measure the performance in terms of who you are paying, so it is the person you are paying, (inaudible) a certificate at Trans.

CHAIRPERSON: It is (inaudible).

MR THOMAS: And we pay our prime contractors and the prime contractors will pay the subcontractors.

MS MABASO: Okay.

CHAIRPERSON: Jeez, that is not efficient at all.

MR NAGDEE: That is not.

CHAIRPERSON: So they are theoretically, if you pay a B-BBEE company as your subcontractor and they in turn subcontract 80% out to a non-B-BBEE company, you still get the 100% spend?

MR THOMAS: That is correct, but obviously that gets now, I might be infringing on the funding rules which is now a criminal offence, so for us that is also an important factor that we need to be aware of and we have got controls in place that assist us into mitigate our risk of the possibility of funding coming up. It is obviously not a perfect science, it is more a detect role and a prevent role because you cannot. So if there is collusion happening outside on a supplier base, sometimes your controls cannot be both up.

MR PITA: Chair but besides that, we have presented previously to the Board, so the PPM and the PPPFA, you cannot subcontract more than 25% of any work to a company with a lower B-BBEE level than yourself.

MS MABASO: Okay.

MR PITA: So you can be equal or better.

MS MABASO: Oh.

MR PITA: So that is the norm, it is the PPPFA, it is legislation. When you have got checks and balances in place, but as Eddie says you cannot avoid collusion. Eddie, I think what we will take from this discussion is how we can also relook at how we do the payments to subcontractors, because if we, because you could have a, let us say a traditionally white owned company, you are forcing the supplier to be (inaudible) and they are getting the benefit.

CHAIRPERSON: Ja.

MR PITA: Does that make sense?

CHAIRPERSON: So I think if we look at our billion to SAP as example where we have got 40% B-BBEE, let us pay directly the 40% if it is possible, you know, let that subcontractor invoice us directly then we, you know, we meet... (intervenes)

MR PITA: Ja, what you need to take into cognisance, just be careful in terms of risk and the award of a tender, so if you are awarding a tender, you award it to person A, all right.

MS MABASO: Ja, ja.

MR PITA: You cannot then, whether the contract can arise as a result of the tender because person A win that tender and you are subcontracted at the choice of (inaudible) but we can get around that because what we can do is, we could have a triparty type agreement between A, B and Transnet which says that all risks are with person A, from a payment point of view to ensure that supply development teams get their (inaudible)... (intervenes)

CHAIRPERSON: They choose, correct ja.

MR PITA: We will pay directly to B unless A has not delivered, in which case A is on hook.

CHAIRPERSON: Ja no, I think that that... and it is very clever that you raised it, I think that that could have a big impact. It is doable. Okay, good. Anything further?

MALE SPEAKER: Chair, I will take the contents of the January...

CHAIRPERSON: Version.

MR THOMAS: (Inaudible) report as well for any further questions.

CHAIRPERSON: We are going to use January because there is no major changes from December, né. Good, we are going to move on to 5 point... (intervenes)

MS MABASO: Can we take a break?

CHAIRPERSON: Oh sorry, sorry ja, of course. We are going to have a comfort break for ten minutes, we will reconvene at 12:45.

MALE SPEAKER: Thank you.

MEETING ADJOURNS

MEETING RESUMES

CHAIRPERSON: We presume now with 5.4, am I right?

MS MABASO: Yes, Chair.

CHAIRPERSON: We will do 5.4 and then we will (inaudible).

MALE SPEAKER: Ja, I was going to say (indistinct).

MALE SPEAKER: Chair, we will do 5.4 and then we will adjourn for lunch.

CHAIRPERSON: Good. We did schedule a meeting, oh we scheduled a meeting and to be finished at 14:00.

MS MABASO: Tell me.

CHAIRPERSON: That is aggressive.

MS MABASO: We can do 5.5.

CHAIRPERSON: Can we do this one first, these two? We will leave this one to last.

MS MABASO: Which ones are we left with? It is NMPP?

CHAIRPERSON: We are left with 6.4 and 5.5 and 5.4 and I think she is there. Good, item 5.4, this is a rather challenging item.

FEMALE SPEAKER: Chair, Mr Reddy is also taking an (indistinct) go to the (indistinct) both items and then we can (indistinct), because he is presenting (inaudible).

MS MABASO: Oh, okay.

CHAIRPERSON: Sorry, he is doing?

MS MABASO: They are requesting that before lunch, we (indistinct)... (intervenes)

CHAIRPERSON: Oh I see, and then we have (inaudible) I have got you.

FEMALE SPEAKER: Ja.

CHAIRPERSON: You know, it will finish before lunch.

FEMALE SPEAKER: Ja, it is okay.

CHAIRPERSON: I hope so. Okay... (intervenes)

MR PITA: The NMPP Meeting is here and we will stop that meeting once this meeting is, we are happy that it is concluded in (inaudible). We will wait and make sure we finish everything according to... (intervenes)

CHAIRPERSON: I understand what you are saying, they are having a NMPP meeting here with you guys?

MR GAMA: Yes.

CHAIRPERSON: Oh, I understand.

MR PITA: We will stop that (inaudible) meeting (indistinct).

CHAIRPERSON: Right. No exactly, I have got it. Okay, thank you everybody. I am drawing everyone's attention to item 5.4. We have had an opportunity to review the documentation, it is quite detailed and included in the supplementary pack. I think for practical suggestions, who is presenting on this?

MR THOMAS: It is myself and (inaudible) support.

CHAIRPERSON: Right, fire away.

MR THOMAS: All right, thank you Chair. In August 2015 the Board approved this (inaudible) strategy for IT dated services, for us to get these services on the four pillars of the IT. We issued the RFP in November 2015 that closed in January 2016. We had 50 people attending the compulsory site (inaudible) things. Once the tender was closed, we had line responses to the RFP. After the line responses we went through, then the procurement process kicked in and they did the administrative and substantive responses plus exercise.

Seven of the nine bidders passed on the substantive responsive stages, then tender moved into technical evaluations which is basically the responses of the bidders to all the technical questions and the technical cross-functional evaluation team sat down and have reviewed all the submissions from the bidders. There was a 70% minimum pass mark on the threshold and all seven bidders passed the test of the legal exercise.

When they commenced with the commercial exercise, it was identified that there are, there were numerous assumptions made by the bidders, so the procurement team sat down with the business team to get an understanding of what is the reason behind there being numerous assumptions being made by the bidders and a decision was taken that a complete set of information needs to be made available to all of the bidders who had passed at that stage for them to get access to the data room.

The data room contained a lot of detail regarding the current services that Transnet was receiving and the type of services, the number of (inaudible) that needed the services, *et cetera, et cetera* and they also had a closing (inaudible) with all the bidders where any potential questions as a result from the data room exercise could be answered, so that the bidders could provide and revised the pricing for the tender.

At that stage the pricing was then ranked once we felt that the pricing was comparable and our first ranked bill at that stage was T-Systems, second rank was Ubuntu with a 13% price differential, third place was Gijima with a 20% price differential. At that stage because of the delays that took place as a result of giving them access to the data room for them to be able to revise pricing, we had to extend the validity period of the RFP. We got the right approvals and the RFP was then extended.

The second place bidder Ubuntu, they came back to Transnet and indicated that they have to withdraw their bid due to the fact that they could not keep their pricing firm. Obviously Ubuntu did have a right to provide revised pricing at that stage so that they could stay in the running but they chose and they went to withdrew that bid. At that point in time then just to ensure that the organisation's risks were covered, we moved then the third place bidder into the second place position and we started the process of performing a due diligence exercise which was to facilitate a risk assessment which constituted in terms of reference checks, site visits and interviews.

The risk assessment process was facilitated by Bardner(?) who was an expert advisor to Transnet Business on this process and basically revised office who then basically requested out of this process and then on August 2016 the revised office came in. And at this point with the (inaudible) revised office and the outcome of the risk assessment facilitated by the duo diligence risks that were of concern, were raised by the cross-functional evaluation team which were concerning. And also you will see in paragraph 26 of the submission, in their final submission, the one bid of Gijima made the statement where it says:

> "Gijima understands the complexity of a transition project, it is therefore imperative that the transition as is (indistinct) six months. Enhancements and (inaudible) plus will be done after the transitions in the organisation period."

And this is obviously, was a bleeding factor in terms of the risk assessment result that came out from the exercise. If you can basically go down to on page 8 where we have got on paragraph 32, there is a visual representation of the risk assessment that came out of the processes. In paragraph 33 we have got the T-Systems' risk assessment where the risks and the likelihood of the risks being impacted, were categorised as where or unlikely and in paragraph 32 the risks, certain of the risks on Gijima's done by the Bardner and the CFSETs evaluation had certain of the moderate, major and high risk impacts items having in moderate, likely and almost certain assessment provided from the likelihood or perspective.

This raised obviously a concern and the CFSET team realised that you know, we are sitting with a very, very risky scenario in the organisation and an investigation was then implemented to say from an objective criteria perspective, are these risks significant enough for the business to propose the award to a second placed bidder? So the CFSET team and the ISO (inaudible) team had approached Group Governance for them to review the position and that governance opinion is attached in your packs, you know for us to understand are these risks significant of nature and if our process is going to provide for us to be able to manage and effect these risks in an award process for the organisation.

The governance opinion, they even looked at certain court cases and the outcomes of these cases recommended that we needed to engage with Gijima and asked them in writing to respond to the risks as prescribed by the CFSET team with Bardner. They responded in writing to these risks and the theme was that the assessment of the risks was, did not sufficiently cover the risks. The team then went and engaged with Group Legal to get their opinion whether the team could recommend an award that we contract to the second place bidder due to the fact of the risks which is an objective criteria, being too high for the organisation to accept.

Group Legal, their opinion is also annexed to the documentation you received, provided the feedback that we are justified and the decision can be legally defended in a court of law for us to be able to award the second place bidder. The team then also went to Group Risk and Compliance and asked them to review the process followed, review the risks identified in the process and also to have a look at the responses.

Their review is also attached to the documentation and they basically gave an indication that they support the view that the, of the CFSET that the risks raised are high and should business decide (inaudible) these risks, that should be followed by a process of risk acceptance and accountability must be established, so they also supported that the bid could be awarded to the second place bidder. In terms of the audit process of HCT on the transaction, the HCT process, all the audit reports go for having (inaudible).

We had a bidding (inaudible) but that was resolved in November, we got a (inaudible) report up to the negotiation stage and the final recômmendation stage is also being currently. In terms of the cross-function evaluation team recommendation, at that point in time was to say in following the procurement process, identifying the problems that exist with risks from an objective criteria perspective as well as based on the support received from Governance, Legal and Group Risk, the recommendation was to award the contract to the second place bidder based on the objective criteria of risk.

The Group CIO's office was concerned with this recommendation and she felt that these risks could be managed and engaged with the executive of the organisation which then said let us engage with each supplier one further time, have a clarification, a further clarification meeting regarding these risks to see what can be done. The questions regarding the risks was issued to Gijima in writing and a clarification meeting (indistinct) where all of these items was discussed.

The bidder also then provided the clarification in writing. The document also describes the clarification *in camera* there, the risk management areas or the items of how they were going to manage these risks was also discussed. A lot of it is focused on the implementation of controls that is obviously (inaudible) operations but the believe that their controls would provide any use on that. From the outcome of these processes, they rescheduled risk just to ensure that ADC has got a view of the high end of risks that existed before and then the rescheduled risk that remained after the clarification session.

One of the areas that (inaudible) asked us to do is to ensure (inaudible) around the pricing risk that we had, that the pricings were not for the services as requested which will then be to the bids, actually being not responsive. We have got feedback from the bidder that the prices that they offered were for these services as bid for. The original risk that still resides there is that the pricing is that they offered was substantially low.

They came in, they dropped their prices from 1.8-million to 1.3-million and these risks exists for us that you know, the justification does not quite sound correct for them to have dropped their prices by such a significant margin because we believe that they should surely have provided the best pricing at the data room stage. There is also the determination risk which exists which can impact Transnet because of the size of the investment that they need to make, which they can potentially claim back from the organisation but obviously could contract clauses and contract management can manage that.

With contract management we will also manage the pricing risk issues that are coming out from that, so that is formed on the outcome of the clarification session, the recommendation for the contract awards supported by the office of the Group Chief Information Officer is for the recommendation based on the production of the risks to Gijima who is the first rank bidder. In terms of supply and development, the first rank bidders (inaudible) the commitment is 46%, the second rank bidder committed 57% of the contract bidding for supply and development. I will take any questions.

CHAIRPERSON: I am going around the table. Let us start with the Committee, (inaudible) the Committee.

MALE SPEAKER: Ja Chair, (inaudible).

MR NAGDEE: Ja, I have a few questions. I think the first question I have, you know I have gone through this and then without mocking the process okay, and I will deal with those items separately, all right. First of all it is wrong to say that they were the second place bidder, they were actually the third place bidder. The fact that Ubuntu Food moved out or withdrew, the withdrawal made them the second place bidder, but they were actually the third place bidder.

The second point I want to make is that hindsight is a wonderful science, okay, and I also questioned them dropping their price. I know how outsources work, I have been in this industry for a long time and for them to justify their pricing based on scope or whatever, and they did not understand it, they had lots of opportunities to understand, you have had that separate meeting with them to understand.

Okay, you had a separate meeting with all the bidders for them to have a data centre, for them to understand and then to come back, at that stage they did not change the price. It is only afterwards when they knew they were the second bidder, okay that is when they came back and changed the pricing. And I look this foot in the door thing, because that is exactly what it is. They knew what the other priced, everybody in the industry knew what the pricing was of the various bids okay, and that is where they priced themselves. So I am suspicious of that.

I will be honest with you, I am being suspicious with that, but my third point which I think is the most important point, okay let me elaborate on that as well, is that when I read this it did not and I am going to be brutally honest and say, it looks like Gijima were given so many opportunities to fix things, to mitigate the risks you know, and there is no opportunity for anybody else to... They were given so many opportunities here to fix whatever risks, whatever issues they had, whatever.

You know when you do a tender evaluation, your first submission is your first submission, you did not give any other opportunity to the other bidders to adjust their pricing, to justify certain things, but it looks like Gijima were given lots of opportunities right down to Supply Chain having a separate meeting with them. Why did you have a separate meeting with the second bidder but not the first bidder? Just one of the bidders, so and that is why I say the process is also a challenge for me.

But the most important thing for me, the most important challenge that I have, the most important issue I have is around the risk of changing from one supplier to another and I am not for one moment suggesting that the incumbent automatically went... There should be an element of process which I agree with a 100% and the process was followed, but I do not see apples being compared here and to me the risk is very bad here.

The risk of changing from one supplier to the other is a major issue and especially coming with the price that they have, you know it is like a building contractor, when you ask you guy to build the house he will give you a price and you say no, cut this and I cut it down, cut it down there, because somewhere down the line you are going to lose, okay, and you are cutting yourself short because what I do not like here, I am going to cut down there, okay, because of an advisement.

So I am very concerned that the risk of moving from one, from the company to a new company where they have reduced their price, okay so what are we losing, what are we going to lose? Yes, you have given your, they have given us assurances if you like, that they will actually, that that will not happen. I see that, okay, they have given assurances as an example here, but I am still, I am not comfortable. I promise you I am not comfortable at all with their responses and answer there, and their approach. I have got other questions but I am going to allow the team to make some comments as well before I move to other questions.

CHAIRPERSON: Chair?

MS MABASO: I am not going to go through the risks that had been provided here, but I just want to just *prima facie* I am looking at, looking at the document and looking at those, these two scenarios, and so these two companies, Gijima and T-Systems are like Zainul said it, they are not the second preferred, they were the third. We are a state owned company and our primary mandate is the people. We have business but we have the developmental mandate.

We, Transnet, looking at the way Gijima all of a sudden they tricked and changed their price all of a sudden, I do not know what the change of heart, good people said because it is as Zainul said, they just realised that we are a SOC, I do not know and they changed it, but I do not know, but you look at, I have been reading some of these paragraphs, consistently it says, page 9 paragraph 35… Okay let me just start, page 9 paragraph 9:

> "The period Gijima responded to Transnet in writing on 7 September 2016"… (intervenes)

MALE SPEAKER: Paragraph 9?

MS MABASO: No, paragraph 35, page 9. Paragraph 35 they say:

> "The period Gijima responded to Transnet in writing on 7 September 2016, the Gijima respond did not adequately address the risk that we addressed, as a result the CEFET requested that Group Legal provide counsel on the way forward."

It is one, it is the same thing that has been repeated.

Paragraph 38:

> "Recommendation from governance was for Transnet to send a request for clarification to Gijima in order for make a representation on how they intend to manage the risk that were identified by CEFET in the event where Gijima failed to properly address the identified risks. The CEFET may award the tender to the second ranked bidder only where it is lawful."

You can continue but this is the document that we have as a Committee. If you are a member of the Committee and you have this document, honestly I would not go with Gijima based on what has been presented before us. I would not prefer Gijima. We run the risk, it says that should we terminate, we have to pay how much (inaudible)? Something thousand, a million?

MALE SPEAKER: 64.

MS MABASO: Yes, how can we guarantee or not? We are running a risk of running a risk, that the risks are so many, we are running a risk of we can terminate and then we will have to pay that amount. For me it is just *prima facie* it is big no, no. It is a big no, no. Yes?

MS MOSIDI: Chair, thank you. Can I… I will try to address all the concerns that the members have raised, but I just want to give a background of this tender.

MS MABASO: Yes.

MS MOSIDI: What it is. This is an outsource of our infrastructure environment. By that I mean our helpdesk is outsourced, our data centre or our mainframes are outsourced, we just have one mainframe which is actually utilised by TFR. Our data-based, our disaster recoveries, they are all outsourced. The quantum of what this (inaudible) is actually consumed of this project, are totally different, they differ completely and by that I mean the biggest component of this tender is actually the data services, one.

Helpdesk makes only about 8% of this particular tender, so if somebody reduces on the helpdesk side for example, it is actually not even a risk Chair, because like I said it just comprises 8% of this particular tender, it is not covering everybody else in that same market surety. So Chair, the risk of the price for example that have been raised, it is not a risk that is not mitigated if I can use that word, because when you look at where we are as an organisation and where they are as practitioners as well, they know that in the mainframe space for example, costs are going down so fast, so fast that when you start talking cloud computing and talking of over 70&% of cost savings, so that is why for us it has not been such a risk that we could not actually manage.

However, the section that the Chair read, that was before we confirmed with Gijima ourselves, because I was fortunately given an opportunity to have a discussion with Gijima just to understand these risks. If you look at the first one that Mr Thomas raised, I cannot remember what section it was, but that is where he talks about CMO and CMO plus, it is correct. You can only transition to the current mode of operation in six months.

There is nothing wrong with it, it is how do you then transition the money and Chair, that is why for us it is also very urgent that we conclude the process so that we can have adequate time to transition. So that particular section, it is exactly what it is, you should transition and be at a current mode of operation because you are not the current incumbent, six months is good enough for you to do it.

However, just to add to that Chair, when we had a discussion with Gijima and we came with our own reputable partners, I think it was Vodacom and IBM, IBM gave us the assurance that they have done what we call a soft order of the equipment, so if you go into a data centre and you find empty racks, it is not strange because you cannot actually fill up your racks without the client.

It is just in the practice of an industry, you will fill up a rack once you have a client and IBM confirmed and it is on record with Mr Thomas that they have done their soft order already, so that is actually not a risk anymore because they even said to us, initially we said to you four weeks we will need to actually put the equipment in place and they said we are now down to two weeks if you want it, because already we have scoped and we have staged the technology, we can actually just plug it and can get it going. My biggest concern was in the transition Chair, as Mr Naidoo rightfully points out... (intervenes)

MR NAGDEE: Nagdee.

MS MOSIDI: And that we have looked at. Sorry?

MALE SPEAKER: Nagdee.

MS MOSIDI: Ja, you know, when you see people like you, you use to say Naidoo. [Laughs].

MR NAGDEE: Ja. [Laughs].

MS MOSIDI: Sorry. So Chair, yes, it is just and when you see the way the memo has been written, it has been a cumulative way of writing the memo. Right at the end we are at a point where we have looked at all those risks. I have had an opportunity to spend some time with and in the presence of Procurement, (Inaudible) tender and the governance people where we actually interviewed Gijima and it was for us to satisfy ourselves.

Procurement and myself, we put questions together to them and they responded and we felt the adequate response from them and I think all of this that you raised here, were actually responded to by Gijima and we are aware now, I think we are comfortable that the risks as you see them, yes pricing for example you look at the two that are remaining in the document. If you look at the pricing one from Gijima, I am not surprised that they could actually reduce it.

If we look at the industry practice Chair, everyone wants an outsource contract because of the big margins in the outsource contract, so if somebody reduces, yes there is a real fact it in, we should actually and that is what we do not just want to do, to Dropbox, to drop and drag and drop and drag, they want to look at total service to (indistinct) for that service. So the drop in price, I think from where I am sitting it is something that I actually welcome.

We have done, just being my last point Chair before I... We have done what I have called a price diagnostics of a current tender and whilst we can say that we have been reducing our contract by 4%, the actuals on the current one, it has actually gone up by 9% on an annual growth rate and Chair, it is about contract management. So my point with this is that for you to mitigate whatever risk you have with such a big outsource, you need to actually manage it effectively and tightly, otherwise you will always, always never be able to do what we call wiring, you will never be able to find it out because these contracts, when we put them together, we wire them together and you have to be able to go through the maze of saying what is this wiring about?

And this is what we have done now. So Chair, all I am saying, at the end whilst I see the risks that had been raised, that had been documented, we have had an opportunity to mitigate the risk to understand exactly how the transition is going to happen and to actually satisfy ourselves that we will be able to deliver the service that we need to deliver. So Chair, I will stop there and I will take our point as written.

MS MABASO: Can I ask you something Makano? I just, just hold on, I want to ask her something.

MALE SPEAKER: (Inaudible), just on... (intervenes)

CHAIRPERSON: No, Mabaso have something to say.

MS MABASO: Can I ask you something Makano? Let us check out the prices with both companies, with both bidders. Which one is more riskier? If I would say Makano, if you tell me this is the one, I will say you bet your life, you will bet your position and say, I can bet my position here, I put my life on the line, this is the one, which one would you say?

MALE SPEAKER: If the prices were the same?

MS MABASO: Yes.

MALE SPEAKER: Ja.

MS MOSIDI: Chair, I would go, you see I believe in our procurement processes and our procurement processes gave me the confidence that Gijima can actually do what they can, because even if you look at the evaluation process, the difference between the two has been just a fraction, it has been 0.21, 0.25, so they were almost neck on neck. There is no big variance between the two, so I have got my comfort in that the procurement processes were actually dated enough and then if you look at the partners that I have in Gijima, if you look at IBM and you look at Vodacom, you look at Vodacom on the internet Chair, they lead in terms of UIT technologies, they lead in terms of their own mainframes.

So you have the comfort that this particular consortium will actually reinforce the black company as in the Gijima company so my, I will put my head on the block for Gijima.

MS MABASO: Despite the fact they were number three, despite the fact that we have worked with IT, with T-Systems, you still vouch that you will vouch for them?

MS MOSIDI: Chair yes, because like I say we have cumulatively, this memo is cumulative. I could have written this memo in one page.

MS MABASO: Okay.

MS MOSIDI: Because as an executive team, we have looked at all the risks and everything now has been put aside. The last recommendation is the old (inaudible) recommendation. So yes, as we evaluate, for example Eddie will tell you initially the Audit Report was read.

MS MABASO: Okay.

MS MOSIDI: Initially, so people polish up until we end up with a green Audit Report, because you start understanding better.

MS MABASO: Yes.

MS MOSIDI: Chair, believe me, I am the one who would be so risk averse because I put my head on this if we cannot transition properly, but if you think about what we have done and Eddie, you will remember, HVT was so red, we went back (inaudible) but at the end we polished it up as well and remember by then it was still Gijima, it was still T-Systems before we actually… (intervenes)

CHAIRPERSON: Ja, so you have answered the question. Mr Silinga?

MR SILINGA: Thank you, Chair. Chair let me just, there are quite a number of questions that were asked by the Chair and Mr Naksama, Makano, has not been able to come. You know, there had been many opportunities that were given to Gijima to fix and its tender document. You must remember that in terms of per the Constitution section 217 and the PFMA, one of the elements that are required of us when we go on tender, is a fair process and there are others, of course, equity and so forth.

And in the past it has always happened where you identify a risk, you say no, this company or this bidder technically and so forth and so forth, has got some significant points, we have managed to shortlist it but there are risks that we have identified. You cannot unilaterally just say no, we condemn you because there are these risks. It is incumbent upon a state owned entity like Transnet to deliver a fair process, to go back and say there are these risks, how are we going to mitigate them? This is what was done here. We went back, then they wrote back.

It would appear and remember when then there was a latest clarification, it did not mean that they added some more documents, they were asked to clarify based on the documents you have given us. It may have been a misunderstanding on the part of our team on what was presented to them documentarily, as to what it means. When it was clarified to them around last month, the whole team was happy and no further documents were added, it was just a question of a verbal clarification.

What you mean when you present a document that says A, B, C? So that one is not an unusual process, we have done it in the past. Actually we did it even when the other IT what-do-you-call, IT tender in the previous years. Coming to the payment for 64 and we terminate, we should be very careful there. There we say when you terminate at Transnet's convenience, meaning Gijima has done nothing wrong and remember they go into business, they plan, they incur expenses and so forth, in six months' time we say not that they have defaulted or anything, no breach on their side but for our own convenience, whatever that convenience would be, we want to buy, basically we are saying we want to buy you out of this contract, you have done nothing wrong, so there is nothing, I do not think there is anything but it would be unfair to the tenderer if we were to say we terminate, kiss goodbye whatever expenses or whatever investment you have made to this, sorry baba, we will see your later, it cannot be like that, this is business. Thank you, sir.

MR GAMA: Ja Chair, I think the, if I listen to the Committee correctly, the issue here is really and it boils down to the whole motion of risk appetite in terms of what the Committee is prepared to accept in terms of risk and for me, I do not think that anyone has got what-do-you-call it, a crystal ball in terms of what may eventually happen. It is really there are two things, you could say the teams have highlighted the risk, Gijima in terms of coming up with their best and final offer, they did reduce their price and they came down to a lower price. T-Systems have also incidentally reduce the price.

If you look at what we have been paying in the past, in the past five years we have paid them about 2.5-billion. They have also reduced their price to about 1.5, I do not have the actual number in front of me, to about 1.5-billion. So you could say you want the lowest price but there is some residual transitional risk which Makano says is manageable, so there is a 200-million differential between the two entities and over a five-year period which is maybe what, 40-

million four times fives...

CHAIRPERSON: Ja.

MR GAMA: Ja, 40-million a year, so it is up to us to say we want to accept the savings of 40-million but maybe with some transitional risk or we say we will save at least a billion in terms of the second rank bidder but we have worked with them and if so, are there any additional things that... Because at the moment we are issuing a letter of intent, it means we need to still negotiate with whatever party, to make sure that what we have is the kind of service level that is at a level that we want.

So if the risk is not acceptable, we can go to the second party. If the risk, everything, the risk and the price is acceptable, then we stick with this one, so it is really up to the Committee to give us guidance in terms of what is the acceptability of risks and residual risk, the issues of risk are interesting because they are also probably not very objective, it is not a straight science. In that (inaudible) we need guidance from yourselves.

CHAIRPERSON: Can I comment? GCE, thank you. I am going to give everybody a bit of background. You are sitting with a Committee that includes the GCE and the GCFO as Board members, because in addition to their day jobs they are also Board members and they (inaudible). We wear fiduciary risk, we wear publicity risk. The Chair and I specifically, and Mr Pita may also become famous, Mr Nagdee and Mr Gama escaped thus far, but we have been tarred with certain brushes in the press.

We represent a Board of Directors, diminished at the moment, we have one member who is sick, we have one member that was promoted to the GED position and to DPE and we have a very risk of this Board. Unfortunately guys, when it hits the newspaper that the ADC and its Chair or the Chair of the company, it is GCE authorised a transaction, it is our names that appear in the press. We are being unable as an organisation to protect our Board from fame without fortune.

I sit at a table with people in my community, they think that I am a crook and the decision that was recommended by the executive is very nice, but we are the guys that wear the risk, we wear the risk. In the end we are the guys that are going to wind up with the repercussions of a disaster and I was going to use a more of a (inaudible) word which I will not and with no disrespect, we are led down a path where we are going to wind up in mitigation. Mr Silinga is a busy guy, he is going to be more busy because we are going to get sued by Gijima or we are going to get sued by T-Systems.

That is where we are at, that is what you guys are saying to us and that is going to be the outcome. I want to go back a step. T-Systems' business which supplies us with our IT services was a production creation of the great Maria Ramos, of a business called arivia.com. Mr Pita will correct me if I am wrong. Arivia.com was our internal IT Department to get it merged, to get Eskom's IT Department, they have been there for seven years cumulatively.

They are the disingenuous, dishonest thieving outsource partner that is incumbent versus the dishonest, disingenuous thieving outsource partner which we can switch to, being Gijima and I am not special about this, you can throw Anderson Consulting now, what do they call these guys, Accentia, you can throw Main Consulting, McKenzie, any of these consultant scum, you can throw them all into the pot and this is recorded so I know where it is going to go, at least when I get Quintin and he has got it this time, they are going to have our version of it.

Now we are to ask the GCE's question, not a risk of this Board, we are a scarred Board. Every decision that we have made, we have worn the repercussions of...

[End of recording]

MEETING ADJOURNS

TRANSNET SOC LTD

ACQUISITIONS AND DISPOSALS COMMITTEE MEETING NUMBER 7-16/17FY

HELD AT JOHANNESBURG

DATE: 2017-02-13

Boardroom 4901
49th Floor Carlton Centre
150 Commissioner Street

PRESENT:

1.	Mr SD Shane	Chairperson
2.	Mr SI Gama	Member (Group Chief Executive)
3.	Ms LC Mabaso	Member
4.	Mr ZA Nagdee	Member
5.	Mr GJ Pita	Chief Financial Officer
6.	Mr M Sigonyela	GM: Office of the Group Chief Executive
7.	Mr N Silinga	Chief Legal Counsel
8.	Mr E Thomas	Chief Supply Chain Officer
9.	Ms L Beaumont	Company Secretary
10.	Ms B Ndlovu	Deputy Group Company Secretary
11.	Mr R Nair	Chief Executive: TRF
12.	Ms S Mackay	Chief Procurement Officer: TRF
13.	Ms MA Mosidi	Group Chief Information Officer
14.	Ms L Sangqu	Chief Information Officer: TRF
15.	Mr K Reddy	Chief Capital Officer
16.	Mr M Shongwe	GM: Capacity Development Services: Group Capital

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SOUND FILE : ADC 13 Feb 2017(3)

CHAIRPERSON: ...the issue, if and when this memo gets to the *Sunday Times* as the last memo did and they pull up the bubbles that are on this page here and they say look, Shane had been assisted by the Chairlady, Mr Nagdee and the CEO, they chose the bubbles that were here instead of the bubbles that we hear, we are uninterested in risk, I could not care about the cost. I will give you an interesting thing, if it cost an extra R1-billion in the over five years, I could not care. I will tell you why, I will tell you why, do you know what our turnover is in this whole (inaudible)? Do you know what the number is for the year, estimated about?

MALE SPEAKER: 65-billion.

CHAIRPERSON: R65-billion. Over five years we are going to assume just to (inaudible) like that far, my maths is not good five sixes have got 300, five fives are 25, five, 5600, give me a number, over 600-billion, guys for us to saving, to be debating to be spending time on saving R200-million over five years when a company that will over their period turn over 600-billion, it does not matter. What I always say here, bring me things that are important. The other day they schlepped in here, a contract, some property deal for R15-million or R20-million because it was more than a ten-year contract, you know.

Guys, we have got to focus on the numbers and we have got to focus on the risk. We cannot afford to be famous again. We have got these mongrels, mongrels I say, there are seven-year (inaudible), they have been here forever. These oaks them, you know them, you are relatively new to the environment. It is a risk freely, it is not a risk of this, it is a risk, three options, they cannot shut our mainframes down, they cannot lose our data, they cannot confuse our people, they cannot switch off the electricity, they cannot shut down the...

As you correctly point out, the one mainframe that we have got, am I right, that they manage our mainframe, they manage our memory, they are our memory or do I miss something? Is that more or less correct?

MALE SPEAKER: Data.

CHAIRPERSON: Data and all of the data that is stored, so I am very loathed, even though this may be the right solution from a commercial perspective, I am loathe for us to wind up in litigation with T-Systems. That is my motivation. I could not care, ag I hate them all. The fact that we, even Maria was stupid enough to do it, no disrespect to anybody who might have been involved in the process, the fact that we do not have control of our own IT infrastructure, in my opinion, my humble opinion, is stupid.

But it is too late, it is what it is. That is where we are, they have got us by these they have, that is the fact. To go and source to Gijima or anybody else in my opinion, would be tantamount to suicide. That is my perspective on it, that is the newspaper article that I will rather have, a notice of disrespect to Gijima who are not alien to suing their customers. I will say that again slowly, they are not alien to suing their customers, okay. I am happier with the risk of getting sued by Gijima who did not get a contract then us getting rid of the incumbent that we helped to create, I think it is suicide.

That is point one. We can get into some of the details, because I am in business, that is what I do primarily for a living, I am not an IT expert, I am not any... When somebody drops their price by 500 large, that is because somebody told them something, no other reason.

MS MABASO: True.

CHAIRPERSON: Now I am not accusing anybody of anything, but if you would like to do a forensic investigation into that, I think that you would find that I might be right, okay. I know that there were accusations that senior management were predisposed to the allocation or the retention and I am going to come to what my perception of this tender was in a second of T-Systems and I will tell you this, that if I was a senior executive in this organisation, I would be predisposed towards keeping the incumbent because I have got very big challenges here in terms of keeping my 65-billion on track, keeping my EBIDTAR in place, keeping my governance in place with my bond holders, keeping the minister happy.

The last thing that I want to do guys, with due respect, is change my mainframe supplier and my data supplier and my IT supplier, the last thing that I would want to do. I will tell you what my understanding of this thing was, my understanding at the time of putting this thing out to tender was that we wanted to keep T-Systems honest. That was actually the motivation.

Now I am saying it, it can be quoted, but I am not an expert and I am not an executive, so you might tell me that I am talking rubbish. We put this thing out to make sure that we were not paying T-Systems 2.5-billion where we should be paying them 1.5-billion.

MS MABASO: Ja.

CHAIRPERSON: The result of this process is, we are paying them a billion less over the period of it, which I get. To reiterate, I could not care about it, I can only care about the risk of can you imagine the headline? Transnet, because guys understand one thing, we just put a 182 locomotives into commission, the only locomotive they wrote about in the newspaper... (intervenes)

MS MABASO: Two.

CHAIRPERSON: Were two locomotives that have got vibrations that do not work. Now how do you underrate (inaudible)? The fact is, if we go and change our mainframe and somebody sends an e-mail from their personal e-mail address because the Transnet e-mails have crashed, can you imagine that now guys? Can you imagine for all of us? The risk does not add up to me and that is really what my... I do not know T-Systems, I would not know T-Systems if they were to bump in the street other than the Gijima's documented case against the Technology SETA, I do not know Gijima, I could not care about Gijima, I could not care about any of these people but for my risk point of view, this thing is suicidal and it takes consideration, therefore from a legal point of view, no disrespect to Legal, no disrespect to Risk.

What they said to us is this, if you read these opinions, they said guys, we are happy with the risk of changing, we are happy with the risk of not changing. We are happy with the legal implications of changing, we are happy with the legal implications of not changing. That is how I read it. You want vanilla ice-cream, you want chocolate ice-cream, we could not care. Either way, you are good to go. You are probably not going to get free points from either of them and we concede that.

We are saying as a Board, a Board that has been embattled because the Chair managed to get into that preposterous report, managed to get into the newspaper on a number of occasions including, relating to one ADC submission which we, which somebody sitting at this very table, different people at the time, must have leaked. Somebody must have leaked it somewhere, so I am not confident Makano, that we can deliver on a smooth transition.

Our contract management in this place, excuse my French, is *kak*. It is *kak*, it is terrible. Or I accuse you all of it, you are all useless at it because the contract may be good, Mr Silinga has done his job beautiful, the person managing the contract has not been good until now. You might be the new good manager of contract chain, of contract management, you may be, but I cannot take that risk. I cannot take that risk on so many levels.

I on behalf of this Committee, my recommendation and in the end we are going to have a vote here and we are going to either recommend with Gijima or T-Systems and we are then going to take that recommendation to the Board, is that correct? And we know where the Board is in terms of this. I have got two more points and then I am going to hand over, I apologise for being somewhat verbose, my apologies. The next thing is, I think I have said... I could go into them.

There is one question that I have, I have got a question. This drop in the prices, can we drill down into the dropping of price in a second? It also fascinates me when somebody reduces the original bid by 500-million as to where they drop that. Could I ask the following question, do we know what the drop was? How much was the drop, in which areas and what was the original bid, what was the new bid and what was the T-Systems bid just out of interest? You know, the number? (Inaudible) am I making myself clear?

MALE SPEAKER: It can be point 80.

CHAIRPERSON: Point?

MALE SPEAKER: 80.

CHAIRPERSON: 80.

MALE SPEAKER: But it only gives you the Gijima price, eight-zero.

CHAIRPERSON: Paragraph 8.

MS MABASO: Paragraph what?

CHAIRPERSON: The estimated sale, this one?

MALE SPEAKER: Ja, 80.

MALE SPEAKER: We have got 32 that... (intervenes)

CHAIRPERSON: No, I want, I am asking something different I think, I am asking if you reduce your price by 500-million, where did you reduce the 500-million? What... (intervenes)

MALE SPEAKER: There was something that talked about the 51... (intervenes)

CHAIRPERSON: Ja, the 51 and the 32%.

MALE SPEAKER: Ja.

CHAIRPERSON: What was that and how, and what was... (intervenes)

MS MOSIDI: It was on the data centre you know, that I have just... Eddie just check it and that is why Chair, I mentioned that only 8% of the helpdesk, if you reduce it there, it is really just about ticketing, it is... Then when you look at the mainframe, (inaudible) are coming down all the time. They know it, they are the mainframe side, so that is why I was saying the risk is actually mitigating Chair, because the two, you can take the two, I think if I remember... (intervenes)

CHAIRPERSON: What are the numbers?

MR THOMAS: Okay, so Gijima's original bid was 1.8-billion.

CHAIRPERSON: Okay.

MR THOMAS: Then we had the data centre session where they then provided for us billing and their price went up to 1.898. T-Systems' price at that point was 1.556.

CHAIRPERSON: Okay.

MR THOMAS: On the pricing of the final session between the two, on the helpdesk services, Gijima's price after the data room was 226-million and it dropped to a 104-million which is a move of 122-million.

CHAIRPERSON: Okay.

MALE SPEAKER: What was T-Systems?

MR THOMAS: T-Systems was a 156-million and it stayed the same, there was no movement on it.

CHAIRPERSON: Okay.

MR THOMAS: On the other services that was help and service desk, on end user computing the Gijima's original price was 227 and dropped by only 5-million to 222. T-System's price was 371 and it dropped to 351. On the collaboration services Gijima was 188 and they dropped to 153 which is a 34-million drop. T-Systems was 168 and that increased to 170. On the relationship management services, Gijima was 65-million and had increased to 66. T-Systems was 76.9 and it stayed the same. On the data centre services, Gijima's revised price after the data room was 1.09-billion and it dropped to 751-million. T-Systems was 770... (intervenes)

MALE SPEAKER: It was what?

MR THOMAS: It was 1.091-billion... (intervenes)

CHAIRPERSON: A quarter 1.1-billion, ja.

MR THOMAS: And it dropped by 340-million to 751-million.

CHAIRPERSON: So that was the call centre, what do you call it?

MR THOMAS: That was the data centre.

CHAIRPERSON: The data centre?

MR THOMAS: Yes, and T-Systems was 779 and they dropped to 785.

CHAIRPERSON: No, they went up to 785.

MR THOMAS: Ja, it went up to 785. They had increased by R6-

million.

CHAIRPERSON: So miraculously they both got to 7... That is the big job, that is the 350-million.

MR THOMAS: Yes.

MR GAMA: So that was the data centre there?

CHAIRPERSON: The big numbers, the data centre.

MR THOMAS: The data centre and then one of the service desk offerings, one of the people offerings.

CHAIRPERSON: Is it possible that they would have had access to or did they legally have access to what the other bidder was at, price wise?

MR THOMAS: They should never have legally had any access to... (intervenes)

CHAIRPERSON: So these oaks wind up, so the final was 785 versus?

MR THOMAS: 785 versus 751.

CHAIRPERSON: From 1.1-billion to 751, that is a 350 bar move, 340 bar. Wow, somebody in your office hacked the laptop?

MR THOMAS: They definitely did not have that.

CHAIRPERSON: Okay, I have said my piece, Chair.

MS MABASO: No, I just wanted to ask, you see you mentioned that with T-Systems we, from 2.5-billion to 1.6, we are saving how much? A billion?

MR GAMA: A billion, ja.

MALE SPEAKER: Is it 1.6 or 1.5?

MR PITA: It is 1.5.

MALE SPEAKER: It is 1.5, 1-billion.

MS MABASO: It is a billion. Can it be accounted for them as...

MALE SPEAKER: Savings?

MS MABASO: Yes.

MALE SPEAKER: It is a savings.

CHAIRPERSON: It is documented in that... (intervenes)

MALE SPEAKER: They both said it.

CHAIRPERSON: I think the Chair is asking, can they come and actually charge us 2.5?

MR SILINGA: No, no, they cannot because the... (intervenes)

CHAIRPERSON: It is a fixed contract.

MR SILINGA: They have now, the process has now indicated to us that they ate quite a bit in the past five years but they are willing to take less.

CHAIRPERSON: All right.

MR SILINGA: So that is the outcome of the process, there is a billion that we are saving, so it means they were charging us in the last five years close to 600-million, but they are willing to charge us 400.

CHAIRPERSON: Okay, and I think Makano made a point there, the data costs had come down?

MR SILINGA: Ja, but effectively as we were going to be extending the contract, they had not (inaudible). She says they have been charging us 9% more, so the processes have... Well she is being saying we should have been getting minus four instead of plus nine.

CHAIRPERSON: But can we, and is there any chance of sharpening their pencil more if we were... So... (intervenes)

MR SILINGA: In the one that you have got extended, no. Have we finished negotiating, the nine month extension?

MR THOMAS: So the nine month extension will be working on the key principles, we have not finalised the final prices but we are expecting some form of reduction. But just in terms of a normal tender process, even on the... So the process bidders go through is, they bid a good company price to be able to be shortlisted and then when you go into the final negotiations, you can still achieve a further 10% on the prices, because they do (inaudible) into these transactions. So we do believe that whoever the final bidder is, we should be able to reduce those prices through negotiations and...

CHAIRPERSON: I want to wrap this up unless any... Makano, would you like to respond?

MS MOSIDI: Yes Chair, I just want to make some comments because I think it is important that we transform this environment. If you have given us the mandate that we need to do Chair, to actually reduce the cost because if you read this tender, there are six guided principles, it is to innovate in this environment, we did not have it for seven years, it is to reduce cost. It is there in the tender. We have not reduced cost. The analysis that we have made, it has given us year and year increase, 9% it has increased.

And even now when you are going to sharpen pencils for the nine months, I know that they are going to ask that they will reduce by

4%. It has not, okay, so if (other official language) Chair, you are going to call us, sorry I used Sotho there, you are going to hold us accountable for the cost, those six principles we have not seen any movement in the past seven years. What I did know Chair, is that this tender was to test and to keep T-Systems honest if I had known... (intervenes)

CHAIRPERSON: That is my assumption, I am sorry, it is me.

MS MOSIDI: If I had known, then we would not have taken this energy to make sure that we get the right (inaudible) a competent bidder and just say look, now we have reduced the price and we would have left it to Procurement. I actually thought it was time to refresh, to get new partners inside Transnet so that we can actually achieve the innovation that we would like to achieve. You want to have a competent partner and I am confident that in the context that we have that we have recommended to the Board, we will actually achieve those. I am very confident about that. However... (intervenes)

CHAIRPERSON: I have got (indistinct), sorry, finish.

MS MOSIDI: Yes, yes Chair, so just in summary I am saying the six guiding principles of this tender, we have not achieved for the past seven years. I would not want to be here, I am ambitious, I might be soft but I am quite ambitious, I would like to win and if they have not done so for the past seven years, these six principles, I do not know why I think they will be for the next seven years, but had they won the tender, probably we will take something and see what we can do with it.

CHAIRPERSON: Can I say to you then if the Board (inaudible) you which we would be prepared to admit to, we need to say to you look, and at an operational level you have got to go and keep the softer rear and get them into gear and we will help you to do that, because if they are not delivering, we are just saying that at a macro level to go and make these kind of changes and the kind of risk factors that we are carrying, soft risk factors but also the hard risk factors, he has got (inaudible) issues at the moment.

Anything that is going to risk us shutting the systems down, is going to be such that we as a Board, we are going to be crucified and we just, that is our overriding principle. We are risk averse, I sit every day and my wife asks me, are you going to be in the newspaper again? When are you going to be in the newspaper so that I can avoid all our social arrangements. I am sure that you… (intervenes)

FEMALE SPEAKER: Tell me please, they have not put your face?

CHAIRPERSON: Exactly, so we are at super risk of this and we are super sensitive to the fact that we are now looking to give you all the GCE a job to do that we do not (inaudible) what you do. We accept that. My perception was that Maria created a perception that this Aviara transaction was going to last, excuse my Latin, it is not great, *ad infinitum*, that was the perception that I had about that dealer originally and I might be wrong but Eskom and Transnet both gave those kind of undertakings at the time.

Maybe they are not relevant anymore, but we just from a risk point of view are very nervous of it and it is not to headstream you guys and it is not, it is to say look, we have got this (inaudible) wagon, if we need to improve it, if we need to buy it new tyres and pull it harder and kick its donkeys more, whatever we have got to do, we are happy to support you in it but I do not think that you know, any sharp movements at the moment we are going to wind up cutting ourselves.

MALE SPEAKER: Chair, can I just make sure we are correct in terms of the objectives of taking the process? I mean I do not think anybody in Transnet ever believed that the contract must carry on for infinity. The fact from a process point of view it is always about the market, testing the market and I think it boils down to fairness, equity, transparency, cost effectiveness and (inaudible). I think going out in the market and by getting R1-billion, one, and another saving and another, shows that you are ticking the box around competitors, you keep everything (inaudible).

Then from a process point of view, risk had been identified. You know, the governance had been (inaudible) and I look at paragraph 37, it talks about use of objective criteria was (inaudible) in the RFP as a standard clause in section 1, paragraph 10. It is a disclaim of our RFP, so from a few risk (inaudible) processes, we highlighted the risks and then management believed that and the process must believe that the risks can be mitigated, the extent to which we can mitigate then is still objective criteria. If we believe that the risks are too high, obviously the Board can make the decision on this. The one part that I just also want to highlight though, is from a transformation point of view. I do not want the Board to get the idea that we have done no transformation over the last seven years... (intervenes)

CHAIRPERSON: No, we do not.

MALE SPEAKER: As well from my point of view, my understanding is that they have met all these (inaudible) development on. We have not penalised anybody and in fact, there has been black owned businesses coming into the industry and I know that Mr (Inaudible) you had asked us that previously when we presented that, so I do not want to give you an impression that there is no supply being put it. All I am saying is, from a process point of view we have followed the process.

If there is risk that is still sitting in the Board's mind, we can obviously make a call and we have come to this conclusion based on these various steps. I must admit though the contract management has been (inaudible) for us and we cannot just (inaudible) in the ICT area, I do not want to say that Makano's area is especially better than contract management. That is not the case, I think it is a pervasive risk across Transnet which is something we need to, GCE you and I need to be pushing hard on to make sure that we fix it. So Chair, I just wanted to make those points and also you know, from a risk point of view, the pricing risk is always going to be there.

We can mitigate, we can get the suppliers that will tell us that there is no risk. Pricing is always going to be there. I can remember a contract that we discussed the other day over Imperial with the fleet. When we went and entered into the contract, they were significantly lower than everyone else and now they have got and cancelled the contract. There is always pricing risk there, whatever contract you are looking at. So we can mitigate it up to a point but they also can come to you and say that they will (inaudible) to cancel.

CHAIRPERSON: No, I think that the Imperial contract is a very good point because we did this deal with Imperial, we gave it to the lowest bidder, not nice guys either by the way, the truth it sound like I they do not like anybody, maybe I do not but they have cancelled us and we had no, what-do-you-call it, a recourse. They said look guys, you are right, we did not quote you that price, now that we have looked at it, actually we are not going to make any money out of it and we want out. I think that the other mitigation here from leaving these mongrels versus the new mongrels is that they make nice money out of us, that is what that more or less admit that it sounds like.

It sounds like if we can manage them and they have made money already, the lower price may actually work for these five years in our favour. So you know...

MS MABASO: (Inaudible) how about the (inaudible) taking?

MR SILINGA: Ja, in terms of the SD, I think they have two numbers, 46% on one and another one... (intervenes)

CHAIRPERSON: 57.

MR SILINGA: On 53 or 57, ja. That is 53. Eddie, can you check because we always try and... (intervenes)

CHAIRPERSON: Paragraph 77,

MR PITA: 77.

CHAIRPERSON: Paragraph 77.

MR THOMAS: Chair yes, just in terms of that, Gijima's SD offer is 46% and T-Systems is 57%. Now we do have the situation you know, whereas the GCFO mentioned on the incumbent, they have SD obligations and part of their SD obligations is, they have actually predated a black owned data centre owner, so we do have a South African black owned company who is a data centre owner with equipment, *et cetera*, that are on the Gijima side.

They have got big international OEMs, they have got IBM and they have got Vodafone and neither of them actually have the black ownership of a data centre within the South African environment and I think that might be the differential in terms of percentages coming through on the office from the percentages on their contracts. We have not gone into the details of their SD plans, because that we will engage with prior to the finalisation of the final contract.

CHAIRPERSON: Does anybody have anything to add? Otherwise then I want to try and wrap this up because we have run a bit over it and I am going to go around GCE. Anything that you want to add?

MR GAMA: No, I think you will see my annotation was around... (intervenes)

CHAIRPERSON: SD.

MR GAMA: Supply and development, because I think it is an important aspect.

MS MABASO: Ja.

CHAIRPERSON: But Chair?

MS MABASO: No, I am (indistinct).

CHAIRPERSON: Mr Nagdee?

MR NAGDEE: I have (indistinct), no I am fine (indistinct) Chair.

CHAIRPERSON: No, I am going to wrap it up now. Would you like any other responses, comments, anybody? I do not want anyone to accuse to not have had their say.

MS MOSIDI: Can I?

CHAIRPERSON: Yes.

MS MOSIDI: Just for the last time.

CHAIRPERSON: Ja.

MS MOSIDI: I know you are very averse to newspapers and I... (intervenes)

CHAIRPERSON: You have got no idea, you cannot imagine. [Laughs].

MS MOSIDI: I am as well Chair and I can just imagine this headline that says Transnet award the biggest contract to the most expensive, not necessarily black owned organisation. It is just a line that I see as we speak... (intervenes)

CHAIRPERSON: I doubt that, ja.

MS MOSIDI: Whilst Gijima is a home (inaudible) company which is (inaudible) and it was cheaper and it won and it could not. It is just a comment to say I am also so averse to these comments because I think they do not stand well in terms of their intention of us as a community for our country.

MS MABASO: I think Makano, I hear you but we have been in the media, you do not know, you do not understand how it is. Even your child, you look at him, you are just wondering what is he thinking about you, you understand? So you come to the Board meeting and you are looking at other Board members who have not been on the media just wondering what are they thinking about you, you understand?

What I am trying to say, we have gone through all those emotions, but at the end of the day it is not about the most expensive or the cheapest, it is about the risk that is being imposed and for me really, I am not comfortable with Gijima, I really am not. I really am not. Thank you.

CHAIRPERSON: I think that you are right there, I think that that headline is going to come but I think the worst headline is to say that we our IT system fell over. The incompetent Transnet, now its IT system fell over and I mean that is the worst headline in saying that we awarded a contract. I think that all of our contract awarding processes are questionable anyway, that is the implication, that was the implication of the newspaper articles, so I suppose it is versus changing and making a major change.

I want to say one last thing, that procedurally we are going to take this recommendation to the Board, we as the ADC are going to recommend against remaining with the incumbent. Colleagues, is that correct?

MS MABASO: Say it again.

CHAIRPERSON: We are going to recommend remaining with the incumbent.

MALE SPEAKER: Yes.

MS MABASO: Yes.

CHAIRPERSON: We are going to say that management's recommendation per the submission, was to go with Gijima and we are going to ask the Board to confirm more or... Is that procedurally where we are up to?

MS MABASO: Ja.

CHAIRPERSON: Garry, GCE, do we have the right? We do not have the right to authorise this on our own or we do?

MR PITA: No, you need to recommend it to the main Board.

CHAIRPERSON: Just to be clear, we are going to recommend staying where we are for risk purposes. GCE?

MR GAMA: Ja, but the purpose of having a Board and committees, is because we as management might do things and you are bringing in a different independent perspective. This is beyond the authority of the management, so as a Committee you may overrule the management in terms of what the management comes with and then you can then ask the management to submit to the Board a... (intervenes)

CHAIRPERSON: A vast.

MR GAMA: A devised, things that you do not need to then go and say to the whole Board, management said this and ADC said this. So it now, it is a submission that says the ADC recommends the following to the Board.

CHAIRPERSON: I think for good order, thank you for the clarification. For good order I think we should add to this memo then for the Board, so that it says that ADC have overruled management. We are okay with it, we have done it before, we have done it on the NMPP which is just such a disaster, you know this is not the first time we have done it, we have made drastic changes in terms of (inaudible).

ADC has made great changes in terms of, by way of example NMPP and so our recommendation is going to be to remain with the incumbent and we would ask Mr Thomas to update the memo to that effect. Obviously we have got between now and next week if any material changes occur or anything, I would hope that this does not wind up in the press, I suspect that it will and what undertakings, I understand that there was a meeting, a final meeting with Gijima where they arrived with lawyers and recorders and all kinds of things. Is that correct?

MR THOMAS: Chair yes, that was at the last clarification meeting we had. They had their (inaudible) there including their external lawyers as well as some public procurement experts.

CHAIRPERSON: So let me just say one thing for you Mr Thomas, I speak for the Chair and she can add... (intervenes)

MR SILINGA: Did we make any proclamations, like as (inaudible)?

MR THOMAS: No, we did not.

CHAIRPERSON: Ja, but also, just from a procedural point of view, why on earth would a supplier arrive with external lawyers? What is that about?

MS MABASO: Intimidation.

CHAIRPERSON: Why would they come and get lawyers and why would we entertain their lawyers?

MS MABASO: Yes.

CHAIRPERSON: I would love to bring my lawyer to the ADC meeting, I would love to, it would be fantastic.

MS MABASO: Why? Seriously, why?

CHAIRPERSON: Why would I like to? I would like to.

MS MABASO: And is it procedural here at Transnet that when you do such a thing, your lawyers must come and then they do recordings? Is it normal?

MR THOMAS: So it is normal for us from a procurement perspective to record the sessions and… (intervenes)

CHAIRPERSON: You are recording?

MR THOMAS: So we record, we always records all our sessions and then they requested that they can also do a recording and they will bring their recording device with. So there was no, there is no sufficient grounds for us to actually deny them that right.

CHAIRPERSON: And external lawyers?

MR THOMAS: We often find that suppliers do involve their lawyers in a process to assist them during the processes.

CHAIRPERSON: Can I make a suggestion? Can we, we will look at that as a procurement process.

MS MABASO: Ja.

CHAIRPERSON: Because I think that as a Board, we are uncomfortable with people arriving with their lawyers.

MS MABASO: Yes.

CHAIRPERSON: Because to me, it just smells of something that is looking to pick up a fight with you. I love lawyers Mr Silinga, at present companies included, but I think that having, I mean Mr Silinga is just internal counsel for the very reason.

MS MABASO: Yes, it is some sort of an intimidation, né.

CHAIRPERSON: I do not know about that, I mean it just gives, it does not give a warm fuzzy feeling to me.

MS MABASO: Ja, it does not.

CHAIRPERSON: And it leaves me to believe that we will have such a headline, but in any event we are to reiterate, this decision is based on risk averseness, it is not, I want to reiterate this one last time, I now need time to can say it, I hate all these consultants, they are all terrible and if it was my life over again, I would have told Ms Ramos not to sell off her IT Department, but that is life. So that is where we are and it is, the risk aversion that this is about and when the press calls us on, it means we will, you know, that is our overriding principle.

MS MABASO: And the other thing Eddie, if you allow this one party to bring their lawyers, the other part will say I love those ones, you understand? So please, I do not know how to, whatever you are going to amend but really, some other parties will also say, you know what, I want to bring my lawyers because you allowed Gijima to come with their team of lawyers. It is not a standard thing here at Transnet, so we have to do something about it. I do not know whatever you are going to do.

MR GAMA: In future, you cannot tell them not to do it now.

CHAIRPERSON: Ja.

MS MABASO: No, no, not know… (intervenes)

CHAIRPERSON: We know that.

MS MABASO: I am talking about the future.

MR THOMAS: We all definitely will have a look to see what can we do to address that.

CHAIRPERSON: Okay. Everybody, I must say that usually thank you for your energies and your time and to reiterate, it was my personal opinion that the mechanism of putting out the RFP was to keep everybody honest. It is not to say that if somebody would have arrived with half the price we would be able to have the same discussion, but then within a tender of 20% splitting distance and the size of the organisation and the risk that we are carrying, and I am sure that we are not *ad idem*, that happens from time to time, it is the nature of an organisation, it has happened with us before I think on occasion, but we do appreciate everybody's energies and efforts in the process. Are we still going to aim to finish before lunch, madam?

MS MABASO: I think the NMPP people are here, just finish with them and then we go can go on lunch.

CHAIRPERSON: Okay, we are going to do then item 6.4 which the

NMPP update. Thank you very much. Makano, thank you.

MS MOSIDI: Thank you very much.

MS MABASO: GCE?

MR GAMA: I think we may as well finish everything, there is not much left.

MS MABASO: The other item is the Supply Chain Management item.

FEMALE SPEAKER: Okay.

MS MABASO: Just to...

CHAIRPERSON: That is your, Mr Thomas.

MR GAMA: The one for NMPP is for noting, is it not?

FEMALE SPEAKER: Yes, Chair.

CHAIRPERSON: I think just...

MR GAMA: Let me just indicate to the Board members, we are going to have a deep dive I think on the 9 March and we have set aside more than an hour, maybe two hours to deal with the NMPP, so there is not any need for us at this point, because they are not asking for money, it is just their normal report for us to delve into detail, but I must just say that there are skeletons riddling out of the... (intervenes)

CHAIRPERSON: In the (inaudible).

MR GAMA: But ja.

MR THOMAS: Chair again, I think the GCE is right, it is something that we want to put up... (intervenes)

MR GAMA: And we have a Steering Committee with NMPP.

MR THOMAS: Ja, and contract management also seems to be the issue, that (inaudible).

CHAIRPERSON: Mr Reddy is going to present now, so (inaudible).

MS MABASO: Okay.

CHAIRPERSON: I just want to throw it out there, is it not something we can sell to one of the big pipeline (indistinct)? I am not being vexatious, I am saying… (intervenes)

MR GAMA: [Laughs]. We lose.

CHAIRPERSON: I am saying, no but maybe your first class is your best, I mean I know ordinarily I would not have sold the IT Department but I am not sure I would have brought the pipeline, but it all predates all of us, so it is what it is, you know.

MS MABASO: It seems like Rob is not here, né.

CHAIRPERSON: No, Mr Reddy, ja.

[Parties speaking simultaneously].

MALE SPEAKER: Remember we (inaudible) if he is gone, he is actually on leave and we asked him to come. [Laughs].

MS MABASO: Or maybe you can do it and… (intervenes)

CHAIRPERSON: But let us do 5.5 in the meantime, when he comes in then…

MR PITA: Ja, thanks Chair. 5.5 (inaudible) had gone through to the Audit Committee and is a request for the ADC to recommend to the Board that we approved the appointment of consultants for cost savings and efficiencies and also for unknown coal revenue enhancement, and then to delegate to the GC to sign off documentation and put in the context. What happens from the process point of view is that you look at trying to work on the TAI contract, the Transnet Audit (inaudible) contract where we have a rate of R938 per hour which is much lower than market related rates and we have asked the Audit Committee, whether per their guideline document to the Audit Committee, that Nkonki, can we be permitted to provide no audit services?

They have approved that these services are in line with the guidelines. Incidentally it is much smaller than this contract, but they have also (inaudible) in GD another part of the internal process to do other revenue leakage type of work that is not on the audit services, that we put both. And in this instance because of the quantum, we are coming to the ADC as we would like to then request approval or actually the recommendation to the Board to be able to begin these cost savings and revenue enhancement issues.

You will know that this is a direct response from the Board and the GAT around where we are from a financial point of view at the moment, that we need to up our game, avoid bureaucracy and complex long winding and administrative processes and also to negotiate, all of our suppliers become strategic partners of them and reduce costs considerably, as well as looking at our tariffs in our take or pay arrangements and determining whether our take our pay arrangements actually cover all of our requirements. So Eddie, just very briefly (inaudible) to why are we doing this, what are we going to be doing and (inaudible) the costs.

MR THOMAS: All right, in terms of the supply chain cost savings initiatives, the GLT basically in its session after discussion with the Board, indicated problems in Procurement, being bureaucratic, extremely complex, restrictively (inaudible) and we need Procurement to be the sponsor at that time or to make it to increase our efficiencies. So in terms of these projects that we need to run, we basically identified what we need to do and we split them into two components, the first part is to drive cost savings initiatives and then secondly is to look at our processes and our rules and regulations around that, to see how we (indistinct) the organisation.

So out of this we are going to be doing, you know we will be able to do cost savings initiatives looking at certain quick heads that we can come in and potentially assist the EBIDTA of the organisation going forward and also looking at further long term initiatives in terms of detail, (inaudible) analysis of our spend, looking at how we can get strategic supply partnerships going, so where in times where Transnet is successful, our suppliers are successful, where the times are tough our suppliers are still economically sustainable but they suffer the same tough times with us.

The view on in terms of how we are going to pay for this, there is a variable cost component which is kind of materials and then there is also again a share component in terms of the savings to be delivered. So the gain share will only be paid if the actual savings had been physically (inaudible) and then in terms of the time and material fees, the Audit Committee has also requested us to obtain guarantees from a (inaudible), so that we can put something on the table to actually pay for the variable fee and it goes for, and we believe this is a feasible process and obviously also had indicated that it is (inaudible) for them.

So effectively the total cost of the project, the time and material portion as well as the gain share portion will be paid an amount of savings actually (indistinct) in the organisation. The revenue project is to look at the weight balancing of Richards bay terminal and to look at how efficiency is going to be driven through those processes, additional penalties that we have been losing with some of the equity partners in there, as well as looking at the benchmarking of the iron or rail sector worldwide and then also to look at the revenue (inaudible) renegotiations on a couple of the areas of the (inaudible) programme where there is a substantial preferential in terms of pricing that is available on the table for Transnet to enhance.

In terms of the, there will also be a gain share part on that, the Revenue Optimisation Programme as well as a small portion of the fixed costs relating to that. In terms of the total fees payable can potentially exceed R500-million with a fixed fee estimation of being a 150-million and again Chair, (inaudible) 180, but we should be able to produce savings and additional revenue of potentially R3.6-billion to be brought in onto the Transnet's financial results. I will take any questions.

CHAIRPERSON: So it is because the potential to go above 500-million that is here?

MR THOMAS: Correct.

CHAIRPERSON: Garry?

MR PITA: Yes Chair, the delegations of authority like that, we are only allowed to a certain amount.

CHAIRPERSON: And that is a stupid question, can we not limit? So in order for them to earn this T87, they would have to save us 3.6-billion?

MR PITA: Correct.

CHAIRPERSON: You would be able to audit that and that would be a value added type of thing?

MR PITA: Correct.

CHAIRPERSON: So can we not cap it at 347, so that it would not need to come here? I am asking a question.

MR PITA: We can cap the fee at 500 which is in line with this delegation, but you see it is limited in terms of the appointment of consultants that is on a cumulative basis.

MR THOMAS: A cumulative basis.

MR PITA: And that is why we minute it, that is why it has to come to ADC.

CHAIRPERSON: I understand.

MR PITA: But I think a good point, the Audit Committee has approved it as a limited no (inaudible) service.

CHAIRPERSON: Ja.

MR PITA: The Treasury instruction was also highlighted in the pack, but remember your (inaudible) provide that you would have the greater of, about 15% of R15-million on the subcommittee is going to be then for approval. The TIA contract value was 1.5-billion as envisaged at the start of the contract, so they are only at I think, a spend of around 800 and something million rand. There is sufficient space, should a person and I think go over that value, we would obviously come at more of a (inaudible) to ensure we are in line.

CHAIRPERSON: I just want us to be very tough on that 3.6-billion. Before we pay out, I want to know that we saved 3.6-billion because otherwise we are going to wind up becoming famous for... (intervenes)

MR PITA: And that is exactly what the Audit Committee had ruled as well, is that we must basically pay out our savings. So it funds itself.

CHAIRPERSON: GCE?

MR GAMA: Chair [laughs], ja no, I think you are quite right, it is always really just the mechanism in terms of... But we want to see real savings and at least we do have the baseline in terms of how much the costs are and all of this, so really, they must do the work and will pay them out of actual cost savings or revenue that they have made, so the other part of it is that we should have at least a 8% decrease.

CHAIRPERSON: Okay.

MR GAMA: In costs as a result, even after paying them, ja.

CHAIRPERSON: Chair?

MS MABASO: No comment.

CHAIRPERSON: Okay, Nagdee?

MR NAGDEE: No, Chair.

CHAIRPERSON: I think these things are good, I think that we need to make sure that our baselines are in place so that we do not wind up in a (inaudible) and get busy with, well you know people, as to whether we achieved the cost savings or not, you know. Mr Nagdee?

MR NAGDEE: No, the only question I have is, I mean I have, unless I missed it somewhere, I have never… Who is this Nkonki?

MR GAMA: They are our internal auditors.

MR NAGDEE: Oh, I missed it.

CHAIRPERSON: So they, we have an existing relationship with them.

MR PITA: So like KPMG, Kele Kabiso and Nkonki, they are the three consortiums that had been hold in an internal audit for the last just over three years, two and a half years and that is why I also highlighted, KPMG was also permitted to certain more audit services as part of the (indistinct).

CHAIRPERSON: Okay, so this is not a (inaudible) from the blue, we have dealt with them before?

MR PITA: Yes, we have been dealing with them for over three years.

CHAIRPERSON: Are they competent? Good, in that case I want to confirm, Audit Committee has approved that subject to us and the GCE would ensure that their savings are actually achieved. So then the ADC approve the appointment of consultants for cost saving and efficiency proposal which is approved by the, as permitted (inaudible) audit service by the Audit Committee, iron and coal revenue enhancement programme and delegate the authority that GCE need to sign the documentation to be contracted at the implementation.

MR PITA: Mr Chair, I just want to confirm, so we are saying that we will be capping the total at 500 so that we do not have to go to the Board and say end the delegation of this authority and if anything change we have to obviously come back to you and anyone else like Treasury for example, that we have to come in to Treasury?

CHAIRPERSON: Ja. I mean obviously we are complying with the Treasury guidelines as we are able to, because I would imagine that this would fall into their... I know you said that it does not fall into their... (intervenes)

MR PITA: No, not at this point in time, no.

CHAIRPERSON: All right, good. So I suppose the question is, do we want to take it to the Board or not, actually? If we cap it we do not have to take it to the Board, if we do not cap it, we do have to take it to the Board. If we do not cap it we have to take it to the Board.

MR GAMA: Ja, so we... (intervenes)

CHAIRPERSON: Maybe we should take a clipboard.

MR GAMA: We have capped it... (intervenes)

CHAIRPERSON: Ja, at 500.

MR GAMA: At 500.

CHAIRPERSON: Maybe we should, maybe just for good order it should not go up.

MR GAMA: Over a three-year period.

MR PITA: Chair you know, if we look at our mandate in terms of the

500, we can if this Committee cap it at 500. If we get (inaudible) savings and these people shoot the lights out, we can always then relook at the contract as an extension and then go through that process with the Audit, you go over your authority and… (intervenes)

MR GAMA: Ja, but it is over a three-year period, so it is not going to make it… (intervenes)

CHAIRPERSON: To be material.

MS MABASO: And Chair, these relations of the ADC are noted at the Board and we (indistinct).

CHAIRPERSON: All right, so we will see the decision in either way.

MS MABASO: Okay.

CHAIRPERSON: Chair?

MS MABASO: So it happens… (intervenes).

MALE SPEAKER: (Indistinct).

MS MABASO: Okay, carry on.

MALE SPEAKER: Yes, I am fine.

CHAIRPERSON: All right.

MALE SPEAKER: Although I do think that if (inaudible) can maybe assist us, specifically on (a), for the appointment of consultants, it is cumulative for the GCFO, accumulative for the GCE, is it also cumulative for this Committee and then the Board's one is open?

MS MABASO: Well it should be cumulative until (indistinct), it is cumulative (indistinct) than to go up.

MALE SPEAKER: So what is the mandate about the (inaudible) to make sure?

MS MABASO: The last I get Chair…

MR PITA: Thomas, do you have the mandates? Maybe just go to the item with (inaudible), just put it up quickly.

MS MABASO: That is in the middle.

MR PITA: Do you have it open here?

MS MABASO: Yes.

MR PITA: Mine is not opening.

MR GAMA: What clause is it?

MS MABASO: 5.41.

MALE SPEAKER: But that is of the (inaudible).

MS MABASO: Ja, what do you want? Do you want (indistinct)?

MALE SPEAKER: Ja, (indistinct).

MS MABASO: It does care of… We have got the section for ADC.

MALE SPEAKER: 5.41?

MS MABASO: The appointment of consultants.

MR GAMA: Ja, ja, it is 500, it is not cumulative.

MS MABASO: That is fine.

MR GAMA: That is fine, ja.

CHAIRPERSON: I think for good order let us take it to Board and that. I know that the resolutions go anyway, but if it goes above 500-million, let us take it to the Board. And the next thing will be Finance and (indistinct) so will know about this.

MS MABASO: So Treasury had resolved to the… (intervenes)

MR GAMA: The actual resolution will be of the ADC, it will be shared there… (intervenes)

CHAIRPERSON: We will reflect that.

MR GAMA: To be able to reflect that.

CHAIRPERSON: Did they send it as a payment to Nkonki in relation to government… (intervenes)

MALE SPEAKER: (Inaudible) we will then need to go back to the Board.

CHAIRPERSON: The Board in here.

MALE SPEAKER: Ja, ja.

CHAIRPERSON: Fine, okay.

MS MABASO: Chair, can I just confirm? What is our resolution, are we recommending or approving?

MR GAMA: It is approval, the ADC is approving but Mr Shane is then saying you make sure that the resolution, the Board members can see it.

CHAIRPERSON: That is right.

MS MABASO: Yes.

MR GAMA: And then number 2, that at any point in time in the future should it go over 500-million, it has got to be approved by the Board.

CHAIRPERSON: Thank you, thank you very much. So we are now left just with the NMPP update which is Mr Reddy outside?

MR GAMA: Yes. Chair, Mr Krishna Reddy is one of us and he grew up here, he is one of our (indistinct). We know all of his mistakes and we always forgive him. I do not know whether he has got any new mistakes, but he is one of our (inaudible). He is accompanied by Mr Makhosini… (intervenes)

CHAIRPERSON: So until we throw him under a park light, all right, we will do that. [Laughs]. Mr Reddy, welcome, please update us.

MR REDDY: Thank you, Chair. Makhosini will take us very briefly through the key items that we want you to note in terms of progress. The presentation I will be doing but he will just highlight the key progress made of the last month.

MR SHONGWE: Thank you, Chair. What we have highlighted in this submission, is that for phase 1A being the pipelining, there were two typical aspects that needed to be achieved. The first aspect has been around the settlement with Group 5 which has been achieved in November and the scope of work to go for both terminals as being identified and issued to Group 5 and that work is already on the go and it has been concluded that the work will be finished as per the first date that has been submitted.

When it comes to the second one, it is an issue around valves which we reported that it has been on the critical path. I would like to inform the Committee that the swing (indistinct) valves which were critical at the time, an order has been placed with an OEM to supply those swing (inaudible) valves. The order was placed in December and the team has been working throughout the December period to ensure that we fast-track the work and at this point in time we believe that all that is on track, it will be delivered around July to ensure that if they are installed between the 20... the end of November 2017, H08.

What has come out though, is that the orders that were placed previously, a company called IGS has been delayed and after several tests that had been conducted on some of these valves, about 84 of them has been found to be not meeting the specifications in terms of aluminium content and the (indistinct) treatment. At this stage there has been communication with IGS and we have concluded that those valves will be rejected. We are however then concerned that they may not be able to meet the timelines as we understood that to deliver on these vales, takes about 25 to 30 weeks.

To mitigate against that, we have already contacted other alternative suppliers who has promised that there is a possibility for them to be able to supply these valves if we were to put an order with them. In terms of the tanks, I would like to report that the sub reef tanks, sub were inspected in December by a reputable term contractor and the findings thereof was that there is two possible ways in which these tanks could be addressed, it is either through a repair or demolish and rebuild. They have looked at the tanks and looked at the advantages and disadvantages of both repair and rebuild and they have recommended to us that the demolish and rebuild is a better option if we were to guarantee their appearance to the (inaudible) and also completion within a certain period that we put forward.

We have assessed the report and we believe that in going forward, we would like to undertake our own independent review and consult with international experts to make sure that the proposal that we have been viewing is the best proposal and at this stage already had, we have contacted institutions such as Volbac(?) whom has already indicated that they would be able to make available their specialist also to relook at the tanks and review the report to be able to advise us as such. So this is now the decision that has been taken and we would like to spend a bit of time to make sure that the solutions that we have received around the tanks is the best solution and following the best practice within the work.

Also in terms of accumulator tanks, the reports that we have has indicated that the demolish and rebuild to be the way for one, but we would like to engage why in terms of, you know international experience and also find out whether there has been such you know, such tanks that have gone through the same process elsewhere in the world and also be advised as to what were the solutions that came out of that, wherever that has happened.

That is the report of the (indistinct).

CHAIRPERSON: So your recommendation is to destroy the tanks and start again?

MR SILINGA: They want to investigate whether to destroy the tanks and start again or whether or not in the current form, some intervention that is eloquent, could be found so that we do not destroy them but we… (intervenes)

CHAIRPERSON: To enforce them.

MR SILINGA: We reinforce them. But they will go and look at best practice and talk to a few experts before we make an informed decision.

CHAIRPERSON: I mean we are just noting this and it is going to go to the Board, correct?

MR GAMA: Ja, it will go to the Board but also I think as indicated earlier, it is the subject of the Board to arrive in March where we would spend a little bit more time on these matters, because it is quite an important matter and also the risks you know, and cost and all of those issues in terms of making sure that we do not go beyond the amount that has already been approved and to see what other cost savings, but there is also time issues and that the Board needs to note.

CHAIRPERSON: Is there any pearl of wisdom that you can share with the Committee in terms of...? I mean I would like to sell this thing, I know it sounds ridiculous but it is just never ending and at the end of the day our phase 1A estimated 30 November 2017 is still on track for now, but I can sense it is slipping away. Is that correct?

MR REDDY: Chair, as things stand at the moment, we believe we are still going to meet the November date because both the tanks do not fit the phase 1A date. The biggest risk with phase 1A is the delivery of the valves, so (indistinct) supply from all the valves, supplies, except the one that we identified as a problem which is IGS. As you know, the issues that are relating to IGS is much bigger than just a non-delivery of the valves.

What would come about if we worked out that within the next week if we cannot rescue the supply of those valves from the current manufacturer, so we are looking directly to the manufacturer that IGS is using, if we cannot be satisfied that they will produce the valves with the quality we need, we need to cut our losses and going to purchase alternative valve supply. As Makhosini indicated, there is three or four different options that we look at, as we know if we do do the vat, there is a confinement process which means we have got to go to National Treasury, *et cetera*, so the challenges that we meet at the time…

But at this stage we look at the worst-case scenario, it is still possible to reach ATO if we can confine to one of the valve suppliers that are supplying swing (inaudible) valves, as long as we make that decision latest in a week's time.

CHAIRPERSON: Can I ask, can I ask also as the Chair who always asks for and I think that would be useful for the (inaudible) and would be useful for the Board, and that is to translate this thing into simple terms. I know that in times gone by, we had a simple diagram of how the whole thing works and where the valves fit in and where the tanks fit in and where the power plugs go and that.

But I think that we can have a layman's version, it is hypothetically, say something that could appear in the press as to what we have done and what is to be done and exactly if we approve stuff, to say that do not worry about the technical description of the valve, that is what the valve does, it is when you switch it on or off, almost like a layman's guide to what this thing is, because it is only a matter of time before somebody starts asking questions about the 30-billion that we have spent on this pipeline and how much of that 30-

billion is explainable and how much is less explainable and what there is.

We need a very idiot's version of what is going on here, because I think that we have got lots of technical stuff, there is, the Board is not necessarily technically sophisticated enough to understand where we actually are, so we need like a summary of since you guys have taken over, this is what we have got, this is what we need to get to, this is what phase 1A is going to get us, this is what phase 1B is going to get us, a much simpler version of this.

MR REDDY: Okay, Chair.

CHAIRPERSON: This IGS issue is being dealt with, I saw there it says the Chief Audit Executive, together with you guys?

MALE SPEAKER: Ja, so both Legal Counsel, Chief Audit Executive as well as the project team are working together in terms of dealing with IGS.

CHAIRPERSON: How big is that contract?

MR REDDY: We had about four different contracts with Transnet, there is currently two contracts that are still active. One was for the investigation or the settlement of the case which the work is completed, we have not issued any work there. The one main one that is at stake at the moment is the supply for valves. The value of that, do you have a (inaudible)?

MR SHONGWE: Ja, it is about 1.9-million.

MS MABASO: That is IGS?

CHAIRPERSON: Uhm.

MALE SPEAKER: Ja, specifically for the supply of the valves.

MR REDDY: Let me just make sure.

MR GAMA: Ja, and no (inaudible) ideas.

MALE SPEAKER: Ja, and the issue I do not think is actually the quantum, is actually an impact on the delaying (indistinct) ... (intervenes)

CHAIRPERSON: No, but how much have we paid them to now get valves?

MR REDDY: In terms of the (inaudible) we paid no money for the valve supplies, because we only pay on meeting all the quality specs, it is an additional quality spec we put in because of the previous problems with valves, so we only pay once they meet all the quality specs and the valves are delivered on site.

CHAIRPERSON: Oh, so although the contract is 1.9, we have not paid 1.9 for the valves?

MR REDDY: No.

CHAIRPERSON: We paid other things which had other complexities... (intervenes)

MR REDDY: We paid for other work that they have done yes, and on this specific valve contract we have not been paid.

CHAIRPERSON: And what is the total of what they have been paid, about?

MR REDDY: I think the total, their contract value was about either, was it 240-million?

MR SILINGA: Ja, 12 and something.

MR REDDY: That is for the work that was issued to them. Okay, some of our (inaudible) had been paid but since we picked up these issues, we have stopped all payment, even for work that exactly they have done and what is due there.

CHAIRPERSON: Good. Okay, good, thank you, gents. Colleagues, are there questions? This NMPP is confusing at best.

MALE SPEAKER: There is a new story that I still need to follow.

CHAIRPERSON: [Laughs].

MS MABASO: And on a night you may have to… (intervenes)

CHAIRPERSON: Can I ask you just a question quickly? I know that it is late and everyone wants to move on, but who operates these pipelines globally? Who is it, the Harry Bourton(?), who does this for a living?

MR REDDY: It would be (indistinct) and taxes.

CHAIRPERSON: That is it?

MR GAMA: Well there are not an industry, there is also Koreans who are doing this.

CHAIRPERSON: Chinese?

MR GAMA: And more Koreans and then Iranians, Saudis'.

MALE SPEAKER: The Russians?

MR GAMA: Some Italians. The Chinese as you know, can almost do anything but you need to be careful what you know…

CHAIRPERSON: No, I mean just to thinking out of the box is to do something where we wind up as a JV partner, maybe retaining 51% or 49% of it and hand over the operation of it to somebody and the completion and the operation of it to somebody that does this for a living.

MR GAMA: The operation of it is something that you need to do for a living and as (indistinct), and the operation is not a problem.

CHAIRPERSON: Ja, it is construction.

MR GOLDNER: And the problem is construction and development of the (indistinct).

CHAIRPERSON: Okay, all right. I think it is not for a lack of interest, it is just for a lack of being able to add any value. Sorry to have dragged you back from leave, thank you very much for that. [Laughs]. Is there anything else, Mr Reddy? Thank you, guys.

MR SHONGWE: Thank you.

CHAIRPERSON: All right, we did have a minute, a confidential minute we can handle separately.

MS MABASO: Those will be the close session ones, yes. And then there is the minutes of the previous meeting as part of the pack.

CHAIRPERSON: Ja, ja. So let us just fly through that. Approval of the minutes of 24 November, you know I wanted to, I actually want a chance to authorise those, I do not want to sign them off today.

MALE SPEAKER: Okay.

CHAIRPERSON: Unless anybody has questions? I mean (inaudible) rights. Okay, the computer is still on. Matters arising?

FEMALE SPEAKER: Chair...

CHAIRPERSON: Ja?

FEMALE SPEAKER: On the minutes from a (indistinct) we confirm the meeting to be finalised… (intervenes)

MALE SPEAKER: The announcement in that?

FEMALE SPEAKER: Yes.

CHAIRPERSON: Is that okay? Good. Matters arising…

MR PITA: Chair, all the matters have been dealt with and as you will see, there is only one item which is, we will give you a status update on the renegotiation on further contracts as on the date.

CHAIRPERSON: Good. I am going to… (intervenes)

MR GAMA: And then on the 1064 obviously, once (inaudible) and the team finalised the new schedules, we will be able to give the new information.

CHAIRPERSON: Resolutions tracker? New resolutions to track?

FEMALE SPEAKER: The ones of the previous resolutions (Inaudible).

MR GAMA: Ja, it is just to note the resolutions, as they are all in progress except the budget and the other thing that I just wanted to indicate, is around the (inaudible) lines, that although the matter has been finalised and there was an interpretation around the DPE process or two different allegations around the DPE process that we are looking at, we are basically the…

The Department has said that Transnet goes and concession and do whatever, so they are now saying we need to come back to them in terms of the preferred way of dealing with the concessions, so we will go back to them to inform them about the decisions that have been taken, to say we are not spending any capital, the way we are doing it, we are getting third parties to spare them the pains. So it is a revenue model, so that is what we are hoping for, it is just an aiming of, to that (inaudible).

CHAIRPERSON: Any other resolutions that...? What happened with that fleet here, the commercial vehicle strategy? Mr Pita?

MR PITA: Chair, we presented it at the Board, it was approved and we have (indistinct) that.

MALE SPEAKER: So we just (inaudible) it comes?

MR GAMA: We have not gone to market yet.

CHAIRPERSON: What are we doing in the meantime?

MR PITA: We have been to market?

MR GAMA: Oh, you have gone to market?

MR PITA: Ja, (inaudible) market and on 26 June... (intervenes)

CHAIRPERSON: And what do we do in the meantime?

MR PITA: So they give... (intervenes)

CHAIRPERSON: (Inaudible) is still there, né?

MR PITA: Yes, yes, we (inaudible) to ensure that we do not expose ourselves to any operational (Inaudible).

CHAIRPERSON: All right. Meeting assessment, sorry you had (indistinct) in the resolutions. Meeting assessment, do we, are we required to fill any in?

FEMALE SPEAKER: No, we had... (intervenes)

MR GAMA: We had a good time.

FEMALE SPEAKER: Discussions, right.

CHAIRPERSON: We had a good time, we may have a shorter time.

FEMALE SPEAKER: For a very short particular (inaudible).

CHAIRPERSON: Are there any questions in relation to the procedures of the meeting?

MR GAMA: No.

FEMALE SPEAKER: No.

CHAIRPERSON: Acquisition and disposals mandate?

FEMALE SPEAKER: Nothing, Chair.

CHAIRPERSON: Nothing has changed. The close session was, I have got some comments in those minutes but I will give it for the secretary (indistinct).

MR GAMA: And we have got a version and... (intervenes)

FEMALE SPEAKER: Yes, we have got Chair, it was sent (indistinct).

CHAIRPERSON: So I will give my comments first, and then we can... I do, ja okay, so how do we do it practically?

FEMALE SPEAKER: So basically Chair, we just need to assess from the members whether they have comments and if there are any comments or none, we can authorise or adopt that and for your signature, Chair. So the minutes are stamped for 20 October... (intervenes)

CHAIRPERSON: Yes, I looked at them, I am happy about one or two changes. I had asked my colleagues to look at them as well, if Mr Gama gets a chance.

MS MABASO: Sorry Chair, when was the meeting?

CHAIRPERSON: It was in relation to the, it was a close session.

MS MABASO: I mean when was it?

CHAIRPERSON: This one.

FEMALE SPEAKER: It was in the office.

MS MABASO: Oh.

CHAIRPERSON: This one related to this.

FEMALE SPEAKER: The Park Town.

MS MABASO: Was it Park Town over here?

FEMALE SPEAKER: Yes, Park Town.

MS MABASO: Is it the Park Town or the Carlton Centre?

MR GAMA: No, the Chair was not there.

MS MABASO: Oh, he was not here?

MALE SPEAKER: Ja.

FEMALE SPEAKER: Ja, you were not there, Chair.

MR GAMA: No, but he said 20th of?

FEMALE SPEAKER: 20 October, it was at the Carlton Centre (indistinct).

MS MABASO: So which one are we talking about now? Is it the Carlton Centre one?

CHAIRPERSON: Ja.

FEMALE SPEAKER: Meeting of 20 October.

MS MABASO: Okay.

CHAIRPERSON: It relates to this whole story.

MS MABASO: What is your concern?

CHAIRPERSON: The dates are being... So I would not mind the copies of the memos relating to that. I have got them, oh here it is. Oh so let me, I will give you my comments and say what I want from it, and then we agree that we will keep only eight copies, *et cetera*, so that it can become famous (inaudible).

FEMALE SPEAKER: Chair, you would like us to finalise it and then resubmit it at the 18 March meeting? Or can I drop that?

MS MABASO: Ja.

CHAIRPERSON: Okay, so I am going to say we have got the 20 October minutes outstanding as well, is that right?

FEMALE SPEAKER: Yes Chair, the 20 October... (intervenes)

CHAIRPERSON: Is this?

FEMALE SPEAKER: Ja, that is the close session.

CHAIRPERSON: That is the close session.

FEMALE SPEAKER: Ja, and then... (intervenes)

CHAIRPERSON: Matters arising.

FEMALE SPEAKER: And then the one that we do not report is 24 November.

CHAIRPERSON: So I am going to give you my comments, then they submit it for the 13 March and we will close them, we will do both.

FEMALE SPEAKER: Yes, Chair.

CHAIRPERSON: Good. Right colleagues, thank you very much for a most exciting day. I invite everybody to lunch, is that correct?

FEMALE SPEAKER: Yes, Chair.

CHAIRPERSON: Thank you everybody, if there is no comments? There are no further comments, we close the meeting. Our next meeting is then the 13 March, here?

FEMALE SPEAKER: Yes Chair, here.

CHAIRPERSON: And we have got a Board meeting however next week, as I understand it correctly.

MS MABASO: Ja.

CHAIRPERSON: And there is a RAMCO meeting… (intervenes)

FEMALE SPEAKER: The 16th.

MALE SPEAKER: On Thursday.

CHAIRPERSON: Thursday. Good, thank you everybody for your time.

MALE SPEAKER: Thank you, Chair.

CHAIRPERSON: And Mr (Inaudible), if a thing goes public, you can confirm with them that I will return the favour. I have got a full and open heart with no harmed (inaudible).

[End of recording]

MEETING ADJOURNS

CERTIFICATE OF VERACITY

I, the undersigned, hereby certify that **as far as it is audible**, the aforegoing is a true and correct transcript of the digitally recorded meeting of:

TRANSNET SOC LTD

ACQUISITIONS AND DISPOSALS COMMITTEE MEETING NUMBER 7-16/17FY

13 FEBRUARY 2017

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TRANSNET SOC LTD

ACQUISITIONS AND DISPOSALS COMMITTEE MEETING NUMBER 7-16/17FY

13 FEBRUARY 2017

REASON FOR REPORT

➢Some words/phrases were inaudible due to the following reasons:

1. Unfortunately not all speakers were positioned close enough to the microphones/recording device.
2. Noises caused by persons coughing and paging through documentation drowned out the voices of the speakers.

➢Transnet is a very large entity; terms/abbreviations/names of employees/projects of which could not be traced via the Internet, were spelled phonetically.

➢Speakers were not introduced on record. In some instances Mr Chair would mention the following speaker's name/surname, but not at all times and reference was then made to "Female Speaker" or "Male Speaker".

Botha

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ANNEXURE PM 11

REPUBLIC OF SOUTH AFRICA

IN THE HIGH COURT OF SOUTH AFRICA
(GAUTENG LOCAL DIVISION, JOHANNESBURG)

CASE NO: **40361/17**

(1) REPORTABLE: YES / NO
(2) OF INTEREST TO OTHER JUDGES: YES/NO
(3) REVISED.

12/12/2018 ....
DATE SIGNATURE

In the matter between:

TRANSNET SOC LTD	Applicant
and	
T-SYSTEMS (PTY) LTD	1st Respondent
GIJIMA HOLDINGS (PTY) LTD	2nd Respondent
UBUNTU TECHNOLOGY	3rd Respondent
WIPRO TECHNOLOGIES SOUTH AFRICA (PTY) LTD	4th Respondent
BUSINESS CONNEXION (PTY) LTD	5th Respondent
EOH MTHOMBOLO (PTY) LTD	6th Respondent
MOBILE TELEPHONE NETWORKS (PTY) LTD T/A MTN	7th Respondent
NATIONAL TREASURY	8th Respondent

JUDGMENT

KEIGHTLEY J.

Introduction

1. Between November 2015 and February 2017 Transnet Soc Ltd ("Transnet") conducted a tender process for the provision to it of IT data services ("the tender"). At the final stage of the tender process only two bidders remained in contention. These were the first respondent, T-Systems South Africa (Pty) Ltd ("T-Systems"), and the second respondent, Gijima Holdings (Pty) Ltd ("Gijima"). After some internal to-ing and fro-ing, on 22 February 2017, Transnet's Board decided to award the tender to T-Systems. A letter of intent was duly dispatched to this effect to T-Systems on 2 March 2017, and shortly thereafter a letter of regret was dispatched to Gijima. It is important to record at the outset that the tender was awarded to T-Systems despite the fact that Gijima was the highest-scoring bidder.

2. Gijima took issue with the award of the tender to T-Systems, and initiated a complaint with Transnet's Procurement Ombudsman. This resulted in the involvement of National Treasury ("Treasury"). Treasury expressed the view that the award of the tender to T-Systems was not in accordance with Transnet's legal obligations under the Preferential Procurement Policy Framework Act[1] ("the PPPFA"). This was because under that Act it was obliged to award the tender to the highest-scoring bidder. Treasury's view was that the deviation from this basic obligation was not justified on the grounds advanced by Transnet.

[1] Act 5 of 2000

3. Although Transnet initially took issue with Treasury's stance, it ultimately accepted that it had acted incorrectly in awarding the tender to T-Systems. The Board took an "in-principle" decision to rescind the award to T-Systems, subject to T-Systems being invited to make representations as to why the in-principle decision should not be make final. T-Systems delivered its representations to Transnet and they were considered by the Board. On 27 September 2017 Transnet's Board decided that it would rescind its award of the tender to T-Systems, and would award the tender to Gijima, subject to a declaratory order being granted as to its entitlement to do so.

4. Consequent on this decision, Transnet instituted the present application. In its Notice of Motion it sought an order in the following terms:

   (a) Declaring its decision to award the tender to T-Systems to be invalid and unlawful;

   (b) Alternatively, declaring that Transnet had a right to rescind its decision to award the tender to T-Systems on the basis that that decision was invalid and unlawful;

   (c) The review and setting aside of the tender to T-Systems;

   (d) A direction that the tender be awarded to Gijima "in terms of the remedial action recommended by (Treasury) as set out in paragraph 7 of its letter dated 18 July 2017"

5. All of the bidders who had successfully participated in the early rounds of the tender process were joined in the application. Save for T-Systems and Gijima, they elected not to participate in the proceedings. Treasury was also joined. It did not oppose the application, but filed an explanatory affidavit for the assistance of the court. Initially T-

Systems opposed the application, and instituted a counter-application regarding the Board's later decision to award the tender to Gijima. Gijima, in turn, opposed the counter-application and instituted one of its own. Despite the early deeply contested status of the application, as things transpired, on 31 October 2018 T-Systems withdrew its opposition and recorded that it would abide the decision of the court. Gijima subsequently took the same route. Consequently, Transnet's application now stands unopposed.

6. There are two issues I wish to raise about the relief sought by Transnet in its notice of motion. The first relates to its relief for a declarator to the effect that it had a right to rescind its initial decision to award the tender to T-Systems. The second relates to the prayer that the court should direct Transnet to give effect to the remedial action recommended by Treasury in ordering that the tender be awarded to Gijima.

Can the court declare that Transnet has a right to rescind its award to T-Systems?

7. This is the question that arises from the first of the two issues I have identified, viz. the declarator that Transnet is entitled to rescind its original award. Part of its motivation for seeking this relief rested on the contention made in the founding affidavit that it was not *functus officio* when it made the decision to award the tender to T-Systems. When the matter came before me for hearing, counsel for Transnet advised the court that it did not pursue this relief, nor did it rely on its earlier contention that it was not *functus officio*. Instead, it sought simply to review and set aside its own decision on the basis that it was unlawful and invalid, and to seek an order confirming the award of the tender to Gijima.

8. Transnet acted properly in abandoning this as an alternative form of relief. The Constitutional Court held, in *MEC for Health, Eastern Cape v Kirland Investments (Pty)*

Ltd t/a Eye and Lazer Institute[2] that an organ of state cannot withdraw its own decisions even in circumstances where those decisions have no lawful basis. Once the decision is made, the organ of state is *functus officio*. It is bound, in those circumstances, to approach the court to exercise its powers of judicial review, and to set the impugned decision aside. Until it has done so, the decision, even if unlawful, has legal effect. This being the case, Transnet's contention that it was not *functus officio*, and its assumption that it could thus rescind its own decision was clearly incorrect. It would not have been appropriate for this court to consider making an order recognizing Transnet's right to rescind its order, as Transnet simply has no right to do so. The proper remedy is one of review, and the order sought from the court should follow the remedies available on review.

What is the nature and effect of Treasury's recommendation to Transnet?

9. This question arises from the second issue I identified earlier. Transnet wants this court to direct that Transnet must give effect to the remedial action recommended by Treasury. It says that Treasury advised it to award the tender to Gijima.

10. Transnet contends that the direction by Treasury constituted an instruction in terms of section 76(4) of the Public Finance Management Act[3] ("the PFMA"), and that in accordance with National Treasury Instruction Note 3 of 2016/2017: Preventing and Combating Abuse in the Supply Chain Management System ("Treasury Instruction Note 3"), Transnet is enjoined to abide by such instruction. In other words, Transnet says that this instruction is peremptory, and thus, it follows as an "*unassailable conclusion*" that this court must direct that the tender be awarded to Gijima.

[2] 2014 (3) SA 481 (CC) at paras [64], [88] & [89]
[3] Act 1 of 1999

11. As I indicated earlier, Treasury became involved in the matter after Gijima had lodged a complaint in terms of Transnet's own internal Procurement Ombudsman process. On 3 April 2017 the Acting Transnet Procurement Ombudsman requested Treasury to investigate the complaint. In doing so, Transnet was acting in accordance with its obligations under paragraph 3.3 of Treasury Instruction Note 3.

12. In Treasury's first response to the referral of the complaint, it drew Transnet's attention to Regulation 6(5) of the 2011 Regulations under the PFMA, which states that in the procurement process the contract must be awarded to the tenderer who scored the highest points. Regulation 7(1) of the Regulations permits an award to a tenderer who did not score the highest points only where this is based on objective criteria. Treasury advised Transnet that it had not stipulated what objective criteria would be used in the tender documents. For this reason, Transnet had breached its obligation to award the contract to the highest bidder.

13. Transnet responded, taking issue with Treasury's interpretation of the relevant provisions, and asserting that it had correctly taken into account objective criteria based on a risk assessment carried out at the award stage of the tender process. Its view was that this was in accordance with Regulation 7(1), that it had acted properly in making the award to the second-highest bidder, and that it had not breached the procurement rules.

14. Treasury's final letter at this stage was dated 18 July 2017. In it, Treasury reiterated that the Regulations and section 2(1)(f) of the PPPFA require that a tender must be awarded to the tenderer that scores the highest points, unless objective criteria justify the award to another tenderer. In Treasury's view, risk assessments did not qualify as objective criteria in terms of this section. Any risks identified at the award stage of the process should have been factored into the contract offered to the highest scoring bidder by way

of risk mitigating clauses. Only if the highest scoring bidder refused to accept those clauses could it be disregarded as the successful tenderer.

15. Treasury further advised that the accounting authority of a public entity like Transnet would commit an act of financial mismanagement if it failed to comply with the PFMA by permitting an irregular and wasteful expenditure. Treasury concluded that Transnet had an obligation under section 2(1)(f) of the PPFA, Section 51(1) of the PFMA, and Section 217(1) of the Constitution to award the contract to the highest scoring bidder.

16. It is this letter that Transnet characterises as the peremptory instruction to Transnet to award the tender to Gijima.

17. I have fundamental issues with this characterisation by Transnet, and hence with Transnet's request that this court should make an order giving effect to what it regards as being Transnet's binding instruction. My concern is not with the correctness of Treasury's advice to Transnet as contained in its 18 July 2017 letter. From what appears later in this judgment, I am in agreement with that advice. Instead, my concern flows, firstly, from the fact that Treasury itself disavows Transnet's characterisation of the 18 July 2017 letter as constituting binding remedial action in terms of Treasury Instruction Note 3. In the affidavit filed by Treasury, it made the following important submissions:

(a) Treasury's mandate in terms of the procurement process of public entities is to monitor and assess compliance.

(b) It does not usurp the power of public entities, like Transnet, to make tender awards.

(c) Its letter of 18 July 2017 did not constitute binding remedial action, nor did it amount to an administrative decision (presumably within the meaning of "administrative action" under PAJA).

(d) It's letter was solely aimed at informing Transnet of the outcome of its investigation.

(e) Critically, Treasury's mandate was to investigate, and to provide its response to, the conduct of the relevant accounting officer or accounting authority.

(f) Thus, Treasury did not purport to exercise any power in its letter of 18 July 2017 to take action having any direct effect on the rights of the tenderers concerned.

18. These submissions are consistent with the scheme of investigations set out in Treasury Instruction Note 3. Under paragraph 3.3, where a complaint implicates an accounting officer or authority, it must be reported to the relevant treasury. In this case, the relevant treasury was the National Treasury. It was for this reason that Transnet's Acting Ombudsman referred the complaint to Treasury: it involved the decision by the Board to award the tender to T-Systems, and its delegation to the General Chief Executive Officer to sign the letter of intent to give effect to this decision. In terms of paragraph 4.3 of Treasury Instruction Note 3, Treasury had a duty to inform Transnet of the proposed action flowing from its investigation. It did so in its letter of 18 July 2017.

19. Paragraph 5.1.4 of Treasury Instruction Note 3 refers to the duty of an accounting officer to implement recommended remedial action. Significantly, it specifies that remedial action is taken "against the supplier". It may include rejection of a bid; cancelation of a contract; restriction of a supplier from doing business with the state; or claiming damages from a supplier.

20. It is quite clear that in this case there was no complaint against a supplier that warranted remedial action under Treasury Instruction Note 3. It was a complaint against a decision to empower the accounting authority to enter into a contract with T-Systems through the award of the tender. Accordingly, Treasury was correct in its submission that its 18 July 2017 did not constitute recommended remedial action aimed at affecting the rights of T-Systems or any of the other tenderers. It was plainly aimed at the conduct of the accounting authority. In effect, it advised Transnet's accounting authority that it would be committing an act of financial misconduct if it proceeded with the decision to award the tender to T-Systems in breach of its obligation to award the tender to the highest scoring bidder. In other words, the accounting authority would be answerable to the executive, and would face possible financial misconduct proceedings, if Transnet ignored Treasury's conclusion that the award to T-Systems was in breach of Transnet's obligations under the PPPFA.

21. Seen in its proper context, Transnet is incorrect in characterising the 18 July 2107 letter as placing it under a peremptory obligation to award the tender to Gijima. Of course, to avoid committing an act of financial mismanagement, Transnet would have to act in accordance with Treasury's recommendation. But this does not mean that it must follow, <u>as a necessary consequence</u>, that this court <u>must</u> order Transnet to award the tender to Gijima. To proceed on that assumption is to blur the distinction between the purpose of the relevant statutory instruments regulating Treasury's role in monitoring compliance by public entities with their supply chain management obligations, and the scope and purpose of judicial review by the courts of the exercise of public power.

22. It is this blurring of the lines that gives rise to my second concern about Transnet's prayer for this court to order the award of the tender to Gijima "*in terms of the remedial action recommended*" by Treasury. If this court is to make an order directing that Gijima should

be awarded the tender, this will be because it is an appropriate order for the court to make in the exercise of its powers of review. It will not be because Transnet is bound by a directive to this effect from Treasury.

23. If that were the case, it would imply that that this court is similarly bound to give effect to Treasury's recommendation. This would be constitutionally untenable. Public powers must be exercised in accordance with the Constitution and with the relevant statutory framework regulating those powers. Section 217 (1) of the Constitution obliges organs of state to follow fair, equitable, transparent, competitive and cost-effective procurement processes. In terms of section 172(1)(a) of the Constitution, it is the courts that are ultimately obliged to declare conduct inconsistent with the Constitution to be invalid. In the context of the review of the exercise of public powers, the courts carry out this duty either under the umbrella of the Promotion of Administrative Justice Act,[4] ("PAJA"), or directly under the Constitution itself, depending on the particular circumstances at hand.

24. My point here is simply that in exercising its powers of review, this court cannot be bound by Treasury's recommendation. Furthermore, Treasury's recommendation is not itself subject to review in the proceedings before me. Accordingly, this court cannot, through its review powers, uphold and give effect to that recommendation. This court is faced solely with the question of whether Transnet's decision to award the tender to T-Systems was invalid and, if so, what appropriate relief might be granted. Whether or not an order should be made directing that Gijima be recognised as the successful tenderer will depend on whether this court considers such relief to be just and equitable. I will revert to this issue later when I consider the question of relief.

The legal basis for review in this case

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[4] Act 3 of 2000

25. Transnet's founding affidavit does not make it clear whether it relies on PAJA as the basis for its review, or directly on the Constitution by way of legality or rationality review. In fact, there is very little said in its founding affidavit about the review at all. At most, the deponent submits that contrary to Transnet's earlier view, Treasury was correct in finding that the risk assessment did not constitute a lawful basis to depart from the fundamental obligation to award the tender to the highest scoring bidder. On this basis, the further submission is made that the decision to award the tender to T-Stystems is invalid and unlawful and falls to be reviewed and set aside.

26. There appears to be an assumption in the founding papers that PAJA applies to the review. This can be gleaned from Transnet's application for an extension of the time-limit prescribed in section 7(1) of PAJA for the institution of review proceedings. There is no other reference to PAJA in the founding affidavit or the notice of motion, and no specific sections of PAJA are referred to as providing specific bases for review. In short, the founding papers are not very helpful in this regard.

27. Be that as it may, recent developments in our law have clarified what the proper basis is for a review in circumstances where an organ of state seeks to set aside its own decision on the grounds that it was unlawful. The Constitutional Court confirmed, in *State Information Technology Agency SOC Ltd v Gijima Holdings (Pty) Ltd*,[5] that in these circumstances, the legal basis for review is not PAJA. An organ of state in this position must apply to set aside its own decision on the basis of the founding principle of the rule of law prescribed in section 2 of the Constitution. The court held as follows in this regard:

> "The conclusion that PAJA does not apply does not mean that an organ of state cannot apply for the review of its own decision; it simply means that it cannot do so

[5] [2017] ZACC 40, hereafter "*SITA*"

under PAJA. In *Fedsure* this Court said that "[i]t seems central to the conception of our constitutional order that the Legislature and Executive in every sphere are constrained by the principle that they may exercise no power and perform no function beyond that conferred upon them by law". .... *Pharmaceutical Manufacturers* tells us that the principle of legality is "an incident of the rule of law", a founding value of our Constitution. In *Affordable Medicines Trust* the principle of legality was referred to as a constitutional control of the exercise of public power. ... What we glean from this is that the exercise of public power which is at variance with the principle of legality is inconsistent with the Constitution itself. In short, it is invalid. That is a consequence of what section 2 of the Constitution stipulates. Relating all this to the matter before us, the award of the DoD agreement was an exercise of public power. The principle of legality may thus be a vehicle for its review. The question is: did the award conform to legal prescripts? If it did, that is the end of the matter. If it did not, it may be reviewed and possibly set aside under legality review."[6]

28. It is on this basis that Transnet's application to set aside its decision to award the tender to T-Systems must be determined.

Was the award of the tender to T-Systems within legal prescripts or does it fall to be set aside under legality review?

29. Transnet submits that it acted unlawfully in deciding to award the tender to T-Systems, which was not the highest scoring bidder. Although this contention is no longer opposed by T-Systems, in exercising my power of review I must apply my own mind to, and make a proper determination on, this issue.

[6] *SITA*, at paras [38] - [40]

30. The crux of the review is that T-Systems was not the highest scoring bidder. Transnet acted on its own understanding of its authority to act in terms of the proviso to section 2(1)(f), which permits a deviation from the basic principle that the award must be made to the highest scoring bidder. That section provides that once the bids have been scored (at the award stage of the process), the contract:

> "must be awarded to the bidder who scored the highest points, unless objective criteria in addition to those contemplated in paragraphs (d) and (e) justify the award to another bidder." (my emphasis)

31. It is not disputed that Gijima was the highest scoring bidder on price and preference, with the remaining bidder, T-Systems, falling below it. This scoring was based on the best and final offers ("BAFO") submitted by both bidders. In terms of the basic principle contained in section 2(1)(f), this ought to have secured the award for Gijima. However, what Transnet proceeded to do was to undertake a further process of risk assessment in respect of both bidders. It commissioned Gartner Consultants ("Gartner") to conduct the assessment. Gartner was tasked with assessing and reporting on the ability of both bidders to render the services contemplated in the tender.

32. In its report, it identified and rated what it considered to be risks associated with each bidder. It found that there were more risks associated with Gijima (it identified 5 risks). Two of these risks were ranked as being "likely" or "almost certain" to materialise. On the other hand, it identified far fewer risks as regards T-Systems, with those not being likely to materialise. Gartner concluded that these identified risks posed material operational and financial risks to Transnet. What then followed was a sequence of memoranda between various internal departments in Transnet, with no clear path forward on whether Gijima or T-Systems should be awarded the tender. In view of the unopposed nature of the application, it is not necessary to set out the details of what transpired. In summary,

Gijima was provided with at least two opportunities to address Transnet on how it proposed to address or mitigate the risks identified by Gartner. It responded, in detail to these invitations, both in writing and in a subsequent meeting between Transnet and Gijima.

33. Following this process, in February 2017, various departments in Transnet, including Group Risk and Compliance, and the Group Chief Information Officer, indicated that they were satisfied that Gijima had adequately addressed the risks identified. In a memorandum of 7 February 2017, Transnet management recommended that Gijima be awarded the tender. Significantly, the memorandum noted (with attendant detail) that Gijima had provided the required clarity requested of it. It further noted that: "*any residual risks that are remaining should be mitigated through robust contract management and stringent Service Level Agreements to be negotiated and signed with Gijima. The residual risks and their proposed mitigation's are set out ... below. ... the Group Chief Information Officer ... indicated that she is satisfied that all the previously identified risks have been adequately mitigated and that the recommendation for award should be made to the first ranked bidder (Gijima) in line with the 90/10 principle.*"

34. The recommendations were rejected by Transnet's Acquisitions and Disposals Committee ("ADC"). In a memorandum dated 14 February 2017, the ADC indicated that it did not support the recommendation based on a number of concerns. It is not necessary to list these concerns. Suffice to say that many of them appear not to have been identified in the Gartner report. In addition, the ADC gave as a concern Transnet's ICT department's own inability to manage the envisaged enhanced risks. The ADC recommended that the contract be awarded to T-Systems, as it had a lower risk profile. The ADC was of the view that these concerns amounted to objective criteria warranting an award to the less risky, but lower-scoring bidder.

35. Transnet now contends that it acted unlawfully in using the risk assessment undertaken at the award stage of the procurement process to justify a deviation from the basic requirement that tenders be awarded to the highest scoring bidder. There is merit in Transnet's contentions. In the first place, the procurement process is divided into two main phases, viz. the functionality assessment phase,[7] and the award phase. The functionality assessment phase occurs first. Only those bidders who are assessed as being able effectively to perform under the envisaged contract qualify to proceed to the next phase.[8] Thus, risk factors associated with the ability to perform under the envisaged contract ought properly to form part of the functionality phase of the assessment. Transnet says that the risk factors subsequently identified by Gartner were already under consideration in the functionality phase. At the second phase of the process, viz. the award phase, only price and preference points are taken into account. It is at this stage that Transnet is ordinarily required to award the contract to the highest scoring bidder on price and preference. It was on the basis of price and preference that Gijima was the highest scoring bidder.

36. Transnet acted outside of this prescribed procurement framework by using functionality phase risk assessment factors to deviate from the required price and preference assessment at the award phase. This being the case, the risk assessment factors it relied on could never properly be regarded as being "objective criteria" within the meaning of section 2(1)(f) of the PPPFA. Consequently, its award to T-Systems was not lawfully justifiable under that section.

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[7] The 2011 Preferential Procurement Regulations defund "functionality" as: "*the measurement according to predetermined norms, as set out in the tender documents, of a service or commodity that is designed to be practical and useful, working or operating, taking into account, among other factors, the quality, reliability, viability and durability of a service and the technical capacity and ability of the tenderer*." (my emphasis)
[8] Regulation 4 of the 2011 Preferential Procurement Regulations.

37. It is also quite clear from a consideration of the concerns listed by the ADC in recommending the award to T-Systems rather than Gijima that many of them appear to have been based on the ADC's own subjective considerations of risk. The ADC also appears to have completely ignored the fact that the line-managers, who had interacted with Gijima on the actual risks identified by Gartner, were satisfied that they had been addressed, or that they could be mitigated by way of relevant contract provisions.

38. One is left wondering whether the ADC was not being driven by extraneous considerations in its insistence, despite management's satisfaction with Gijima's responses, that the tender should be awarded to the lower-scoring bidder. This is not merely a fleeting fancy. Transnet annexed to its papers a transcript of the meeting of the ADC held in February 2017 shortly before the decision to recommend the award of tender to T-Systems. The transcript reflects the chair of the committee, Mr Shane, making the following comments, among others:

> "To go and source to Gijima or anybody else in my opinion, would be tantamount to suicide. That is my perspective on it. That is the newspaper article that I will rather have, with no disrespect to Gijima who are not alien to suing their customers. I will say that again slowly, they are not alien to suing their customers, okay. I am happier with the risk of getting sued by Gijima who did not get the contract than us getting rid of the incumbent we helped to create."
>
> And:
>
> "The last thing I want to do guys, with due respect, is change my mainframe supplier and my data supplier and my IT supplier, the last thing I want to do. I will tell you what my understanding at the time of putting this thing out to tender was that we wanted to keep T-System, honest. That was the actual motivation." (my emphasis)

39. In light of these remarks, the recommendation by the ADC, which was ultimately adopted by the Board and implemented, was not only clearly irrational, but also tainted by bias in favour of the incumbent supplier of IT services, T-Systems. To permit such a tainted decision to stand would be inimical to the constitutional requirement that tender processes should be fair, equitable, transparent, competitive and cost-effective. For this reason too, I am satisfied that Transnet acted unlawfully in deciding to award the tender to T-System.

40. It follows, in my view, that the award must be reviewed and set aside. The question that remains is whether I should go further and direct that the tender should be awarded to Gijima as the highest scoring bidder.

Should Transnet be ordered to award the tender to Gijima?

41. Under the common law, and under PAJA, the prudent and proper course[9] on review is to remit the matter back to the decision maker for reconsideration. Substitution of the court's decision for that of the decision maker is the exception rather than the rule.[10] However, where, as in this case, the court is concerned with legality review under section 2 of the Constitution, the remedial powers of the court derive directly from the Constitution itself. Section 172(1)(b) provides that when deciding a constitutional matter a court may make any order that is just and equitable. In *Economic Freedom Fighters v Speaker of the National Assembly*[11] the Constitutional Court made the point that:

> "... this Court's remedial power is not limited to declarations of invalidity. It is much wider. Without any restrictions or conditions, section 172(1)(b) empowers courts to make any order that is just and equitable. ... The power to grant a just and equitable

[9] *Gauteng Gambling Board v Silverstar Development Ltd* 2005 (4) SA 67 (SCA) at para [29]
[10] Cora Hoexter Administrative Law in South Africa (2nd edition) at p552 and the cases cited in n271.
[11] 2018 (2) SA 571 (CC) at paras [210] & [211]

order is so wide and flexible that it allows courts to formulate an order that does not follow prayers in the notice of motion or some other pleading. This power enables courts to address the real dispute between the parties by requiring them to take steps aimed at making their conduct to be consistent with the Constitution."

42. The question for me to consider is whether it would be just and equitable to direct that the tender should be awarded to Gijima, or whether it would be just and equitable to remit the matter back to Transnet for a new decision? In my view, it is the former, rather than the latter remedy that accords most properly with justice and equity.

43. As an organ of state, Transnet's operations involve the use of public resources. The present tender process was of long duration. It commenced in November 2015 and was subject to various extensions along the way. Transnet's failure to act lawfully in awarding the tender to T-Systems caused a further delay in its finalisation. Three years down the line the tender process is not yet complete. In the interim, Treasury has, reluctantly it appears, approved the extension of the pre-existing contract with T-Systems on a month-to-month basis. It has advised Transnet that as from 1 June 2018, any expenditure flowing from this extension will be regarded as irregular. Accordingly, from a public resources point of view, it seems to me to be imperative that finality is achieved on the matter as soon as possible. To refer the matter back to Transnet for a new decision undoubtedly would entail further irregular use of public resources and for this reason would be untenable.

44. It is also relevant that T-Systems has elected not to proceed with its opposition to the application. In effect, it has abandoned the submissions it made that Gijima did not properly qualify to be considered in the final phase of the tender process. All the other bidders who were eliminated in the earlier rounds were cited in these proceedings. If they wished to object to Transnet's stated intention to ask this court to direct that the tender be

awarded to Gijima, they had ample opportunity to do so. None of them elected to participate in the proceedings. I must conclude that they have no further interest in the matter. There is thus no reason for this court to query the tender process any further. I must proceed on the basis that Gijima was properly scored as the highest bidder on price and preference. The only obstacle to it being awarded the tender was Transnet's unlawful reliance on the risk factors. As those having fallen away, there would seem to me to be no justifiable reason for this court not to give effect to the outcome of the tender process.

45. For these reasons, I conclude that it is just and equitable to direct that Transnet award the tender to Gijima.

Delay and condonation?

46. In its notice of motion Transnet sought an order that, insofar as it may be necessary, the court should grant an extension of time for the filing of the application under section 9 of PAJA. PAJA specifies a period of 180 days for the filing of an application for review. Of course, we are not dealing here with a PAJA review, and the 180 period does not apply. It is the common law that applies.[12] Under the common law, an application for review must be instituted within a reasonable time, or without unreasonable delay.

47. The impugned decision was made on 22 February 2017, and Transnet instituted the application for review on 23 October 2017. Clearly, this was not a case where Transnet failed to act with reasonable speed to correct its unlawful decision. In the circumstances, there is no need to consider the question of condonation under either PAJA or the common law.

[12] *Sifwambo Rail Leasing v PRASA* (1030/2017) [2018] ZASCA 167 (30 November 2018)

Conclusion and Order

48. For the above reasons, I am satisfied that Transnet's application to review and set aside its decision to award the tender to T-Systems must succeed.

49. I make the following order:

1. The decision by the applicant's board of directors taken on or about 22 February 2017, to award the **IT DATA SERVICES TENDER (GSM/15/08/1310)** for the provision of DATA SERVICES to the applicant (hereinafter referred to as "the tender"), to the First Respondent, as confirmed in a letter dated 2 March 2017 ("the decision"), is invalid and unlawful.

2. The decision taken by the applicant's board of directors on or about 22 February 2017, to award the tender to the first respondent is reviewed and set aside.

3. The Applicant is directed to award the tender to the second Respondent.

4. There is no order as to costs.

R M, KEIGHTLEY

JUDGE OF THE HIGH COURT OF SOUTH AFRICA, GAUTENG LOCAL DIVISION, JOHANNESBURG

DATE OF HEARING	: 07 DECEMBER 2018
DATE OF JUDGMENT	: 12 DECEMBER 2018

APPEARANCES

APPLICANT'S COUNSEL	: L.T SIBEKO
	: B FORD
INSTRUCTED BY ATTORNEYS	: MNCEDISI NDLOVU & SEDUMEDI
SECOND RESPONDENT'S COUNSEL	: C HARDING (Watching brief)
INSTRUCTED BY	: FLUXMANS ATTORNEYS
2ND RESPONDENT'S ATTORNEYS	: NICQUI GALAKIOU INC

ANNEXURE PM 12

SECRET

MINUTES OF THE SPECIAL BOARD OF DIRECTORS MEETING NO. 1-18/19FY HELD ON 28 MAY 2018 AT 16:07 IN THE BOARDROOM, 1ST FLOOR, THE JUNCTION, ROOM 723, ESSELENPARK, MODDERFONTEIN ROAD, KEMPTON PARK

Resolution No/ For Attention

1 **CONSTITUTION OF MEETING AND APOLOGIES**

1.1 **Present**

Dr PS Molefe	Chairperson
Ms UN Fikelepi	Non-Executive Director
Mr SI Gama	Group Chief Executive
Ms RJ Ganda	Non-Executive Director
Prof ECHR Kieswetter	Non-Executive Director
Mr M Mahomedy	Acting Chief Financial Officer
Ms DC Matshoga	Non-Executive Director
Mr LL von Zeuner	Non-Executive Director

1.2 **In attendance**

Mr MM Buthelezi	Chief Operating Officer
Mr N Silinga	Chief Legal Counsel
Ms NE Khumalo	Group Company Secretary

1.3 **Apologies**

None.

1.4 **Welcome and Signing of Attendance Register**

1.4.1 The Chairperson welcomed all members and attendees present. Having observed a quorum, he declared the meeting duly constituted. The Attendance Register was circulated for signature.

1.5 **Adoption of Agenda**

1.5.1 The Agenda was adopted as tabled.

2 **SAFETY BRIEFING AND EVACUATION PROCEDURE**

2.1 The Safety briefing, and evacuation procedure for the Junction was conducted by means of a video system.

3 **DIRECTORS' DECLARATION OF INTERESTS REGISTER**

3.1 **Declaration of Interest for the meeting**

3.1.1 The Declaration of Interests Register was circulated for signature.

4 **MATTERS FOR APPROVAL/RECOMMENDATION**

4.1 **Board Composition**

4.1.1 Deliberations on the composition of the Audit Committee were extensively dealt with.

4.1.2 The Board discussed the other Committee compositions in detail. Members chose the Committees according to their expertise, qualifications and willingness to participate. The Committees discussed were the Remuneration, Social and Ethics Committee, the Acquisitions and Disposals Committee, the Corporate Governance and Nominations Committee as well as the Risk Committee.

4.1.3 The Chairperson indicated that a Finance and Investment Committee be established in replacement of the Acquisitions and Disposals Committee. The Mandate thereof will be appropriately developed by Management. Ms Ganda was requested to assist with the input thereof in conjunction with the Chief Financial Officer. Mr Von Zeuner volunteered to provide a template. The Board ***agreed*** that the Acquisitions and Disposals Committee be abolished. — Ms Ganda, Mr Von Zeuner

RESOLVED that the Board approved the dissolution of the Acquisitions and Disposals Committee and the establishment of the Finance and Investment Committee. — 1-2018/19FY/1

RESOLVED that the Board amended the Corporate Calendar dates for Board, Audit and Remuneration, Social and Ethics Committees together with relocated dates. — 1-2018/19FY/2

4.2 **Corporate Calendar for the 2018/19FY**

4.2.1 The Board deliberated on the dates for the remainder of the Board meetings. The Chairperson indicated that the Shareholder Minister needs to be guided into confidence for the confirmation of

taken

the Remuneration, Social and Ethics Committee on issues that he might need to be consulted on. The Chairperson indicated that the proposed date for the Audit Committee meeting is 5 June 2018. Further it was ***agreed*** that the Audit Committee should remain as is.

4.2.2 Management was requested to circulate the KPAs and KPIs for GLT and the GCE for information purposes and to forward the Board and Committee Mandates to all the Board Members.

5 **GENERAL**

5.1 **AGM arrangements and statutory authorisation applicable to the proposed agenda**

The Board ***agreed*** that the matter be deferred to the next meeting. Ms Khumalo

6 **BOARD OF DIRECTORS MANDATE**

6.1 The Board noted the Board of Directors' Mandate as contained in the meeting pack.

7 **MEETING ASSESSMENT**

The matter was deferred to the next meeting. Ms Khumalo

8 **CLOSING**

6.1 The Chairperson thanked the Board for its participation, and valuable contributions in the meeting. There being no further business to conduct, she declared the meeting closed at 17:01.

CHAIRPERSON
DATE:

GROUP COMPANY SECRETARY
DATE:

ANNEXURE PM 13

SPECIAL INVESTIGATING UNIT 74 Watermeyer Street, Rentmeester Building, Meyers Park, Pretoria, 0184
Tel +27 12 843 0000 **Fax** +27 12 843 0115 / 06 **Website** siu.org.za **e-mail** info@siu.org.za

SPECIAL INVESTIGATING UNIT

SIU

POISED TO STRIKE against corruption

Reference: Transnet
Enquiries: Gina Howes

28 February 2019

Dr Popo Molefe

The Chairperson of the Transnet Board

Transnet SOC Ltd

Waterfall Business Estate

9 Country Estate Drive

Midrand

1662

Dear Dr Molefe

RE: <u>PROCLAMATION NO. 11 OF 2018 TRANSNET SOC LTD</u>

1. The Special Investigating Unit ("SIU") has been authorized by Proclamation No. 11 of 2018 published in Government Gazette No. 41561 on 6 April 2018 to investigate matters relating to Transnet SOC Ltd. A copy of the proclamation is attached as per Annexure 1.

2. The purpose of this correspondence is to confirm the details of matters that the SIU is investigating and to provide an update on these matters for inclusion in your submission to the Zondo Commission of Inquiry. The detailed schedule of the matters under investigation is attached as per Annexure 2.

3. In respect of the 1064 locomotive procurement, the SIU has obtained evidence of irregularities and/or misrepresentations, from which it appears that the Supply Chain Management or tender processes followed by Transnet was not fair, equitable, transparent, competitive and/or cost-effective as prescribed for public sector procurement (eg section 217(1) of the Constitution of the Republic of South Africa, 1996). The SIU has briefed Senior Counsel with the above evidence in respect the locomotives, transactional advisors matters. The SIU anticipates that civil litigation will be initiated soon.

Annexure 1

No. 41561 GOVERNMENT GAZETTE, 6 APRIL 2018

PROCLAMATION NO. 11 OF 2018

THE PRESIDENT
REPUBLIC OF SOUTH AFRICA

PRESIDENT of the REPUBLIC of SOUTH AFRICA

SPECIAL INVESTIGATING UNITS AND SPECIAL TRIBUNALS ACT, 1996 (ACT NO. 74 OF 1996): REFERRAL OF MATTERS TO EXISTING SPECIAL INVESTIGATING UNIT

WHEREAS allegations as contemplated in section 2(2) of the Special Investigating Units and Special Tribunals Act, 1996 (Act No. 74 of 1996) (hereinafter referred to as the "Act"), have been made in respect of the affairs of Eskom Holdings SOC Limited (hereinafter referred to as "Eskom") and Transnet SOC Limited (hereinafter referred to as "Transnet") (hereinafter collectively referred to as the "Institutions");

AND WHEREAS the Institutions or the State suffered losses that may be recovered;

AND WHEREAS I deem it necessary that the said allegations should be investigated and civil proceedings emanating from such investigation should be adjudicated upon;

NOW, THEREFORE, I hereby, under section 2(1) of the Act, refer the matters mentioned in the Schedule in respect of the Institutions, for investigation to the Special Investigating Unit established by Proclamation No. R. 118 of 31 July 2001 and determine that, for the purposes of the investigation of the matters, the terms of reference of the Special Investigating Unit are to investigate as contemplated in the Act, any alleged—

(a) serious maladministration in connection with the affairs of the Institutions;

(b) improper or unlawful conduct by employees, officials or agents of the Institutions;

(c) unlawful appropriation or expenditure of public money or property;

(d) unlawful, irregular or unapproved acquisitive act, transaction, measure or practice having a bearing upon State property;

(e) intentional or negligent loss of public money or damage to public property;

(f) offence referred to in Parts 1 to 4, or section 17, 20 or 21 (in so far as it relates to the aforementioned offences) of Chapter 2 of the Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004), and which offences were committed in connection with the affairs of the Institutions; or

(g) unlawful or improper conduct by any person, which has caused or may cause serious harm to the interests of the public or any category thereof,

which took place between 1 January 2010 and the date of publication of this Proclamation or which took place prior to 1 January 2010 or after the date of publication of this Proclamation, but is relevant to, connected with, incidental or ancillary to the matters mentioned in the Schedule or involve the same persons, entities or conduct investigated under authority of this Proclamation, and to exercise or perform all the functions and powers assigned to or conferred upon the said Special Investigating Unit by the Act, including the recovery of any losses suffered by the Institutions or the State, in relation to the said matters in the Schedule.

Given under my Hand and the Seal of the Republic of South Africa at Pretoria this 14 day of March Two thousand and eighteen.

CM Ramaphosa
President

By Order of the President-in-Cabinet:

TM Masutha
Minister of the Cabinet

SCHEDULE

1. The contracting for or procurement of—

(a) coal;

(b) coal transportation services; or

(c) diesel;

by Eskom and payments made in respect thereof in a manner that was—

(i) not fair, equitable, transparent, competitive or cost-effective;

(ii) contrary to applicable—

(aa) legislation;

(bb) manuals, guidelines, circulars, practice notes or instructions issued by the National Treasury; or (cc) manuals, policies, procedures, prescripts, instructions or practices of, or applicable to Eskom;

(iii) conducted by or facilitated through the improper conduct of—

(aa) employees, officials or agents of Eskom; or

(bb) any other person or entity,

to corruptly or unduly benefit themselves or others; or

(iv) fraudulent,

and any related unauthorised, irregular or fruitless and wasteful expenditure incurred by Eskom or the State.

2. Maladministration in the affairs of Eskom and any losses or prejudice suffered by Eskom or the State as a result of such maladministration in relation to the—

(a) Medupi Power Station Project;

(b) Kusile Power Station Project;

(c) Ingula Pumped Storage Scheme; and

(d) high voltage transmission projects associated with the Medupi Power Station Project, Kusile Power Station Project and Ingula Pumped Storage Scheme,

including the causes of such maladministration and any related unauthorised, irregular or fruitless and wasteful expenditure incurred by Eskom or the State.

3. Any non-performance or defective performance by the service providers appointed by Eskom or the agents of such serv'ice providers in respect of the Medupi Power Station Project, Kusile Power Station Project, the Ingula Pumped Storage Scheme or the high voltage transmission projects associated with the Medupi Power Station Project, Kusile Power Station Project and Ingula Pumped Storage Scheme, including the causes of such non-performance or defective performance.

4. The appointment of McKinsey, Trillian and Regiment Capital to render services to Eskom and Transnet and payments made in respect thereof in a manner that was—

(a) not fair, equitable, transparent, competitive or cost-effective;

(b) contrary to applicable—

(i) legislation;

(ii) manuals, guidelines, circulars, practice notes or instructions issued by the National Treasury; or

(iii) manuals, policies, procedures, prescripts, instructions or practices of or applicable to Eskom or Transnet;

(c) conducted by or facilitated through the improper conduct of—

(i) employees, officials or agents of Eskom or Transnet; or

(ii) any other person or entity,

to corruptly or unduly benefit themselves or others; or

(d) fraudulent,

and any related unauthorised, irregular or fruitless and wasteful expenditure incurred by Eskom, Transnet or the State.

5. Any undisclosed or unauthorised interests which employees, officials or agents of Eskom may have had in contractors, suppliers or service providers bidding for work or doing business with Eskom or to whom contracts were awarded by Eskom, and the extent of any actual or potential benefits derived directly or indirectly by such employees, officials or agents from such undisclosed or unauthorised interests.

6. The contracting for or procurement of goods and services by Transnet and payments made in respect thereof in a manner that was—

(a) not fair, equitable, transparent, competitive or cost-effective;

(b) contrary to applicable—

(i) legislation;

(ii) manuals, guidelines, circulars, practice notes or instructions issued by the National Treasury; or

(iii) manuals, policies, procedures, prescripts, instructions or practices of or applicable to Transnet;

(c) conducted by or facilitated through the improper conduct of—

(i) employees, officials or agents of Transnet; or

(ii) any other person or entity,

to corruptly or unduly benefit themselves or others; or

(d) fraudulent,

and any related unauthorised, irregular or fruitless and wasteful expenditure incurred by Transnet or the State.

7. Any undisclosed or unauthorised interests which employees, officials or agents of Transnet may have had in contractors, suppliers or service providers bidding for work or doing business with Transnet or to whom contracts were awarded by Transnet, and the extent of any actual or potential benefits derived directly or indirectly by such employees, officials or agents from such undisclosed or unauthorised interests.

8. Any unlawful or improper conduct by any person or entity, in relation to the allegations referred to in paragraphs 1 to 7 of this Schedule.

Annexure 2

Name of the contract	Contract number
Bombardier Transportation South Africa: 1064 contract for production of 240 locomotives and Relocation from Koedoespoort Transnet Engineering to Durban Transnet Engineering	TFRAC-HO-8608
China North Rail: 1064 contract for production of 233 locomotives and Manufacturing Facility Relocation for Class 45D Locomotives Supply Project	TFRAC-HO-8609
General Electric: Production of 1064 locomotives	TFRAC-HO-8609
China South Rail:A10 1064 contract for the production of 359 electric locomotives (CRRC E-Loco Supply: Locomotive Supply Agreement - Local partner)	TFRAC-HO-8608
McKinsey & Company Transaction advisory for 1064 Locomotives	GSM12/05/0447
Regiments Transaction advisory for 1064 Locomotives	GSM12/05/0447
Trillian Boutique Asset Management Company Transaction advisory for 1064 Locomotives	GSM12/05/0447
Trillian Financial Services	GSM15/03/1255
Regiments and then ceded to Trillian Capital Partners Contract for General Freight Business	GSM15/03/1255
Bex (advised CNR on relocation costs)	Subcontractor brought in by CNR to cost the relocation
IQEMBU CONSULTING	TE16-KLP-09M-3524
Zestilor contract cedeed from Systems	Cessions were made from T-Systems. No contract

Conflict of Interest Analysis of Transnet officials	N/A
SAP	One contract with Global Software Solution (GSS) - GSS 14/9/1140.
CSR E-Loco Supply (Pty) Ltd Maintenance of locomotives	GSM/15/7/1296
Neotel - Asset Buy back	GSM13/4/0722
Neotel - CCTV's Phase 1 and 2	GSM15/3/1249
Reconstruction, deepening, and lengthening of the Durban Contained terminal berths	The only number available was a 2122830/0618. Remember, this was a potential matter.
Sale of the old Durban airport	No contract number. Was a sale agreement.
Delinquent Director applications	N/A
KZN NMMP investigation - 1) IGS Consulting Engineers 2) WKS Construction	3342620.080M 3342620.075P 3342620.090M 3342620.067M
Liebher investigation	ICLM HQ 0947
Liebher investigation	ICLM - 0023
ZPMC	ICLM HQ 0762