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FINAL

20

PROCEEDINGS RESUME ON 27 NOVEMBER 2019

ADV MAHLAPE SELLO: The computers were giving technical problems this morning but we believe we have sorted it out.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: And are able to approach Mr Chabi's evidence in the manner that we had originally envisaged.

CHAIRPERSON: *Ja* okay.

ADV MAHLAPE SELLO: Thank you Chair.

CHAIRPERSON: Okay.

10 **ADV MAHLAPE SELLO:** Chair you will recall ...(intervenes).

CHAIRPERSON: I guess we will – I guess we will have to start afresh with his evidence.

ADV MAHLAPE SELLO: Yes I am going to make a suggestion in that regard.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: Subject of course to what the Chair.

CHAIRPERSON: *Ja, ja.*

ADV MAHLAPE SELLO: How the Chair views that.

CHAIRPERSON: *Ja.*

20 **ADV MAHLAPE SELLO:** Just to place on record for whoever will be reading this transcript in time to come mister – we presented Mr Chabi for the first time on the 29th of May 2019. And at the end of that day his testimony was postponed to a later date and that date in effect is today. At the point of presenting Mr Chabi he tendered a certain set of slides and with the leave of the Chair these were marked Exhibit BB8B.

BB8B, the slides, admitted into evidence are in respect of two transactions 1064 and transaction 100 respectively. There are two separate sets of slides. Following a request by the Chair for statements Mr Chabi has since now prepared a statement in each case for 1064 and 100 consistent with the slides to the extent possible and these are being submitted today. Chair we have placed before you a file. Because the statements directly relate to the exhibit we have sought to find a way to link the statements to the exhibit. We suggest therefore that the file also has – be marked Exhibit 8B except we suggest each
 10 statement in 10B – BB8B1 and BB8B2. And the file before the Chair should have both statements. They are divided – there is a divider in the file. The first divider would be marked 1 and that relates to the 1064 transaction. The second divider is marked 2 and that would be in respect of the 100 transaction.

CHAIRPERSON: Is 2 – does 2 have a yellow divider?

ADV MAHLAPE SELLO: Yes, yes. It has a ...(intervenes).

CHAIRPERSON: Oh no not on mine.

ADV MAHLAPE SELLO: Not on yours?

CHAIRPERSON: Yes. They must make sure what I have is exactly the
 20 same as what you have and what the witness has is exactly the same.

ADV MAHLAPE SELLO: Sometimes they run out of ...(intervenes).

CHAIRPERSON: Because you should – you should be able to say it is a white, yellow, blue divider.

ADV MAHLAPE SELLO: Divider.

CHAIRPERSON: And when I go there I must find that colour. You must

not have a yellow divider and I have a green divider.

ADV MAHLAPE SELLO: A green divider. We will bring that to the attention Chair.

CHAIRPERSON: So it just makes things easy because you see for example now I saw that the first divider number 1 is yellow. So I am looking for another yellow that has got 2.

ADV MAHLAPE SELLO: Oh.

CHAIRPERSON: Because that is how normally it goes. But actually you probably have a yellow number 2 and I got a green number 2.

10 **ADV MAHLAPE SELLO:** And it gets more interesting than that because I have a green number 1 and a yellow number 2.

CHAIRPERSON: You see.

ADV MAHLAPE SELLO: Yes Chair.

CHAIRPERSON: But the people who do these things might not appreciate the importance of these things. So they need to be told that the files must be exactly the same so that when we are looking for any document we have exactly the same thing.

ADV MAHLAPE SELLO: No we appreciate that Chair.

CHAIRPERSON: Ja.

20 **MR CHABI:** And we definitely will be communicating. So this mistake will not happen again.

CHAIRPERSON: Ja okay.

ADV MAHLAPE SELLO: For purposes of today the – and we will update your file accordingly.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: But most importantly you have got two dividers there one marked 1 and the other marked 2.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: So insofar as 1 is concerned if the Chair could just recall that is in respect of 1064. And 2 is in respect of 100.

CHAIRPERSON: *Ja okay.*

ADV MAHLAPE SELLO: And we will deal with each transaction in turn.

CHAIRPERSON: Yes okay, okay.

ADV MAHLAPE SELLO: Getting back then to the issue that the Chair
10 raised at the beginning of our presentation about how we intend to approach this.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: On the 29th of May when Mr Chabi first appeared he dealt with a preliminaries about himself, introduced himself, his background, professional qualifications and experience and he had started some of his actual evidence.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: If the Chair has regard to BB8B1.

CHAIRPERSON: H'mm.

20 **ADV MAHLAPE SELLO:** At page 1 that is where the statement starts.

CHAIRPERSON: H'mm.

MR CHABI: Those aspects are dealt with until page 5.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: Although he had started on his actual testimony – evidence before you.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: We suggest the following that it is not necessary for Mr Chabi to replace his qualifications and those issues on record as they already are on record.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: But we restart his actual evidence.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: Just so it is in a single transcript.

CHAIRPERSON: *Ja.* Yes no, no that is fine. That is fine. I – the
10 qualifications are already there.

ADV MAHLAPE SELLO: Yes Chair.

CHAIRPERSON: So I am quite happy with him starting afresh in regard to the evidence.

ADV MAHLAPE SELLO: In regard to the evidence.

CHAIRPERSON: *Ja. Ja.*

ADV MAHLAPE SELLO: Thank you Chair. And we propose to do so.

CHAIRPERSON: *Ja* okay.

ADV MAHLAPE SELLO: Just lastly Chair as it is custom perhaps you must admit the file into evidence with the proposed marking.

20 **CHAIRPERSON:** Yes. The file – lever arch file containing the statement by Mr Alister Ouemakoua Chabi is going to be admitted as Exhibit BB8 and what falls under 1 are his statement and certain annexures, is that right?

ADV MAHLAPE SELLO: Under 1 is statement and annexures in respect of 1064.

CHAIRPERSON: *Ja.* And under 2?

ADV MAHLAPE SELLO: And under 2 if his statement and relevant annexures in respect of 100.

CHAIRPERSON: Yes okay. Then his statement appearing from page 1 under divider 1 and the annexures that come after that but before divider 2 will be admitted as Exhibit BB8B1.

ADV MAHLAPE SELLO: Thank you Chair.

CHAIRPERSON: And his statement under divider 2 and the annexures thereto will be admitted as Exhibit BB8B2.

10 **ADV MAHLAPE SELLO:** Thank you Chair.

CHAIRPERSON: Did we get it right?

ADV MAHLAPE SELLO: We got it right.

CHAIRPERSON: Okay alright.

ADV MAHLAPE SELLO: Thank you Chair. If I may just mention then for the benefit of those who will read subsequently to distinguish the numbering.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: 1064 is numbered AOC1064 and page number. And that is then a bit to distinguish it from 100 which is numbered the
20 red numbering range there is AOC which are his initial 1001.

CHAIRPERSON: Yes remember ...(intervenes).

ADV MAHLAPE SELLO: So there is a middle number.

CHAIRPERSON: Yes. 1064 being the – being a reference to 1064 locomotives.

ADV MAHLAPE SELLO: Indeed.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: And 100 as well.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Yes Chair.

CHAIRPERSON: Okay thank you.

ADV MAHLAPE SELLO: Thank you Chair. Starting then with 1064.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: Before we do so we have not sworn in this –
the witness.

10 **CHAIRPERSON:** Yes well ...(intervenes).

ADV MAHLAPE SELLO: If I may request that the witness be sworn in?

CHAIRPERSON: We must administer the oath or affirmation first.

ADV MAHLAPE SELLO: .Yes.

REGISTRAR: Please state your full names for the record?

MR CHABI: My full name is Alister Ouemakoua Chabi.

REGISTRAR: Do you have any objection to taking the prescribed oath?

MR CHABI: I do not.

REGISTRAR: Do you consider the oath to be binding on your
conscience?

20 **MR CHABI:** I do.

CHAIRPERSON: Do you swear that the evidence you will give will be
the truth; the whole truth and nothing but the truth; if so please raise
your right hand and say, so help me God.

MR CHABI: So help me God.

ADV MAHLAPE SELLO: Thank you Chair.

CHAIRPERSON: Now Ms Sello I want us to begin this evidence in a certain way.

ADV MAHLAPE SELLO: Yes Chair.

CHAIRPERSON: Which I think will help me.

ADV MAHLAPE SELLO: Indeed.

CHAIRPERSON: I do not know about you. You might be an expert on this thing already.

ADV MAHLAPE SELLO: That would be the day.

CHAIRPERSON: So Mr Chabi I want you to listen to what I am say – I
10 am going to say. Ms Sello is also listening. I am going to tell you how
I would like us to start with your evidence and you can tell me if you
think we can do it that way from your point of view and Ms Sello will
say something if she wants to say something also. This is not so easy
to follow stuff. I am sure you are saying but this is nothing. It is
simple. It is a – it is – it has got its complexities for somebody who is
not in this field. Certainly for me but I would like to follow it. Now what
would help me is if were to start with you telling me what the general
principles are that apply when you do what you were asked to do
generally speaking. To say generally these are the principles that
20 would be applicable in this field if you are going to do this. This is
what this principle means, this is what this principle means, this is what
this principle means. And then once I understand the general
principles then when you go to the application of those principles to
what was before you – to what is before us then I would follow much
better. Now in your statement there are certain things that I see as

possibly principles. So let me make you an example from a lawyer's point of view. Let me make an example about employment or any contract. There would be two parties and the contract would talk about what they have agreed. Who will do what, who will do what, what are the rights and obligations of the parties. When do you have a breach of the contract and if there is a breach of the contract what does the other party – what rights does the other party have? What remedies does it have? When is there a breach, where is there no breach? Let me make an example in regard to the contract. The lawyers in the

10 room will understand this but you will understand the two. For example in the law of contract there is a principle which is the principle of reciprocity which means that in regard to certain matters in a contract if you are supposed to do something – a certain thing before I have to do something else or if you must do something for me before I can do something for you. If you do not do your part I am under no obligation to do my part. You understand that? So you cannot not fulfil your obligation but expect me to fulfil my obligation. If you do not fulfil your part you are in breach but I am not in breach by not doing my part because I am only in breach if you have done your part. You

20 understand that? Let me make you another example with contracts. If we have a contract and I want to terminate the contract there are two possibilities. I can terminate the contract by giving you a notice that says for example, I will terminate this contract on such and such a date and I give you about a month or three months depending what the contract says. That is the notice period. But I may also terminate the

contract summarily without giving you notice and say, with immediate effect this contract is cancelled. If as a general principle you are in breach – in a serious breach of the contract – call it a repudiation of the contract I can summarily cancel it. But if you are not in breach of the contract I must give you notice. You understand? So if you look at it from – if you look at – if I explained this to somebody who is not a lawyer then having explained this I can then say well let us go to the facts of this case. Okay was there a breach? No there was no breach so therefore there is supposed to have been a notice before the
10 contract was cancelled. Was there a breach? If there was a breach there was no obligation to give notice. It could be cancelled immediately. So if I understand those principles it is easier to then go and say okay what happened here? How does it fit into the general principles? And there may be exceptions that this is a general principle but there are exceptions. Now I do not know whether within your field it is possible to explain things like that but I would imagine that it ought to be possible. But I am not an actuary so I do not know. So tell me is this going to be easy or is it difficult or what do you think?

MR CHABI: Okay Chair so I am trying to marry I think the principles
20 you have just mentioned to what sort of consequences ...(intervenes).

ADV MAHLAPE SELLO: Sorry Mr Chabi please put the microphone closer towards you.

CHAIRPERSON: *Ja* I do not know what is happening I – maybe bring it closer.

ADV MAHLAPE SELLO: It is not ...(intervenes).

CHAIRPERSON: So I can hear you.

ADV MAHLAPE SELLO: Thank you.

MR CHABI: Is that?

ADV MAHLAPE SELLO: Ja.

MR CHABI: Okay great. Okay. So I tried to follow as you went along and tried to jot down notes. Would I be asking for much I asked about some of the terms you did not understand so I can go through that at a high level?

CHAIRPERSON: Well certainly one of things that I would like you to do
10 is to say, here are terms that I will be using in my evidence which are important to understand.

MR CHABI: Okay.

CHAIRPERSON: In order to follow the evidence. I mean like in my example of a contract and talking about repudiation I would explain what repudiation means and I would explain what summary termination of a contract means. That kind of thing. So if we have the ex – and explanation of those important terms then it helps also to understand because one can – as the evidence proceeds one can go back and say okay this is what this one means.

20 **MR CHABI:** Okay. Okay Chair that is – I think I understand you. I have off the top of my head picked up a few terms that I think will be pertinent in this submission and I think some of them are ETC.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: Chair.

MR CHABI: One of the main ...(intervenes).

ADV MAHLAPE SELLO: If I may?

CHAIRPERSON: Yes, yes. What is your input here? Give me your input?

ADV MAHLAPE SELLO: It is not so much input. One thing I still have to make – to do.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Place on record Mr Chabi has to confirm that this is his statement.

CHAIRPERSON: Yes.

10 **ADV MAHLAPE SELLO:** And that he stands by it because now we have gone into the statement itself.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: That is the one aspect we had not done.

CHAIRPERSON: Yes, no, no I do not want him to go there. I was just ...(intervenes).

ADV MAHLAPE SELLO: Because he was beginning to answer you – to answer.

CHAIRPERSON: *Ja ja* I do not want you to start explaining any terms.

MR CHABI: Okay.

20 **CHAIRPERSON:** I just wanted to find out whether having heard what I have said you think for you it would be easy to do that or not, that is what I wanted. Then once we are done then we can start.

ADV MAHLAPE SELLO: Yes.

MR CHABI: I think I can explain a few of the terms used in the business in the submission yes I can Chair.

CHAIRPERSON: It is doable?

MR CHABI: It is doable.

CHAIRPERSON: Okay alright. And how do you feel about it?

ADV MAHLAPE SELLO: Chair it may ...(intervenes).

CHAIRPERSON: Oh you think we are in actuary 101 and you are already in 103.

ADV MAHLAPE SELLO: Or 001.

CHAIRPERSON: I am 0.

ADV MAHLAPE SELLO: Chair I think the structure of the statement we
10 have attempted to capture in part what the Chair is suggesting and –
and perhaps as I speak Mr Chabi may apply his mind to it. We are
going to work through his evidence in two ways. We are going to work
through the slides which summarise the key parts of his evidence. And
then with the slide up on the screen we then work through the detail of
what is on the screen item by item. We have in the statement set out
what his mandate was. What he understood his mandate to be and
then we have said – that is followed by a fairly detailed methodology.
My view is that in dealing with those two issues him – he would begin
to develop this glossary of terms that will be important and will
20 consistently applied throughout the statement. So that is why I say
somewhere between. The statement and what the Chair is suggesting
might just answer the Chair's question or concern.

CHAIRPERSON: Yes. No that is fine. But that explanation of important
terms at the beginning is important even before you go into much. Just
– it may be that it will not be. It does not have to be all the terms that

we will come across during the course of your evidence but certain important ones and then when – we move on.

ADV MAHLAPE SELLO: And I think Chair Ms Molefe will keep a running list for us here.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: Of the terms and how Mr Chabi defines them.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: And we will type them out and in time update the Chair's file.

10 **CHAIRPERSON:** *Ja.*

ADV MAHLAPE SELLO: With this glossary of terms.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: So as we go along then perhaps as we come across a term.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: Then we will help define it before we deal with it.

CHAIRPERSON: *Ja.* No that is fine. As long as the important ones you start with that and deal with them after you have confirmed give me
20 those and then the list will not be exhaustive as you would go on and more come up then you can deal with them and explain them as we go along. But certain important ones I think it is important for us to do it that way.

ADV MAHLAPE SELLO: Indeed Chair. Now if I may then ...*(intervenes)*.

CHAIRPERSON: Okay. Maybe by – maybe if you are a good teacher Mr Chabi by the end of today we will be ready for actuary 103.

ADV MAHLAPE SELLO: We will be. Just to check with Mr Chabi through you Chair?

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Whether he understood the request regarding the principles applicable? Would you be able off the top of your head before we go into the detail of 1064 and 100 to deal at – in high level with those principles for the Chair?

10 **MR CHABI:** I picked up a few pertinent ones.

ADV MAHLAPE SELLO: Okay.

MR CHABI: I thought were pertinent. I can list them and then you can ...(intervenes).

ADV MAHLAPE SELLO: You will be able to deal with them.

MR CHABI: Tell me if they are sufficient.

ADV MAHLAPE SELLO: Okay. No then we will.

CHAIRPERSON: Okay. Let them switch off the air conditioner. When you speak.

ADV MAHLAPE SELLO: His voice.

20 **CHAIRPERSON:** I do not hear you as clearly as I should and I do not know if it is the air conditioner. So but they will switch it for now.

ADV MAHLAPE SELLO: May I suggest – there are some files to your left Mr Chabi please take one and put the microphone on the file then perhaps we raise the microphone that might improve audibility. I am not promising it will. And then raise the microphone such that at least

– pull it closer to you – raise it.

MR CHABI: Am I audible now?

ADV MAHLAPE SELLO: Not as much.

CHAIRPERSON: Just say something again?

MR CHABI: Hello.

ADV MAHLAPE SELLO: Can I – may I enquire from the technicians whether there is something we can ...(intervenes).

CHAIRPERSON: *Ja* let – can the technicians – do the technicians know if everything is perfect.

10 **ADV MAHLAPE SELLO:** The technicians ...(intervenes).

CHAIRPERSON: They say everything is perfect technically.

ADV MAHLAPE SELLO: I think this is the best they can do. So perhaps Mr Chabi from time to time I will request you to raise your voice.

MR CHABI: Okay.

ADV MAHLAPE SELLO: And you – I think you can pull the microphone closer to you as well. You need to be comfortable. You are going to be in that chair for quite some time.

CHAIRPERSON: Yes.

20 **MR CHABI:** Does that work better?

ADV MAHLAPE SELLO: *Ja*.

CHAIRPERSON: I think move it a little – away a little bit. I think it is too close.

MR CHABI: A bit more. And now?

CHAIRPERSON: I think that seems better.

MR CHABI: Okay.

ADV MAHLAPE SELLO: The message we get back from the technicians is that the air conditioning is interfering with the sound so perhaps it is better switched off.

CHAIRPERSON: Well I asked them to switch it off.

ADV MAHLAPE SELLO: Should it become unbearably hot we will switch it on again.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Thank you Chair.

10 **CHAIRPERSON:** Okay alright.

ADV MAHLAPE SELLO: Now we are ready to start. Mr Chabi you have to your left a file. If you look at the spine it is written Exhibit BB8B1 And Exhibit BB8B2. Right?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Now you heard my discussion with the Chair that file is divided in two parts. The first part is under tab 1 and the second part is under tab 2. Now let us start with tab 1.

CHAIRPERSON: Ms Sello I just want to say this because I have been reminded of it.

20 **ADV MAHLAPE SELLO:** Yes Chair.

CHAIRPERSON: You know I think the Legal Team should try and make sure that all files – lever arch files that we – that are handed up on the outside – on the spine.

ADV MAHLAPE SELLO: They identify the transaction.

CHAIRPERSON: They are written what work stream. Like this one

should have Transnet. So when there are 50 files I can know these are Transnet's so I do not have to look at any one of them if I am looking for Denel file.

ADV MAHLAPE SELLO: Indeed.

CHAIRPERSON: A Denel file. So Transnet, Denel, Eskom. Ja because otherwise sometimes I might not remember that Mr Chabi gave evidence in regard to Transnet many months from now.

ADV MAHLAPE SELLO: Indeed Chair. No we fully understand.

CHAIRPERSON: Ja.

10 **ADV MAHLAPE SELLO:** We will update the spine.

CHAIRPERSON: And share the information with the Legal Team.

ADV MAHLAPE SELLO: Yes and I will – we will.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: Circulate that Chair thank you. Now at tab 1 there is a pile of documents there. If you turn to page 1 under that tab. Do you find it? There is a document that runs up to page 50. Now you – do you confirm that that is the statement you preferred?

CHAIRPERSON: Please switch on your microphone.

ADV MAHLAPE SELLO: Oh yes.

20 **CHAIRPERSON:** Ja.

ADV MAHLAPE SELLO: And before I forget you can keep your microphone on it does not interfere with the other microphones.

MR CHABI: Thank you.

ADV MAHLAPE SELLO: Yes. So it runs up to page 50. Do you confirm that is the statement you prepared for the Commission?

MR CHABI: I do.

ADV MAHLAPE SELLO: Okay. And the signature appearing at 50 is our signature?

MR CHABI: It is.

ADV MAHLAPE SELLO: That statement has got five annexures to it and that will run to just before tab 2. They are flagged 1 to 5.

CHAIRPERSON: Actually the statement if an affidavit I see at the end.

ADV MAHLAPE SELLO: Correct so.

CHAIRPERSON: Yes.

10 **ADV MAHLAPE SELLO:** It has been commissioned. It is an actual affidavit.

CHAIRPERSON: Yes, yes. *Ja*. H'mm.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Happy.

ADV MAHLAPE SELLO: And you confirm that those are the annexures to your statement?

MR CHABI: I do.

ADV MAHLAPE SELLO: You stand by what is stated in the statement?

MR CHABI: I do.

20 **ADV MAHLAPE SELLO:** Are there any changes – significant amendments and changes you would like to make to the statement at this time before it is fully admitted or are you happy with it barring perhaps a typographical error here or?

MR CHABI: At this point no.

ADV MAHLAPE SELLO: You are happy with the statement? Okay.

Then with that confirmation the Chair permitted that you do not deal with matters set out in paragraphs 1.1 to 1.14. This speaks to your qualifications, your experience and the like because those had – you previously placed on record when you appeared on the 29th of May, you recall that?

MR CHABI: I do.

ADV MAHLAPE SELLO: So by right our plan was to start from page 5 under item 2 and the heading is Mandate. Okay. But before we do so the Chair has made a request to you. The first is to highlight the key
10 principles that are applicable in the exercise that you conducted and the second would be to identify those key terms that are relevant to our discussion today. So let us start with the principles.

MR CHABI: Okay. Thanks Advocate. So Chair just a few words I have picked up for purposes of definition are ETC. ETC I think that occurs a number of times within the statement. NPV and ...(intervenes).

CHAIRPERSON: ETC?

MR CHABI: ETC.

CHAIRPERSON: Yes. *Ja*.

MR CHABI: It appears

20 **ADV MAHLAPE SELLO:** May I just interject. I had said we start with principles it sounds like you are dealing with terms.

MR CHABI: Terms Correct.

ADV MAHLAPE SELLO: Okay I am happy that you do so just for the record to be clear.

CHAIRPERSON: Yes.

MR CHABI: You are first dealing with terms.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Then we will get to the principles thereafter.

CHAIRPERSON: Okay.

MR CHABI: Well I took terms to be ...(intervenes).

ADV MAHLAPE SELLO: The principles.

MR CHABI: The principles in this instance yes. And the Chair.

CHAIRPERSON: I do not know whether it is your voice. May it is not the – maybe it is your voice. Maybe you need to speak a little slower.

10 I am not sure and a little louder. Maybe this microphone does not want me to hear what you have to say.

MR CHABI: Okay.

CHAIRPERSON: So let – *ja*. Let – try – let us see how it goes.

MR CHABI: How it goes. Okay.

CHAIRPERSON: *Ja.*

MR CHABI: So I took terms to mean principles in this instance, because as to my understanding I think the difficulty is around the terms used in the business case. What do these terms actually mean?

CHAIRPERSON: Well you need to explain the essential important
20 terms, but I also would like you to say these are the principles and it may be that the terms that are important to understand are linked to certain principles and if that is the case. It is – you are welcome to say well ETC this is what it stands for.

There are some – there is some principle or a principle that is connected with it and this is what I will – what it is and so on. So how

you deal with it I want to give you flexibility. As long as in the end I have got that.

MR CHABI: Okay.

CHAIRPERSON: *Ja.*

MR CHABI: So I hope the principles come out as I define the terms.

ADV MAHLAPE SELLO: Okay.

MR CHABI: Hopefully will. Okay. So the terms I have picked up are ETC. NPV being Net Present Value. Escalation. That appears also quite a number of times in the document. Forex Hedging. So foreign
10 currency risk hedging. I think ...(indistinct) maybe another.

ADV MAHLAPE SELLO: Okay. Then just briefly speak to each one of them.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Starting with ETC.

MR CHABI: Okay. I like to mention that as we carry on with the statement I will continue to emphasise the definition.

CHAIRPERSON: Yes. Well what – whatever you have done now is working, because I can hear you quite well now.

MR CHABI: Okay.

20 **CHAIRPERSON:** So stick to it.

MR CHABI: Alright Chair. Okay. So starting off with ETC. What is ETC? It stands for Estimated Total Cost. In very simple terms and one of the slides speak to it. It is the summation ...(intervenes).

CHAIRPERSON: Sorry. Estimated ...(intervenes).

MR CHABI: Total ...(intervenes).

CHAIRPERSON: Total Cost.

MR CHABI: Cost.

CHAIRPERSON: Yes.

MR CHABI: It is the total or the sum of the cost of acquiring locomotives in each of the years over the delivery period. It could be five, six, seven years. In this instance in the business case it was seven years. So each year in those seven years there was a cost to requiring locomotives. ETC simply takes the summation of those costs.

CHAIRPERSON: If the locomotives were to be acquired all at the same
10 time is the position that you would not have ETC, because you would not have to estimate anything. You would have total cost and you would know what they are, because you are talking about acquiring the locomotives. You know how many there are.

You know how much each is. You know on what date you will receive them. Delivery will happen. You know what the transport costs will be for them to be transported from China or wherever to South Africa. Therefore you will know total – the total cost and not an estimated cost. Is it – would that be correct to understand it that way?

MR CHABI: Okay. So if the locomotives had to be acquired all at the
20 same time you would still have ETC. Reason being in the business case assumptions had to be made about the price of the diesel and the electric locomotive. That the assumptions on the price the OEM's would charge. OEM in this instance being Oral Equipment Manufacturer. So it is still an estimate because you do not know at the time of writing the business case what the manufacturers would charge

you for the locomotives.

CHAIRPERSON: Because there is the process of manufacturing?

MR CHABI: Not because they in the process of manufacturing, but because you – they have not given you a price for the locomotives. So you would only know at contract stage. I would say. What they are actually charging you per locomotive.

CHAIRPERSON: If – but ETC would not apply to something that you can go and buy and take delivery of immediately?

MR CHABI: It should not. No.

10 **CHAIRPERSON**: It should not?

MR CHABI: You would know a cost if you can actually go out ... (intervenes).

CHAIRPERSON: *Ja*, because you look and you see what the ... (intervenes).

MR CHABI: The cost is.

CHAIRPERSON: What the cost – the price is. Maybe it is something that will require you to hire a certain mode of transport to take you to your factory or home. You then know what the cost of taking that will be and if that were to be the case would that come under total cost as

20 well or would total cost be limited to the purchase price?

MR CHABI: Purchase price.

CHAIRPERSON: H'mm.

MR CHABI: It will be limited to the purchase price.

CHAIRPERSON: You would include it?

MR CHABI: No. No. Total cost in this instance ... (intervenes).

CHAIRPERSON: *Ja.*

MR CHABI: Would be limited to the purchase price.

CHAIRPERSON: Oh. Okay. Okay. Okay.

MR CHABI: So we actually cover those details as you look through the model.

CHAIRPERSON: Yes.

MR CHABI: Looking at where ETC actually falls in the whole list of costs.

CHAIRPERSON: Yes. It may be that I am thinking of something else in
10 your statement. I think which has got ownership costs ...(intervenes).

MR CHABI: Right.

CHAIRPERSON: And so on.

MR CHABI: Total Cost Ownership. Yes.

CHAIRPERSON: *Ja.*

MR CHABI: That is ETC ...(intervenes).

CHAIRPERSON: Yes.

MR CHABI: Including other costs.

CHAIRPERSON: Okay, because maybe when we come to that and you
talk about that at the right time. As I was thinking about it if I have to
20 go and buy a certain article which requires me to hire a special vehicle
that must take it to my factory. Then in order for me to own that article
and be able to use it I have to incur the transport cost to take it from
where I bought it to where I need to use it.

MR CHABI: Correct. So the cost of operationalising ...(intervenes).

CHAIRPERSON: *Ja.*

MR CHABI: The equipment.

CHAIRPERSON: *Ja.*

MR CHABI: Does not form part of the ETC.

CHAIRPERSON: Oh. Okay.

MR CHABI: Yes.

CHAIRPERSON: No. Thank you. Yes. You may continue.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Thank you Chair. You may continue Mr Chabi and perhaps at this juncture following on the Chair's questions. You
10 might want to very briefly tabulate those factors that make up ETC.

MR CHABI: Okay. So ETC as we will discuss as well again later – is the purchase price of the locomotive. Inflation on the price.

CHAIRPERSON: What on the price?

MR CHABI: Inflation on the price.

CHAIRPERSON: Okay.

MR CHABI: In fact that is what we refer to as escalation in the statement. Okay. So escalation is synonymous with inflation in this instance. Foreign currency hedging costs and contingencies. So essentially those four items make up ETC. In the business case you
20 have a 2% localisation premium. That is included as part of the locomotive price.

ADV MAHLAPE SELLO: Okay. Thank you. So now you have defined ETC.

MR CHABI: And in part escalation I suppose – inflation.

ADV MAHLAPE SELLO: Okay and you have said your next was

escalation which you said that is synonymous with inflation?

CHAIRPERSON: Yes.

MR CHABI: Correct, it is probably just inflation on the price that would have been quoted earlier.

CHAIRPERSON: Yes.

MR CHABI: So the price today is not the price a year from today ... (intervenes).

CHAIRPERSON: Yes.

MR CHABI: And that difference is what we refer to as inflation. In
10 most instances we get price increases and not price decreases.

ADV MAHLAPE SELLO: You mentioned NPV.

MR CHABI: NPV and I think before I go into NPV. It is important to discuss what PV is. Which is simply Present Value. It is the value – it is the current value. The value in today's terms. As I mentioned earlier the price today is not the price in a year's time. However the price in a year's time can be discounted to give you a price today.

If that makes sense and it is discounted at a certain rate. That rate is termed the discount rate and normally with projects it is determined from a detailed risk assessment of the project. So you
20 assess the risk within the project and you arrive at a discount rate to quantify that risk and that discount which is then used to bring your cash flows back to current terms. In the case of the business – in the instance of the business case it is 18 April 2013.

CHAIRPERSON: H'mm.

MR CHABI: So if we talk about Present Value in the context of the

business case. We are referring to 18 April 2013.

CHAIRPERSON: H'mm. H'mm. Okay.

ADV MAHLAPE SELLO: And when we talk of the NPV and please state what NPV stands for in full.

MR CHABI: Okay. So NPV stands for Net Present Value. In very simple terms it is – gives an idea of the profit you are likely to make on the project. So you value your income or shall I say your revenue in today's terms and so that is the Present Value of everything you expect to receive from the project. Okay. All cash flow that is coming in.

10 You also value your expenses in present value terms and by Present Value terms I mean 18 April 2013 in the cost of the business case. The difference between the two gives your Net Present Value. So it is essentially the present value of your revenue net the Present Value of your costs and it gives an idea of your profit.

ADV MAHLAPE SELLO: Okay. Then you made mention of Forex Hedging.

MR CHABI: Okay. So hedging essentially is a transaction you undertake to eliminate risk. I can then also talk about partial elimination and so forth, but in the context of Transnet.

20 **CHAIRPERSON:** I am sorry Mr Chabi. Can you speak a little away from the ...(intervenes).

MR CHABI: The mic.

CHAIRPERSON: The mic.

MR CHABI: Okay.

CHAIRPERSON: I want to see when it is that I hear you quite well and

when it is that I cannot ...(intervenes).

MR CHABI: You cannot hear me.

CHAIRPERSON: Hear you so well.

MR CHABI: Is it better now?

CHAIRPERSON: Just sitting from that distance. Let me hear.

MR CHABI: Is it better now?

CHAIRPERSON: I think it is better. *Ja*.

MR CHABI: It is better. Okay.

CHAIRPERSON: *Ja*.

- 10 **MR CHABI**: Alright. I think I was on Foreign Currency Hedging. Okay.
So hedging essentially allows you to eliminate ...(intervenes).

CHAIRPERSON: *Ja*. That is certainly better, you can leave that distance. *Ja*.

MR CHABI: So hedging simply implies elimination of risk. In the cost – context of Transnet it is elimination of risk and now we are talking about foreign currency risk hedging. So a transaction undertaken to eliminate foreign currency risk. In the sense that you do not want to subject yourselves to fluctuations in the foreign currency in the future. So you want to be – sorry.

- 20 **CHAIRPERSON**: So it is protection against risk?

MR CHABI: Correct. It is insurance.

CHAIRPERSON: *Ja*. Okay.

ADV MAHLAPE SELLO: Against fluctuation in foreign – in exchange rate?

MR CHABI: In exchange rate risk. So you know today what you are

going to pay for that currency in a year's time in two years' time in three years' time and so forth. That is the point of hedging. So if you hedge you are getting rid of your upside. In other words if the currency does well you do not benefit from it. If it does poorly you also do not suffer from it.

ADV MAHLAPE SELLO: Alright. So the – so far we have got the four definitions. Any other term you can think of currently that perhaps you might want to highlight?

10 **MR CHABI:** I think at this point not, but as we carry on if they come up.

CHAIRPERSON: Yes. Okay.

MR CHABI: Then we can deal with them.

CHAIRPERSON: Okay. That is fine.

ADV MAHLAPE SELLO: Chair now turning to you if I may. I do not know whether what we have just done in part answers the question the issue of principles that the Chair posed or perhaps those will be clarified as we go along.

CHAIRPERSON: I suspect it does not, because it is just an explanation of the terms.

20 **ADV MAHLAPE SELLO:** Yes.

CHAIRPERSON: Without saying it comes about because there is this principle or this term arises because of this problem and the principle that applies in regard to this problem is the following. So – but I do not want to make anything difficult. If from your point of view you think there are some principles that you can deal with now or it is easy to

deal with them as we go along. That is fine. What – how do you feel?

MR CHABI: So I will opt with then for dealing along – well
...(intervenes).

CHAIRPERSON: Yes.

MR CHABI: Dealing with them as we go along.

CHAIRPERSON: Okay. Alright.

MR CHABI: That is fine Chair.

ADV MAHLAPE SELLO: Then I would suggest Chair with your leave
that we deal with the mandate and the methodology and we take stock
10 thereafter ...(intervenes).

CHAIRPERSON: Yes. Okay.

ADV MAHLAPE SELLO: And see whether we have been able to
...(intervenes).

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Clarify any pertinent ...(intervenes).

CHAIRPERSON: Yes. Yes. Okay.

ADV MAHLAPE SELLO: For that purpose Chair I would request that
you turn to page 5 of the statement at paragraph 2 and have open next
to you if you may Chair the presentation, slide 2.

20 **CHAIRPERSON:** Is that going to be here?

ADV MAHLAPE SELLO: Yes. It is BB8B.

CHAIRPERSON: Did I not confuse things when I was admitting this.

ADV MAHLAPE SELLO: We indicated that BB8B are the slides.

CHAIRPERSON: Oh. Okay.

ADV MAHLAPE SELLO: Then we have ...(intervenes).

CHAIRPERSON: This is one and two.

ADV MAHLAPE SELLO: One and two.

CHAIRPERSON: Yes. Okay, but has this been admitted previously?

ADV MAHLAPE SELLO: It was admitted ...(intervenes).

CHAIRPERSON: Oh.

ADV MAHLAPE SELLO: On the 29th of May.

CHAIRPERSON: Okay. Okay. So I go to page 5 of the statement, but I have available to me – I have to look at what page of ...(intervenes).

ADV MAHLAPE SELLO: *Ja*. We will be working ...(intervenes).

10 **CHAIRPERSON:** Slides.

ADV MAHLAPE SELLO: But currently what is at ...(intervenes).

CHAIRPERSON: Two?

ADV MAHLAPE SELLO: Page – what is at page 5 of the statement paragraph 2 is the mandate.

CHAIRPERSON: *Ja*.

20 **ADV MAHLAPE SELLO:** And perhaps as we speak through the mandate we might be able to clarify some of the principles. Please have regard to your paragraph 2 at page 5 Mr Chabi. You set out under paragraph 2 the mandate that you had obtained with MNS. Can we deal with what specifically you were required to do and we do in respect of each issue you were requested to look into?

MR CHABI: Certainly Advocate.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Shall I take you through the mandate?

ADV MAHLAPE SELLO: Yes please. Let us talk of your mandate. We

can cross refer to your original mandate, which is also an annexure to your statement, but let us just talk about the mandate. What were you – what was required of you to do?

MR CHABI: Okay. So maybe some context I suppose is ...(intervenes).

ADV MAHLAPE SELLO: Yes.

MR CHABI: Important here and we will deal with it a bit later. I suppose when we look at the increase in ETC. So a memorandum was presented to the Transnet Board of Directors on the 23rd of May 2014.

10 In justifying or requesting an increase in the ETC from 38.6 billion to 54.5 billion.

So there were reasons set out and quantum's laid out next to those reasons to explain – to justify the R15.9 billion increase in ETC. So MNS in the course of its investigations asked all five holdings to look through the reasons put forward. Assess those reasons for reasonability. Look through the quantum's set out next to the reasons. Also assess those quanta for reasonability and not only that. To go back to that 38.6 billion and determine ...(intervenes).

CHAIRPERSON: Just raise your voice again and move – maybe you
20 can move the mic a little bit further from you. I know we said you must bring it closer, but each time I am gaging when I cannot hear you well. So – *ja*. If you can then just speak a little bit away, but raise your voice again.

MR CHABI: Okay. So just carrying on. MNS then asked us in addition to the reasons put forward for the increase and the quantum's put – set

out next to those reasons to go back to the 38.6 billion. So that was – that is 30 – the initial ETC presented to the board and assess – well determine if that ETC of 30.6 billion is reasonable – is justifiable. So in other words looking through the variables.

Looking through the assumptions and I suppose at this point I should explain what variables and assumptions are. A variable is any quantity that can take any – that varies. Actually it is pretty much that. So in this instance when you are looking at revenue. Revenue is set in subcomponents. You have to make assumptions on those components.

10 For example the tariff. We will speak to that a bit later. That is a variable, because that number can be anything. In fact it varies from year to year as we will see. The volumes are also a variable. They change from year to year. Okay. So when we talk about variables we talk about those line items. Okay. So we look at revenue and revenue has its own set of variables.

Costs also have their own sets of variables. Escalation is also a variable in this instance. Forex Hedging is also a variable, because Forex hedge changes depending when you actually contract or decide to hedge. I think that is a better term. So the mandate was to
20 go and look at those variables within the 38.6 billion business case. Well the business case relating to that ETC.

Assess those variables for reasonability. The assumption is the value you assign to the variable. So inflation being a variable. The assumption is the rate that you plug into that variable. 5% would be the assumption in this instance if five percent is the rate that you

assigned to inflation. So that is the difference between variable and assumption in this instance. So we are required to assess both.

ADV MAHLAPE SELLO: So then you are informed and are given supporting documentation that the board approved 38.6 billion ETC?

MR CHABI: Correct Advocate.

ADV MAHLAPE SELLO: You are requested to evaluate that ETC ... (intervenes).

MR CHABI: Correct.

ADV MAHLAPE SELLO: And you test the reasonability of the variables
10 and the assumptions of the 38.6 billion?

MR CHABI: Correct.

ADV MAHLAPE SELLO: To confirm or otherwise that the values attached to every factor that make up 38.6 billion are reasonable and are correct?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Having done that you are then requested to compare that 38.6 billion ETC with the newly approved ETC of 54 billion?

MR CHABI: Correct.

20 **ADV MAHLAPE SELLO:** And conduct the same exercise in respect of 54 billion?

MR CHABI: Correct.

ADV MAHLAPE SELLO: As you did with the 36 – 38.6 billion ETC and express a view therefore whether the difference being 15.4 billion was justified - 15.9 billion was justified in the circumstances?

MR CHABI: Billion. Yes.

ADV MAHLAPE SELLO: Thank you. That was your mandate?

MR CHABI: That was the mandate. Yes.

ADV MAHLAPE SELLO: Now at paragraph 2.2 overleaf at page 6 you then introduce another transaction and this is the 100. You do confirm that Annexure AC1 is your written mandate from MNS and your AC1 will appear at page 51?

MR CHABI: Correct Advocate.

ADV MAHLAPE SELLO: Now a reading of AC1 would seem to indicate
10 that that particular written mandate is in respect of 1064 only?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Now at your paragraph 2.2 you now speak of
...(intervenes).

CHAIRPERSON: I am sorry. I am sorry.

ADV MAHLAPE SELLO: Yes Chair.

CHAIRPERSON: When you said AC1. It is ...(intervenes).

ADV MAHLAPE SELLO: It is Annexure AC1.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Apologies. Annexure AC1.

20 **CHAIRPERSON:** Later on you said when you read AC1. It sounded
like 81. So I was wondering

ADV MAHLAPE SELLO: I should remember to say ...(intervenes).

CHAIRPERSON: The page is 52. Okay.

ADV MAHLAPE SELLO: Annexure AC1 at page ...(intervenes).

CHAIRPERSON: I do not what the technology is doing to us today.

Yes. Okay. Yes.

ADV MAHLAPE SELLO: And that is at page 52.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: As the Chair points out.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: The point I was making to Mr Chabi is that Annexure AC1 that written mandate is specific to the 1064 transaction. At his statement paragraph 2.2 he however introduces the other transaction and I would like him to explain ...(intervenes).

10 **CHAIRPERSON:** *Ja.*

ADV MAHLAPE SELLO: What he would like the Chair to understand by ...(intervenes).

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: What is set out in paragraph 2.2?

MR CHABI: Okay. So during MNS' investigation of the 1064 locomotive transaction they came across the 100 locomotive transaction. If that is the right ...(intervenes).

CHAIRPERSON: Has it become ...(intervenes).

ADV MAHLAPE SELLO: Inaudible again.

20 **MR CHABI:** Horrible.

CHAIRPERSON: Hot? Is it hot?

MR CHABI: It is getting hot.

CHAIRPERSON: Is that so?

MR CHABI: It is okay. It is fine.

CHAIRPERSON: With your jacket off it is manageable.

MR CHABI: It should be fine. Yes.

CHAIRPERSON: Okay. Alright. Ja. No. It is just that when the air conditioner is on. It makes ...(intervenes).

MR CHABI: It interferes with the ...(intervenes).

CHAIRPERSON: It is more difficult to hear you.

MR CHABI: Okay.

CHAIRPERSON: But we see as we go if it becomes too hot for everyone.

ADV MAHLAPE SELLO: Chair it would appear it is okay for everybody.

10 It must have something to do with that seat.

MR CHABI: It is the seat.

CHAIRPERSON: Yes.

MR CHABI: Okay. So during MNS' investigation of the 1064 locomotives transaction they came across the 100 and I think that was added onto their mandate from Transnet. They then asked us as ALL5 Holding to looking into the 100 with the same mandate from the 1064. However the validation of the initial ETC was not part of the mandate – of the 100 locomotives mandate.

20 So if I can clarify that. With the 1064 locomotives we had to validate the 38.6 billion and then look at the increase. With the 100 the mandate was to look at the increase and not validate the initial 3.8 billion.

ADV MAHLAPE SELLO: And this you call the extension of the mandate and it is correct to say that that was – that extension was not in writing?

MR CHABI: It was not.

ADV MAHLAPE SELLO: It was verbal. Communicated directly to you?

MR CHABI: Correct.

ADV MAHLAPE SELLO: By a partner of MNS?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And you confirm that you understood the mandate correctly?

MR CHABI: I believe I do.

ADV MAHLAPE SELLO: And you have since ...(intervenes).

10 **MR CHABI:** I did. Sorry.

ADV MAHLAPE SELLO: You have since submitted a report specific to that mandate?

MR CHABI: I did.

ADV MAHLAPE SELLO: Thank you. You proceed then and you suggest that you will deal with each transaction in turn at your paragraph 2.3. Now we are dealing specifically with 1064. We will come back at a later point to come deal with 100. You have set out in very brief terms the methodology that you employed in this investigation or in both investigations in fact and this you set out in
20 your paragraph 3. Without necessarily reading everything that you set out in paragraph 3 please highlight the key aspects of the methodology.

MR CHABI: So methodology here simply refers to the information that we used to assist us in the investigation and the exercises that we conducted to test our own analysis of the work that we undertook. So we got a range of documents from MNS to assist us with this financial

investigation. Some of them being the best and final offer price letters.

The various memoranda that appear – memorandums that were relevant to the business case – the various business cases as well and other reports produced by the Transnet Officials while assessing the transaction with the OEM's. We also had to source information of course outside of MNS and Transnet to validate the assumptions to the variables applied within the business case and some of those – well the sides from which you sourced information include the South African Reserve Bank.

10 I mean you have got the US Labour – Bureau for Labour Statistics being another. The OECD websites and so forth. Thomson Reuters being a financial depository. We then had to – not had to, but we then decided to benchmark. The approach taken to mauling the various components with what would normally be done in the industry to see if – to determine if our approach was actually correct and defensible.

We also had to have our work reviewed by an external party. As is required by the profession. One of the standards speak to that. That your work gets reviewed by somebody you deem to have the
20 relevant knowledge, expertise, experience to review your work. Okay and we also had to conduct – we also approached the market particularly around the foreign currency hedging.

So the Forex curve and we will look at that a little later to determine whether the curve that Transnet applied at the time was what the market will have offered. So in other words whether Forex Hedging

was applied or not.

ADV MAHLAPE SELLO: Now if I may ask you about benchmarking. Whose work did you benchmark. Is it your work or is it the business case that was developed by Transnet? What did you subject to benchmarking in this instance?

MR CHABI: My work.

ADV MAHLAPE SELLO: Your own work?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Now – then you made mention of peer review.

10 It – your statement does not state, but what was the outcome of that exercise – of that peer review?

MR CHABI: Well it was signed off. There were a few changes from the reviewer in the results that I obtained. None to the input. None to the methodology, but the results. Yes.

ADV MAHLAPE SELLO: So would it be correct to conclude that a sign off following a peer review is support for your methodology and conclusions as contained in your documentation or in your report?

MR CHABI: Correct.

20 **ADV MAHLAPE SELLO:** Okay, you then very briefly before you deal with the detail of the issues you were requested to investigate you provide a summary of findings, okay and that you deal with from your paragraph 4, because it is going to get a bit technical and at times hairy when you deal with the detail, it might be worth our while to look at your mandate, every aspect of your mandate and then we have a sense of what your findings were in relation to each mandate, then we

will come deal with how you arrived at that finding, okay.

Now as we said your first mandate was as set-out at your paragraph 2.1.1 and you say it was to assist the reasonability of the variables and assumptions used in modelling the 18 April 2013 business case, you see that? Now what was your finding in that regard, in very brief terms?

MR CHABI: Okay so we were happy with the variables and assumptions used within the business case, there were I suppose minor changes, we would have matched the model but those changes did not
 10 invalidate the outcome of the business case, I guess the result would not have been materially different to what was presented to the Board, so we were overall happy with the variables and assumptions.

ADV MAHLAPE SELLO: And that finding – sorry – and that finding you make at paragraph 4.1.1.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Correct, okay. Your next then was to assess the accuracy of the ETC of R38.6 billion, and what was the outcome of that?

MR CHABI: We were happy with the ETC of R38.6 billion.

20 **ADV MAHLAPE SELLO:** So you satisfied yourself that the manner in which the ETC of R38.6 billion was calculated and computed was correct?

MR CHABI: So we were – given the definition of what ETC is, it's just a summation of the costs for the various units we were happy that the ETC provided an acceptable price for the acquisition of the

locomotives.

ADV MAHLAPE SELLO: So the R38.6 billion therefore is a defensible ETC or number.

MR CHABI: Number, ETC, correct it is.

ADV MAHLAPE SELLO: Okay and that you set out 4.1.2. You then state that your next was to identify the reasons for the increase in ETC from R38.6 billion to R54.4 billion and in doing so to test the possibility of the reasons put forward for the R15.9 billion increase in ETC and to opine on the reasonability of the increase in ETC, and what was your
10 finding in that regard?

MR CHABI: Well there was a need to increase the ETC but not to the tune of R59.9 billion, so the R59.9 billion in its totality was not justifiable.

ADV MAHLAPE SELLO: Was not justifiable?

MR CHABI: In our view yes.

ADV MAHLAPE SELLO: Okay, you deal with other aspects in relation to this issue at 4.1.3 would you like to quickly highlight those?

MR CHABI: Okay so we concluded an 80% increase in ETC, and that is taking into account Transnet Engineering scope, okay would it be
20 more acceptable as opposed to the 41% increase that we see in the memorandum, that 38.6, the 15.9 billion is 41% of the 38.6, okay, so we felt 41% was too large an increase, should we come to the conclusion that Transnet Engineering Scope was irregular and an 11% increase would have been more acceptable.

ADV MAHLAPE SELLO: So all in all then if we look at your mandate

and as you split it up, it was to look into three issues, insofar as reasonability of variables and assumptions were concerned you took no issue with the business case at R38.6 billion.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay, secondly you tested the accuracy of the ETC 38.6 billion and you considered it to be justifiable, or supportable?

MR CHABI: Correct.

ADV MAHLAPE SELLO: The only thing you took issue with was the
10 increase affected on the 38.6 billion to create a new ETC of 54.9 billion.

MR CHABI: Correct.

ADV MAHLAPE SELLO: So that is the only issue you take, okay.

MR CHABI: If I might just qualify something?

ADV MAHLAPE SELLO: Yes.

MR CHABI: So in the variables and assumptions, let's bear in mind that the model did not just look at ETC, it looked at a number of other aspects, one of them being the market demand, in the market demand strategy and that was outside of our scope. We did however go through
20 the model by ourselves that we understood the mechanics behind the model, so in other words how the MDS, well the market demand was projected over the various years and so forth, so that said given that we did not interrogate the strategy we took the 1064 locomotives as given, as the number of locomotives required, we did not question that.

ADV MAHLAPE SELLO: So you didn't interrogate how the number of

1064 was arrived at?

MR CHABI: No.

ADV MAHLAPE SELLO: You accepted that it is 1064 that is intended to be acquired.

MR CHABI: Correct.

ADV MAHLAPE SELLO: And yours is to work out the appropriate ETC for the acquisition of the 1064.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay. Before we then take ...(intervenes).

10 **CHAIRPERSON:** Would it be right to say that must be natural because you assume that the client knew what their needs were if they said 1064 it must be that's what they want or would it be normal to interrogate that even?

MR CHABI: Well we would have liked to interrogate the number, however as I mentioned it was beyond our scope, as you mentioned the client knew what they wanted, 1064, so our departure point was 1064.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: Thank you Chair. In your statement we have now come to paragraph 5 where we are dealing with the financial
20 model, but before we do so and before we shortly break for tea, perhaps we should turn to the glossary of terms and introduce two new ones, and it is a business case and a financial model, because they will feature quite regularly going forward. What do you mean by business case? You keep referencing the business case.

MR CHABI: Okay, the business case essentially the document

attached I think it is in Annexure AC2.

ADV MAHLAPE SELLO: Yes.

MR CHABI: And it is the document substantiating the need for this project, so it speaks to the ETC, it speaks to the profit that Transnet would have expected to make at the time, in April 2013, it speaks to the number, both the other benefits outside of 1064 that this project was expected to bring, and I think it speaks to 68 000 new people employed and so forth so there were other strategic benefits that this project was expected to bring, I think nationally, if that is the right word to use.

10 So the business case basically puts a case for this acquisition of 1064 locomotives, it is essentially that.

CHAIRPERSON: Well when you have to interrogate the business case wouldn't that ordinarily mean in the context for example of 1064 that you would also interrogate the issue of has a case been made out for the need for 1064, which is the issue we dealt with earlier on, you said you didn't go that far because it seems to me on the face of it that you ordinarily give, if you are going to interrogate the business case it should include whether there was a proper or justifiable need for that number?

20 **MR CHABI:** So I agree with you Chair I think interrogate the business case would mean look at every aspect of the business, in other words starting with the 1064 and determining if 1064 was the number of locomotives required.

CHAIRPERSON: Yes, what I am saying is as I understand the business case for this what it means is you look at the justification that is

advanced, is that right, for the costs and the whole project?

MR CHABI: Correct.

CHAIRPERSON: Yes, so what I am saying is on the face of it, it seems to me that one would expect that one of the things you would then interrogate is on what has been written in terms of the business case was there really a need or was there a case made out for 1064 as opposed to 500 for example? So I am just asking you whether am I right to say ordinarily one would expect that when you interrogate the business case that would include that issue and not exclude it, but
10 maybe in this case your mandate didn't require you to go into it.

MR CHABI: You are correct so the mandate did not require us to go into but ...(intervenes).

CHAIRPERSON: Yes, but if the – if it didn't restrict you, you would go into that?

MR CHABI: Correct.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: And if I may then just complete that and in doing so that would require of you to interrogate the rationale behind the MDS?

20 **MR CHABI:** Correct, the projections made.

ADV MAHLAPE SELLO: To then determine whether 1064 is a reasonable number under the circumstances contemplated in the MDS?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And only thereafter then you go into the business case which is to look at the cost of what the 1064 is expected

to cost.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay, Chair I think that brings us to your teatime.

CHAIRPERSON: Yes, we will take the tea adjournment and resume at 11:30, we adjourn.

REGISTRAR: All rise.

INQUIRY ADJOURNS

INQUIRY RESUMES

10 **CHAIRPERSON:** Okay let us proceed.

ADV MAHLAPE SELLO: Thank you Chair. Mr Chabi when we rose for tea we had just dealt with the concept of business case. We are now leading onto your paragraph 5 of your statement at page 8 where you propose to deal with the 1064 financial model. Now before we do that in detail that is another term. Can you talk to us about the financial model and you might as well indicate its role in this entire transaction?

MR CHABI: Okay. So the financial model is essentially a model based on an excel platform. Okay it used to – that underpin the business case. Okay so it is the platform on which the projections were made
20 and the discounting was done. The costs were modelled. So it will give you input on – it will give your information on what the MDS volumes were right through to 2014.

CHAIRPERSON: Is it basically how it is proposed the project would be financed?

MR CHABI: No. No not financed.

CHAIRPERSON: *Ja.*

MR CHABI: But it details how the revenue ...(intervenes).

CHAIRPERSON: That it will bring.

MR CHABI: Would come in.

CHAIRPERSON: H'mm.

MR CHABI: How the costs would be incurred.

CHAIRPERSON: H'mm.

MR CHABI: Over the foreseeable lifetime of the project. In this instance it was about 36 years.

10 **CHAIRPERSON:** So it is about the revenue?

MR CHABI: The revenue and the costs.

CHAIRPERSON: Yes.

MR CHABI: The projection of those.

CHAIRPERSON: Yes. Okay. Okay.

MR CHABI: And bring more of those.

CHAIRPERSON: Not how it is financed is not part of the model?

MR CHABI: No the – so the finance is ...(intervenes).

CHAIRPERSON: That would be something else?

MR CHABI: That is outside of this financial model.

20 **CHAIRPERSON:** Okay.

MR CHABI: Because the business gets itself off of those not deal in detail with how the project was going to be financed. In other words what portion – how the debt was going to be acquired?

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: So then when you are requested to validate

the business case of 38.6 billion can you do so without knowledge of the particular financial model that is relevant to that business case?

MR CHABI: The financial model is to a large extent the business case.

ADV MAHLAPE SELLO: Yes so when you are giving the document the business case which you said you have annexed as AC2 without the financial model are you able to validate that business case?

MR CHABI: You cannot.

ADV MAHLAPE SELLO: Okay. Okay then we are now in the business case itself relating to 1064. And you have indicated to the Chair as you
10 state at 5.2 that this is developed on a platform – common platform Microsoft Excel and you have that on your system and it is available to go on screen.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Now can you tell us specifically about what you now – this model which you refer to as a workbook. How is it made up, what does it contain and how is it intended to be read? And perhaps it might assist if you show us that model?

CHAIRPERSON: It helps Ms Sello if I know where about in the statement you are?

20 **ADV MAHLAPE SELLO:** 5.2 Chair at page 8.

CHAIRPERSON: Oh okay.

ADV MAHLAPE SELLO: Where he – I say he indicates that it is developed on a common platform called Microsoft Excel. Thereafter you speak of the Excel based model, the workbook comprising of a certain number of worksheets and the modelling that is involved.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Would you like to talk to us about that?

MR CHABI: I suppose it is easier to speak to it while projecting it.

ADV MAHLAPE SELLO: Okay. Okay we have it on the screen.

MR CHABI: Okay so Chair what you have on screen is actually is what is termed the financial model. That is the Excel based workbook. It has a number of sheets and the sheets are actually represented by the tabs you see at the bottom. In fact we can actually go through some of them. You can see the first one there titled Base Case Output. That is essentially the business case output.

CHAIRPERSON: I am sorry what page is it on this?

ADV MAHLAPE SELLO: Not on the screen.

CHAIRPERSON: Or is it not here?

ADV MAHLAPE SELLO: It will not be there Chair instead it is your annexure AC31.

CHAIRPERSON: Which is at page?

ADV MAHLAPE SELLO: At page 161 of the statement.

CHAIRPERSON: Okay I have found it.

ADV MAHLAPE SELLO: Now at AC31 we indicate that this – what we have submitted into evidence is the flash disc.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: Containing this entire financial model.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: Overleaf at – no that is at 160 I apologise. At 161 we have given you a copy of what we call the first term of the

financial model which is similar to what you have on screen.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: It is best however at – to work with the version at 161 which is the A3 page and if you have reference to the A3 page you – as Mr Chabi intends to do you will be able to follow the various blocks in the Excel spreadsheet. Now at page 157 Chair of that statement there is a picture of a USB we did not have another way of presenting it to you. We say that is the USB we are tendering.

CHAIRPERSON: H'mm.

10 **ADV MAHLAPE SELLO:** As annexure AC3.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: At page 157.1 overleaf we developed an index showing what is contained in that USB. And what is contained there is the actual business case which is the one document and the second document is now the financial model.

CHAIRPERSON: Okay thank you.

ADV MAHLAPE SELLO: Now at page 159.

CHAIRPERSON: H'mm.

20 **ADV MAHLAPE SELLO:** At 159 we have listed – let me just take a step back. The whole of that model – financial model is referred to as workbook. The workbook is made up of a number of worksheets. And at page 159 we have identified each worksheet separately and what that worksheet contains. So that it is list – there are in total 55 of them. You have in certain instances like tab 1, 2, 5, 6, 7, 20. They are highlighted in yellow. Those are hidden worksheets. This is just so to

understand what 59 – 159 is but we will not be getting into that detail.

CHAIRPERSON: *Ja* okay.

ADV MAHLAPE SELLO: So that was just to give you a sense of the structure.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: Of this financial model.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: Now what Mr Chabi has on the screen if the Chair would have regard to page 161?

10 **CHAIRPERSON:** H'mm.

ADV MAHLAPE SELLO: The A3 paper. That is what Mr Chabi has on the screen. And if one has regard to what we have on the screen that is the first term under the heading Base Case Output. Okay. After the Base Case Output is followed by a number of purple and there is red other worksheets and that is what makes up the actual calculations in respect of each item that was calculated to arrive at the 38.6 billion.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: Okay we are now Mr Chabi at the Base Case Output and you have turned us to that.

20 **MR CHABI:** Okay. Thanks Advocate. So Base Case Output as you can see there Chair it is the first tab on that – on the workbook. As the Advocate mentioned there are a number of tabs thereafter. She has already spoken to this there are 55 of these tabs of which 6 are hidden. They are hidden because they actually do not feed into the model. Analysis were done on those sheets but they did not – the output of

those – there was no output from those sheets into this business case. So they are not relevant for purposes of this discussion. So we are looking at the first tab that which is Base Case Output which is short for business case.

CHAIRPERSON: You do not have something that he can use to point.

MR CHABI: Right.

CHAIRPERSON: That we can

MR CHABI: Well I can hover.

CHAIRPERSON: So ...(intervenes).

10 **ADV MAHLAPE SELLO**: Your mouse if on you can use your mouse too.

CHAIRPERSON: *Ja* to say this is what you are on now.

ADV MAHLAPE SELLO: To point where you are on the screen.

MR CHABI: Right.

ADV MAHLAPE SELLO: Yes.

MR CHABI: There we go Chair are you.

ADV MAHLAPE SELLO: If you move slower perhaps.

MR CHABI: Are you able to pick up mouse Chair? Okay. So my mouse is there. That is Base Case Output I have got it right where you have got the tab titled.

20 **CHAIRPERSON**: Well it is very small.

ADV MAHLAPE SELLO: I do not know if it is possible to ...(intervenes).

CHAIRPERSON: I guess there is nothing we can do about it.

ADV MAHLAPE SELLO: Enlarge the mouse. Is it possible?

CHAIRPERSON: Okay we will just do the best we can with what we

have. It is okay.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Are you able when dealing with any aspect of that spreadsheet to perhaps highlight it? You can you do that? As you deal with it so we know where exactly you are on the spreadsheet?

MR CHABI: Where I am on the spreadsheet I can select.

ADV MAHLAPE SELLO: *Ja.*

MR CHABI: I am not sure if the Chair can follow as I select.

CHAIRPERSON: *Ja.*

10 **MR CHABI:** Are you able to follow the

ADV MAHLAPE SELLO: The green line.

MR CHABI: The green ...(intervenes).

CHAIRPERSON: It is just that it would be better if as you say it could highlighted or something but if it cannot be done we will make do with hat small arrow.

MR CHABI: The arrow.

CHAIRPERSON: H'mm.

MR CHABI: I guess this is – any suggestions?

20 **ADV MAHLAPE SELLO:** We are trying to see if there is a technical way. But these are two lawyers advising each other. It is very dangerous.

CHAIRPERSON: Well maybe we can do with fresh ideas from.

ADV MAHLAPE SELLO: From another lawyer. Okay. Now the suggestion Mr Chabi is by way of example. Let us look at your first entry under Productivity MGTK the first table. That is where we want to

speak about the existing fleet capacity. You see that?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Are you able to click on that and highlight as we talk through it?

MR CHABI: Like that?

ADV MAHLAPE SELLO: That might help. Which is ...(intervenes).

CHAIRPERSON: That is much better.

ADV MAHLAPE SELLO: So then we will do it as we go along.

CHAIRPERSON: Yes, yes.

10 **ADV MAHLAPE SELLO:** Thank you.

MR CHABI: Alright.

ADV MAHLAPE SELLO: Please continue.

MR CHABI: Thank you.

ADV MAHLAPE SELLO: And if you may do so then with reference to your statement starting at paragraph 5.4. So we will read your 5.4 together with what you have projected on the screen or in otherwise what we have at page 161 of the statement.

MR CHABI: Okay.

ADV MAHLAPE SELLO: *Ja.*

20 **MR CHABI:** I will just try and follow.

ADV MAHLAPE SELLO: Yes.

MR CHABI: It here but still cover what is covered in here.

ADV MAHLAPE SELLO: Absolutely thank you.

MR CHABI: Okay. So Base Case Output what you have before you relates to what you would find in your business case document.

CHAIRPERSON: What should?

MR CHABI: What you would find in your business case document.

CHAIRPERSON: H'mm.

MR CHABI: So in other words AC2 in this instance matches AC2 there.

CHAIRPERSON: Yes.

MR CHABI: The actual business case, the document itself.

CHAIRPERSON: Yes.

MR CHABI: So what is contained in that document would actually come from this tab that is titled Base Case Output. And in the statement I
10 have highlighted that I have mentioned what exhibits each of those tables – what exhibits they are within the business case. If my recollection serves me right I think productivity MGTK is Exhibit 16 on page 29 of the business case.

ADV MAHLAPE SELLO: Okay just then let us find firstly at page 161 on the business case output productivity MGTK. On the screen where – which table is it?

MR CHABI: I did not get the question Advocate.

ADV MAHLAPE SELLO: At 5.4 you say the table titled Productivity MGTK.

20 **MR CHABI:** Correct.

ADV MAHLAPE SELLO: Now you are dealing with that and I would like you to identify for purposes of our conversation to identify it on the screen.

MR CHABI: Okay. So that is the first table we have there on the screen and I will highlight the whole table for the Chair in yellow.

ADV MAHLAPE SELLO: That is the table you refer to at paragraph 5.4?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay. Then deal with that table.

MR CHABI: Okay. So now this table as mentioned it is on page 29 of the exhibits and it is Exhibit 16 on page 29 of the business case which is the document. It moulds the ...(intervenes).

ADV MAHLAPE SELLO: You do not have to go there at the moment.

MR CHABI: Sorry.

10 **ADV MAHLAPE SELLO:** We do not need to go to that particular.

MR CHABI: You do not need to it is just ...(intervenes).

ADV MAHLAPE SELLO: Thank you.

MR CHABI: Assisting you in terms of identifying where it is within the document.

ADV MAHLAPE SELLO: Yes.

MR CHABI: And assuring you that the financial model actually speaks to the business case.

ADV MAHLAPE SELLO: Yes.

20 **MR CHABI:** Unpins the business case. This table models the volumes that would be transported each year by the locomotives and what would be required – in fact what would be left off. So I will go line by line. As you can see there the first row there I will highlight that in red.

ADV MAHLAPE SELLO: H'mm.

MR CHABI: Is the Chair still with us? And it speaks to the required capacity as per the market demand strategy. So I will highlight that.

ADV MAHLAPE SELLO: And if I may then on that required capacity it is broken down by year?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Yes.

MR CHABI: And you – we can see here it is projected from 2013 to 2022 so I am still on that row. In first year starting off at 86 million gross ton. So gross ton in this instance relates to the weight including the wagon itself, the weight of the wagon. So we talk of gross ton and we talk of nett tons. Nett ton is just the weight of the contents. What
 10 the wagon is transporting. So essentially you have your MDS in the first row there. If you are following cursor all the way. This table shows it only up to 2022 but goes as far as 2051 if we look at the source of this information. The ambius volumes are actually modelled under volume MDS. So as not to lose you Chair I am – I have gone back to Base Case Output and as you follow my cursor I am moving to the right under the different tabs and I am on volume MDS Output. So that sheet titled Volume MDS Output models or projects what the market demand would be for the various commodities. You got commodities such as petroleum. You got manganese. You got chrome,
 20 iron ore. So everything that Transnet would – can expect to transport is modelled there and the total of that is what you see there is MDS Required Volume in each of the various years. So 2013 you have got 86 – apologies Sir 86 million gross tons in 2013. 98 and so forth. So it is the total across all commodities that Transnet can expect to transport over the year including the weight of the wagon hence million

gross ton. So it is a million. The line following that – so this is how the number of 1064 was arrived at. We have got existing fleet capacity I will then highlight in red again. If the Chair has picked it up? Okay. Alright. So that is existing fleet capacity. In other words what the existing fleet at the time is able to absorb from the market demand. And we see there from 86 million gross ton kilometres the existing fleet can only transport 79 million of that. And that tells you because they cannot absorb the entire market demand or they cannot service the entire market they are still in need to acquire additional locomotives. I

10 will skip written off. Written off is essentially what you lose from locomotives being written off these locomotives had a life span of about 30 years with modifications and additional work on them they could be extended to about 45 years. However in each year there was a wreckage. So from that wreckage you would have lost in 2013 1.1 million from locomotives not being operational being written off. In total the required capacity in fact what was not – what would not have been transported in 2013 is about 8 million in 2013. I will just highlight the row I am referring to. That is the red row there. Okay. So about 8 million gross ton kilometres will not be transported in 2013 and so

20 forth. So as mentioned this was projected right up 2051 to be able to arrive at a number for the locomotives required and model the revenue. We will look at that a bit later. So that is the first table. I am not sure if there are any questions from the Chair? Okay.

ADV MAHLAPE SELLO: Okay then the required capacity the last line you have on that table per annum would it be a correct understanding

to say it indicates on an annual basis how much extra capacity is required?

MR CHABI: Left over correct.

ADV MAHLAPE SELLO: Ja. Or shortfall?

MR CHABI: Not – shortfall – not transported.

ADV MAHLAPE SELLO: Transported. Not transported?

MR CHABI: Yes.

ADV MAHLAPE SELLO: Yes. So that is the demand that the MDS tells us we have to try and meet?

10 **MR CHABI**: Correct.

ADV MAHLAPE SELLO: Okay.

MR CHABI: By acquiring locomotives.

ADV MAHLAPE SELLO: Absolutely ja.

MR CHABI: But as mentioned earlier – sorry.

ADV MAHLAPE SELLO: Go ahead.

MR CHABI: As mentioned earlier we would not – it was out of our – outside of our mandate to actually interrogate that MDS required.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Capacity yes.

20 **ADV MAHLAPE SELLO**: You accept – you accepted it as fact?

MR CHABI: As fact yes.

ADV MAHLAPE SELLO: For purposes of you exercise. You deal – you have dealt now with the required capacity and the existing fleet capacity and these you deal with at paragraph 4.4 and – 4.5 and 4.6.

MR CHABI: I missed that Advocate.

ADV MAHLAPE SELLO: Come again?

MR CHABI: I missed that.

ADV MAHLAPE SELLO: I say at your 4.4 – 4 .5 and 4.6 – 5.6 why do I keep on saying 4 I apologise. 5.5 and 5.6 including 5.7.

MR CHABI: 7 correct yes.

ADV MAHLAPE SELLO: Yes. So now we are – you have in part dealt with the contents of that first table. Am I correct?

MR CHABI: Correct Advocate.

ADV MAHLAPE SELLO: Okay. You now lead us at your paragraph 5.8
10 to a table titled New GFB Diesel Locomotive Plan.

MR CHABI: Okay. So I must say the structure of this followed the exhibits within the business case you trying to identify those exhibits in this case. So I will explain what the – that table is. I will start again Chair I will just go back to the top. So to get to that table titled New General Freight Business Diesel Locomotive Plan I have to scroll down the sheet. Okay. And I think – let me just highlight that for Chair's attention. It is highlighted in yellow Chair. So that is the table that you see there.

ADV MAHLAPE SELLO: Yes.

20 **MR CHABI:** And okay I cannot pick up the Exhibit number for this table in the business case. I will speak to it.

ADV MAHLAPE SELLO: No but then when you speak to it because you have elected to highlight certain tables please point out to the Chair the relevance of highlighting this particular table?

MR CHABI: Okay. So this table refers to the number of diesel

locomotives out of the 1064 that would be acquired in over what period they would be acquired. And you would have seen this in the business case in the statement. Essentially it tells us that 100 locomotives as per the business case would have been acquired by March 2014. Because we know this business case started in April 2013 with 8 locomotives being acquired each month. Okay. To be exact it is 8.33 for modelling purposes. So 100 were expected within the first year. The next 100 were expected within the year to follow which is 2015 and so forth. In the final year which is March 2018, 65 diesel locomotives
10 were expected totalling 465 over the delivery period. So this just explains the delivery period – delivery schedule of the diesel locomotives.

ADV MAHLAPE SELLO: And the delivery period you have indicated was at least on this business plan 7 years.

MR CHABI: It was 7 years.

ADV MAHLAPE SELLO: Okay.

MR CHABI: From 2013 to the end of 2019,

ADV MAHLAPE SELLO: Okay. You may proceed. You then deal with Supply Production Capacity.

20 **MR CHABI:** So if I can just for complete – sorry I think just to complete the discussion the table just beneath that relates to the electric locomotives. This can be seen 65 as of March 2015, 130 thereafter and 144 in – by March 2019 expected. So a total of 599 electric locomotives the sum of the two gives you the 1064 locomotives.

ADV MAHLAPE SELLO: You said in year – in 14/15 it is 165 not 65?

MR CHABI: No it is ...(intervenes).

ADV MAHLAPE SELLO: As regards electric?

MR CHABI: It is 65. In which year sorry 20 – March – by March 2015 65 locomotives, electric locomotives would have been acquired.

ADV MAHLAPE SELLO: Okay yes. Okay. My apologies yes you correct 65.

MR CHABI: So that is the delivery schedule essentially. The combination of the diesel and the electric is what is termed the delivery schedule in the business case.

10 **ADV MAHLAPE SELLO:** So if we look at those two tables there and we know that the diesel locomotives plan is for the acquisition of 465 diesel locomotives and the electric locomotive plan is for the 599 – electric locomotives?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Delivered in those batches over a period of 7 years and that gives us the total of 1064?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Thank you.

20 **MR CHABI:** In the statement I speak about Supplier Production Capacity. And I will just scroll down Chair to the relevant table. Okay it is actually the table following the electric locomotives table and I will highlight in yellow. So that table Chair tells us how many locomotives would be delivered each month in the respective categories in this instance diesel and electric. As I mentioned earlier 8 diesels were projected to be delivered each month over the delivery schedule and for

electric you had 5 in the first year moving up 11 and then 12 in the final year. So these are the monthly deliveries expected. So I am just as I mentioned earlier explaining the Exhibits within the business case.

ADV MAHLAPE SELLO: Yes. So is – when we look at this table it says Supplier Production Capacity should the Chair understand that to mean that speaks to the ability of each individual supplier?

MR CHABI: So ...(intervenes).

ADV MAHLAPE SELLO: On a monthly basis?

MR CHABI: On a monthly basis correct.

10 **ADV MAHLAPE SELLO:** Okay.

MR CHABI: What the supplier is able to provide on a monthly basis yes.

ADV MAHLAPE SELLO: Yes. Okay.

MR CHABI: Correct so 8 for diesels and right through the delivery period and for electrics starting off at 5 into 11 and then ending off at 12.

ADV MAHLAPE SELLO: Okay. Now if one has regard then to the three tables as they follow each other the diesel locomotive plan, the electric plan and the Supplier Production Capacity. The information set out in
20 those tables is it in any manner relevant to the period of the project?
The 7 – the period of acquisition.

MR CHABI: Correct.

ADV MAHLAPE SELLO: In any manner is it in – relevant to the fact that these were being acquired over 7 years?

MR CHABI: It is. I think we can see there that you have got a 7 year

period roughly if you – because electric locomotives were to start in 2014 and diesels in 2013. I think if you overlap the two you get roughly 7 years. So it is between 6 and 5 years. I mean 6 and 7 years sorry.

ADV MAHLAPE SELLO: We then can expect changes to occur if that period is brought down from 7 to let us say 3 or 4 or 5?

MR CHABI: Changes in?

ADV MAHLAPE SELLO: In the numbers per annum that are set out in these tables of locomotives?

MR CHABI: Well that would be a function of the number of suppliers
10 that you have.

ADV MAHLAPE SELLO: Okay. It would be included by that.

MR CHABI: This tells us the supplier is expected to provide you with 8 a month. He does not tell us whether that is the maximum they can provide in that month. If you have two suppliers per diesel you can easily double that to 16 a month.

ADV MAHLAPE SELLO: It is providing for – okay. Thank you for highlighting that. At 5.10 – paragraph 5.10 you deal specifically with the existing fleet.

MR CHABI: Okay so that is ...(intervenes).

20 **ADV MAHLAPE SELLO:** As at 2013/2014.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Yes.

MR CHABI: That is Exhibit 15 in the business case.

ADV MAHLAPE SELLO: Yes.

MR CHABI: At least that has been highlighted in ...(indistinct). And I

will highlight the table for the attention of the Chair.

ADV MAHLAPE SELLO: And if we look at that you have under fleet type we need not really concern ourselves much about that 6E, 7E all that relates to the type of locomotives?

MR CHABI: Correct.

ADV MAHLAPE SELLO: So what the model does for us is to tell us as at the time of development of this business model how many 6E's, 7E's and 7 E1's were there?

MR CHABI: Correct. So essentially right up to and if the Chair is
10 following everything in yellow relates to electric locomotive stock at the time. So this is April 2013. So the number of electric locomotives ...(intervenes).

ADV MAHLAPE SELLO: Okay.

MR CHABI: That Transnet had ...(intervenes).

ADV MAHLAPE SELLO: Yes.

MR CHABI: And that is a total of about 1037. So summing up that column there – C – sorry. Let me just highlight that in red. So what you have in yellow relates to the electric locomotives that Transnet had within it is – I guess it is stock. Okay. As at April 2013 and what you
20 have in red are the numbers per type of locomotive.

So 6E they had 75 of those and right down to the bottom 18E, they had 597 of those. The total of that is 1037. Everything thereafter following are the diesel locomotives. The total was 1889 locomotives.

ADV MAHLAPE SELLO: So what this then tells us that we had a total of 1889 and we sought to augment that with a further 1064?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay. You go further at 511 and you deal with a new tab or new table GFB Tariff Average.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Tell the Chair about that.

MR CHABI: Again we speak to this, because it is in the business case. I just highlight that for the Chair's attention. So this is basically on the tariff – the Rand tariff that Transnet would charge to transport a million tons of whatever commodity they are transporting per kilometre and we
10 can see in 2013 they were looking at 40 cents – 42 cents.

Sorry and that went up to 45 cents – 48. This actually goes up to about R3,80 or so when you look at the full table in the sheets to follow, but it is essential because it tells it is an essential component into the revenue that could be expected from the locomotives. The Rand per gross ton per kilometre and that is what we see there.

ADV MAHLAPE SELLO: Okay. Can you follow that with that with the volumes – net tons?

MR CHABI: Correct. So now we are looking at net tons. I will highlight that again for the Chair's attention.

20 **ADV MAHLAPE SELLO:** Huh-uh.

MR CHABI: Also in the business case. In Annexure AC2. Now to explain this table again as I mentioned. This tells us whether 1064 locomotives came from. You got the MDS target. Now here we are looking at net tons. This is excluding the weight of the wagon itself and we can see from the market demand strategy about 91 million tons

were required in 2013.

That was the demand from the market and the existing fleet could only transport 83 million of those tons and given how the locomotives were to be acquired. We can see there is a shortfall of about – I guess – 8 million there. Okay. If we look at 91 and 83. The short fall is 8 million.

Okay, but the Board decided and if you look at the full contingency of locomotives required it was about 1300-odd, but they decided instead of acquiring 1300. We will acquire 1064. Given that
 10 these locomotives were spread out over the same period and were expecting only 100 diesel locomotives. The additional capacity or tonnage that they could transport was 1 million.

ADV MAHLAPE SELLO: H'mm.

MR CHABI: As can be seen there. So I will just highlight that for the Chair's attention. Okay. So from the 1064 locomotives project only a million of that shortfall of eight would be catered by the 1064. In 2014 this goes up to seven, but there is still a shortfall as can be seen if you look at 104 versus 82 and that goes up to 21 and up to 77. That is locomotives would be able to transport.

20 So the 1000 locomotives did not absorb the entire – did not allow for the entire MDS to be met. I think there was still a shortfall even though with 1064 locomotives on board and that a decision taken by the board. I guess being prudent that the – maybe they were just a little bit too optimistic. For a number – there may have been reasons that we – there are reasons, but we are not aware of those reasons.

ADV MAHLAPE SELLO: What we have done now. You have chosen to highlight certain aspects of the financial model?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay and that has taken us to 5.12. Considering the various tables that you have highlighted and discussed and in the context of what you state at your paragraph 5.13. How would you describe these tables? What do they reflect as opposed to the rest of the worksheets that you speak of at 5.13? You made a selection of these specific ones to deal with in particular. Why is that?

10 **MR CHABI:** Okay. This was following the business case ...(intervenes).

ADV MAHLAPE SELLO: Yes.

MR CHABI: But making this relevant to the discussion – looking at what the 1064 locomotives could transport. We can see the projection is there being one in year. I have highlighted that in red for your attention Chair. So we have the volumes. The net tons that the locomotives could transport. (Indistinct) transport one in the first year. Seven in the second year 21 and so forth up to 77.

20 These volumes multiplied by the rate and the distance gives you the revenue, but I guess we will address that a bit later, but that is the relevance of this table. To help you understand how the volumes fit into the revenue computation. The revenue computation is actually a function of your volumes to be transported. The distance over which those volumes will be transported and the Rand tariff per ton per kilometre.

ADV MAHLAPE SELLO: Now in dealing with the tables in the business case output you did not discuss all the tables?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And what is the reason for that?

MR CHABI: I suppose because we will elaborate on them later on.

ADV MAHLAPE SELLO: And what do those tables deal with that you did not discuss?

MR CHABI: They deal with Net Present Value and the various costs. If you wish Advocate we can actually tough on that.

10 **ADV MAHLAPE SELLO:** No. No. We are – I am just – want to help us understand the rationale for the approach you have adopted.

MR CHABI: Okay.

ADV MAHLAPE SELLO: So you have excluded from the discussion currently any table or worksheet that deals with the revenue and the cost and the variables?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And you have dealt with every other aspect that is relevant to the determination of the business case?

MR CHABI: Correct.

20 **ADV MAHLAPE SELLO:** Okay and you say because we will deal in more specific terms with the variables and assumptions and the costs and the revenue ...(intervenes).

MR CHABI: Correct.

ADV MAHLAPE SELLO: And the NPV. Okay. What we have discussed so far is by way of background. Right?

MR CHABI: Correct. Okay.

ADV MAHLAPE SELLO: Because it is only at – from paragraph 6 at page 12 that we turn to the actual man – your actual mandate. You – if one has regard to paragraph 2.1.1 where you have listed the mandate. You have sought to give a heading to each one of them for brevity. So at 2.1.1 you say:

“You were required to assess the reasonability of the variables and assumptions used in the modelling of the 2013 business case.”

10 **MR CHABI:** Correct.

ADV MAHLAPE SELLO: And this for purposes of our discussion if I read your statement correctly you will deal with the heading of “Review of the Business Case”.

MR CHABI: Correct.

ADV MAHLAPE SELLO: And you have done that with every specific one – with every other mandate you were given?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay. So then going back to our page 12 paragraph 6. You deal then with the first – the review of the business
20 case. So – and I am sure we may safely close that Excel spreadsheet and deal more with words now.

MR CHABI: Okay.

ADV MAHLAPE SELLO: If we turn then to our paragraph 6.

MR CHABI: Alright Chair.

CHAIRPERSON: I must confess. Spreadsheets are not my favourite

thing.

ADV MAHLAPE SELLO: If it is not – if it is any consolation Chair you are not alone in that.

CHAIRPERSON: Yes.

MR CHABI: Alright. So I guess we are looking at the review of the business case in this instance ...(intervenes).

ADV MAHLAPE SELLO: Yes.

MR CHABI: And we are tackling specifically the revenue and the cost components. The idea behind this is to give you Chair an
10 understanding of what this business case is. About how they arrived at that in that Present Value figure. So the components. I guess the sub variables or the line items that make up cost and the line items that make up revenue.

We have to a certain extent spoken about the line items that make up revenue and there is essentially three, but we will get to that again shortly. Just for completion ...(intervenes).

ADV MAHLAPE SELLO: Before you proceed so that we are able to follow you. Perhaps you might want to put up slide 4 – slide 3 and slide 4.

20 **MR CHABI:** Oh. Okay.

ADV MAHLAPE SELLO: Let us go to slide 3. At slide 3 you have two entries there. You have captured the mandate and you have captured the finding. Okay.

MR CHABI: Correct.

ADV MAHLAPE SELLO: And you indicate that your finding which is

what you told us previously was that there are assumptions in relation to the variables you have found to be reasonable?

MR CHABI: Correct Advocate.

ADV MAHLAPE SELLO: Now going to slide 4 will I be correct to say from this point onwards you are providing an explanation and a substantiation for the finding you make at slide 3?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay. Then we are all ears Mr Chabi.

MR CHABI: Okay. We just trying to tie this in with the statement I
10 suppose.

ADV MAHLAPE SELLO: Yes.

MR CHABI: So in our assessment of the model we found it to serve several purposes and some of which to be assessing the profitability of the project and this is in Net Present Value terms. So this financial model help Transnet officials to arrive at what they expected the profit to be. What expected profit – they arrived at an expected profit figure.

Sorry. Okay. To determine what the total – the Estimated Total Cost of the locomotives would be. Okay and I will speak to that. It is a component of the total cost of the project.

20 **CHAIRPERSON:** Let us try this again. If you move the mic a little further away from you. Just move it to the furthest point with the file. Let me see how with the file. Move the file as well to the almost furthest point of the table. Okay. Just speak and let me see ... (intervenes).

MR CHABI: If that works.

CHAIRPERSON: How it is? I hope that those at the back if they are disadvantaged if you put to the mic too far. They will give me some indication. Okay. Just speak. Just speak and let me see.

MR CHABI: Will see from there. Okay. Alright. So the model served several purposes from our assessment of ...(intervenes).

CHAIRPERSON: One second.

ADV MAHLAPE SELLO: Yes.

CHAIRPERSON: How it is for everybody? Is it fine? Oh. At the back they say it is fine.

10 **MR CHABI:** Okay.

CHAIRPERSON: For you Ms Sello?

ADV MAHLAPE SELLO: Very fine Chair. I am closer to the mic now.

CHAIRPERSON: Okay. Alright. Let us do it that way and just raise your voice a little bit.

MR CHABI: Okay. Okay. It served several purposes. Some of which were to determine what the profit would be – the expected profit at the time. Determine what the Total Cost of Ownership of which ETC formed a part of and we will look at that shortly and to better appreciate the risks of the project and that comes through in the form of sensitivities
20 being run on some of the variables and the assumptions. I think we will touch on that as we look at some of the tabs.

CHAIRPERSON: Yes. I think this will work well as long as your voice is at the right level.

MR CHABI: Okay.

CHAIRPERSON: The moment it goes down it might not. So just bear

that in mind. Okay.

ADV MAHLAPE SELLO: And perhaps I do not know if it is at all possible for Mr Chabi if he could speak slower perhaps.

CHAIRPERSON: Yes. May ...(intervenes).

ADV MAHLAPE SELLO: If at all possible.

CHAIRPERSON: Maybe even that as well.

MR CHABI: Okay.

CHAIRPERSON: Okay. Thank you. Yes. Proceed.

MR CHABI: Alright. So those are the purposes that we felt were
10 relevant for the – for this statement. Well that we felt were important
to discuss all in this statement and in assessing the profitability, the
ETC and assessing the risk two key measures were applied in the
business case. Net Present Value. We spoke to that.

It is essentially the difference between the value in current
terms of the revenue you expect and the value in current terms of the
cost you expect to incur. It is just the difference giving you a profit
figure at the bottom. ETC. We have spoken to that. It is just the sum
of the cost of the locomotives in each of the years. We looked at the
schedule.

20 I must get myself to slowdown and we had 100 locomotives in
20 – as at March 2014. So it is simply the cost of those 100
locomotives plus the cost of the next 100 and so forth. Right up to
2018. Similarly for electrics and that sum gives you the ECT. It is a
simple summation of costs of acquiring those locomotives. I also
mentioned earlier those costs included - it was not just the locomotive

price.

We had escalation costs in there. A locomotive today at price X will cost you something else in a year's time. So you had to account for inflation in there. Exchange would impact as well. You had to account for that within the cost and you also had contingencies. I guess we will look at the diesel a bit later.

ADV MAHLAPE SELLO: You – then at slide 5 – at slide 4 you are talking about the measures applied in appraise – appraising the business case. At slide 5 you then talk to us about the variables making up revenue as per the business case and the variables making up cost as per the business case?

MR CHABI: Correct.

ADV MAHLAPE SELLO: So if you could deal with those.

MR CHABI: Okay. So we have looked three sub variables or should I say line items making up revenue in this instance. We looked at the distance to be travelled each year by each locomotive. The volumes to be transported by each locomotive. We also looked at the Rand tariff per locomotive. I mean per million ton per kilometre.

Your revenue is essentially the product of that. You take what you expect to transport in that particular year. Multiply it by the distance and multiply it by the Rand tariff and that is done right through to 2049. It was 36-year projection period for this project where revenue is concerned. I think just to speak a bit about the escalation in the Rand tariffs.

This started off at 42 cents. We saw that up to 48. The

average escalation rate of that Rand tariff. So each year it was – the Rand tariff was escalated just to keep in line with inflation. On average it was about 6.12% over the 36-year period. A lot – a little higher over the initial period I think ranging between 6 and 8%, but then stabilising about 6%. Okay. Which is a reasonable assumption to make when you project a revenue.

ADV MAHLAPE SELLO: And if I may just clarify that escalation rate you speak of. You derive from the financial model

MR CHABI: Correct.

10 **ADV MAHLAPE SELLO:** Okay.

MR CHABI: It is what I read in the financial model.

ADV MAHLAPE SELLO: No. It is fine. You may continue and now we deal with the variables making up the costs of the business.

MR CHABI: I think just to touch a bit on the incremental volumes and this – that incremental volumes are just volumes expected from 1064. We already saw starting off at one up to 77. It actually peaked at 89 and that is when you had your entire fleet of 1064 locomotives. Okay. With 1064 locomotives you were expected to transport about 89 million tons of commodities. It then tapers off at the end as your locomotives
20 are written off, because these locomotives have a 30-year lifespan. I guess.

ADV MAHLAPE SELLO: Okay.

MR CHABI: The distance was on average about 550 kilometres a year and that is derived from historical figures what has been observed from the existing locomotive fleet.

ADV MAHLAPE SELLO: Relating to slide 5 now. What you have just done is talk to the – that is the left side of the slide which are the variables making up the revenue. Now let us talk about the variables making up the cost.

MR CHABI: The cost. Okay. So under cost Chair we had a number of variables and you can see them overhead on the slide. The first one being TCO. The Total Cost of Ownership of which ETC form the part of. You also had wagon costs, because the locomotive also refers to the head – the engine of the train. You had infrastructure costs.

10 This is essentially what you had to lay out to operationalise the trains and then you had overhead costs. So the certain costs as a business that occur that are fixed regardless of the volume of business that you take on and that was derived from the financial statements and your tax costs.

So these are the cost items actually modelled as part of this project. Now moving into the Total Cost of Ownership. We mentioned NTCO. We had the capital acquisition cost of the locomotive. That was the ETC. In addition to ETC and this is still part of Total Cost of Ownership. You had the fuel costs. You had the personnel costs.

20 You had insurance costs. You had emission costs both diesel and electric locomotives. So you had the same across diesels and across electrics. So those various costs and I am just trying to locate myself.

ADV MAHLAPE SELLO: Perhaps before you jump too far ahead in your statement, because we have just gone through the variables

making up the revenue and the variables making up the cost and you told us about the measures applied in appraising the business case. Maybe you must talk to what you state in your paragraph 6.4 which is that:

“The main measure used to appraise the business case was the Net Present Value.”

So now you have told us what you have taken into consideration in order to appraise the Net Present Value and if you go to slide 6. That is where you set them out in tabular form and you put
10 values to each one of them?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And it is in that table that you deal with your diesel TCO and your electric TCO. So you may talk to us per line item.

MR CHABI: Or slide 6?

ADV MAHLAPE SELLO: Yes.

MR CHABI: So Chair as you can see from the slide. The slide speaks to what the net – the expected Present Value was at the time – the Net Present Value and the value of R2.7 billion was expected at the time from this project.

20 **ADV MAHLAPE SELLO:** Can I – sorry to interject. Can I put it in simple terms and say Net Present Value of 2.7 billion is the profit?

MR CHABI: Correct. We can ...(intervenes).

ADV MAHLAPE SELLO: So that is the expected profit on this entire project?

MR CHABI: Yes.

ADV MAHLAPE SELLO: Over the period?

MR CHABI: We can add up that analogy. Yes.

ADV MAHLAPE SELLO: Okay.

MR CHABI: Okay. So I will just refer to it as the profit expected as at April 2013 and that came to about R2.7 billion. I will take you through the various cost items just to give an idea of how the 2.7 was ...(indistinct). If you look at the revenue component in that slide – on that slide. Sorry. Revenue made up 109 billion.

So over that projection period, that 36-year period, the value
10 of the revenue expected as at April 2013 was R109 billion. I think when you look at the profit of 2.7 as a percentage of that. You are looking at about 2.5% profit. So that tells us that the costs were quite high as well. If you look at the diesel TCO that is the Total Cost of Ownership attributable to diesel locomotives and that TCO includes ETC and if I recall right the ETC component was only 8 billion of that 22 billion that we see there.

So diesel TCO was about 22 billion in Present Value terms. Electric TCO was about 21 – also in the region of 22 billion. However the ETC relating to electrical was slightly higher at about four billion. I
20 think we will look at that diesel a bit later. Wagon costs ...(intervenes).

ADV MAHLAPE SELLO: Before you get there. Now those the diesel and the electric TCO, the costs, is it correct understanding that these are the costs I would have to incur to own and operate or just to own the locomotives?

MR CHABI: You are referring to TCO in this instance?

ADV MAHLAPE SELLO: TCO.

MR CHABI: So to own and to operate.

ADV MAHLAPE SELLO: It is own and operate?

MR CHABI: Correct.

ADV MAHLAPE SELLO: So if I am going to buy a certain number of locomotives at a particular rate taking all the variables into consideration. I am calculating – you say it is calculated over the period in order for me to make my 2.7 billion profit. It is – the total cost of my owning and operating a diesel – those diesel locomotives is
10 going to come in at 22 billion?

MR CHABI: Correct.

ADV MAHLAPE SELLO: For which I must deduct from the revenue?

MR CHABI: Yes.

ADV MAHLAPE SELLO: Okay and I must do the same for the electrics as well?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Thank you. You may proceed.

MR CHABI: As mentioned in this point with diesel we only dealt with the locomotive. Wagons were required. I think there was a total of
20 about 16500 wagons required to operationalise the 1064 locomotives and those came in at a cost in Present Value terms of about 12 billion.

ADV MAHLAPE SELLO: Okay.

MR CHABI: There were infrastructure costs as well and I would resume these would relate to the railing, the electrics and so forth. Those came in at about 19 – oh sorry. 18 – R18.5 billion and your

overhead costs is about R24 billion. Tax at about R7.7 billion. Giving us a profit position of about 2.7 billion. So despite a large revenue figure expected.

We also had large costs associated with the project. Hence the statement that ETC made up a very tiny component of the costs of this project back when we look at the figures. It was only about 47% of the TCO costs and only about 20% of the overall costs.

ADV MAHLAPE SELLO: Now in your – at your slide 6 you arrive at this NPV of 2.7 based on what you call a hurdle rate. You have to take a
10 hurdle rate into consideration.

MR CHABI: The business case derives that. Yes.

ADV MAHLAPE SELLO: Oh the business case. You it is not directly who – Mr Chabi I apologise. You are quite correct. The business case. Can you talk to us about the hurdle rate which is what you refer to at the top of that slide where you say?

“The Present Value computation based on a hurdle rate
of 18.56%.”

MR CHABI: Okay.

ADV MAHLAPE SELLO: And if I may while you are thinking is it the
20 rate discount rate?

MR CHABI: The risk discount rate. Correct.

ADV MAHLAPE SELLO: The risk discount rate. Then you talk about that as well and you help us distinguish the one from the other.

MR CHABI: Okay. We spoke about valuing cash flows in Present Value terms. The Present Value of the revenue. The Present Value of

the costs. Present Value simply means bringing back the cost by a certain factor – a certain discount rate. I think to put it very simply and maybe I will come back to this. If you expect to invest R100 and get 10 in the first year, 10 in the second year and 110 in the third year.

You are looking at a discount for about 10% to get you back to 100. I think when we get to IR. I will explain how that 10% relates to IR as well. Now Transnet has what we call or what they call – sorry – a Work and Hurdle Rate Policy and that policy determines what the hurdle rate should be for two types of projects. Greenfields Projects
10 and Brownfields Projects.

Greenfields Projects are projects that Transnet has never undertaken before and as you will expect the discount rate, the hurdle rate, needs to ...(indistinct) for this point for now, will be higher for a Greenfield Project compared to a Brownfields Project. I think if we take a simple analogy of a site with nothing but grass. There is a lot more work to done to get that site to be operational to service purpose.

A Brownfields Project at least you have got brown bricks. So you have got somewhere to start off from. The risk is a lot lower, because you are starting your project at a different stage. So the
20 construction stage is off the table. At the time Transnet's policy on the hurdle rate was 18.56% for Greenfields Project and I think Brownfields – I cannot remember.

Probably about 2% lower, but that needs to be verified. Now what is a hurdle rate? A hurdle rate is a rate of return that the organisation wants to make on any Greenfields Project that it will

invest in. In other words it will look at the return expected from a project and if that return does not meet the hurdle rate they are not interested. They will simply put aside.

To arrive at that rate you look at a range of factors, your capital providers, in other words how much of your project is being financed by debt and what is the cost of that debt. In this case arriving at that rate the cost is about 7.31% so that is the weight of the various debt structures that Transnet would have had to employ.

The capital coming through, what return do we want on that
 10 capital, it was about 16.58% okay. So it will cost you an average of about 12% if you combine the seven and the 16 for the capital to embark on this project. So your real weight has got to be at least that cost of capital. In this instance given that we're dealing with the Greenfields project, one that Transnet has never undertaken before and has no experience in undertaking a rate of 18.56 was applied which is quite a high rate considering the 12 that we're looking at, that's a 6% margin addition to the cost of capital in this instance.

Now that is just a target rate, in other words we've got six
 Greenfields projects, we're only going to be undertaking three because
 20 only three give us a return of at least 18.56% that's how you use the hurdle rate. To be able to make that decision you've got to compute what's called an internal rate of return, that's simply the return that you expect from the project. Going to my initial example of a hundred that's a typical government bond for example, I mean – in this instance, I mean you put in a 100 you expect 10 as a coupon in the first year

another 10 the second year, that's an example of a – and another 100 and 10 at the final stages, that's your capital plus your 10% interest. The IRR or Internal Rate of Return in this instance is 10%, it is that 10% that you will compare your hurdle rate. So you might say, well I want to invest a 100 I'm going to borrow the 100 but how much does it cost me to borrow the 100, it costs me 8%. I would set my hurdle rate at 9%, if my investment does not give me at least 9% I'm not interested. In this instance my IRR from this investment is 10, so it meets my investment criteria, my hurdle rate of nine. So I will invest
 10 the 100 that I borrowed into this project, make my 10% and pay off the 9%, so that's hurdle rate and IRR.

Now the risk inherent in this investment of a 100, 10, 10, 10, 100 and 10 is a different risk altogether. You've got to undergo a detailed risk assessment to understand what that risk discount ratio should be. So looking at government bonds and the profile I've just given you and equities, you might expect the same cash-flow screen from a government bond and equities however I think we can both agree that the risk profile is totally different between equities and government bonds.

20 So the risk discount rate that you would apply on this stream of cash-flow is different to the risk discount rate from this stream of cash-flow from equities and that requires you to undergo a detailed risk assessment of both investments together with the risk discount rate. In this instance Transnet chose to apply the hurdle rate as it's risk discount rate. I guess later on we will speak about our view on that

rate, we're happy with it, given the process that they underwent to arrive at that 18.56% it was evidenced based looking at companies locally and abroad you're looking at about 160 companies to arrive at a premium over the weighted average cost of capital which is what your shareholders will have.

Average of the cost of your shareholder capital and your debt holder capital cost. We were happy with the 18.56% but essentially that is what the 18.56% is, it is Transnet's hurdle rate which is also their risk discount rate for this project.

10 **ADV MAHLAPE SELLO:** Okay is it coincidental that they both happen to be 18.56%?

MR CHABI: Is it coincidental?

ADV MAHLAPE SELLO: Ja is it just a matter of coincidence that they are both 18.56 both the hurdle rate and the risk discount rate?

MR CHABI: Well I'd like to believe that a detailed risk assessment was done, my understanding is that the 18.56 was actually derived from this 1064 project.

ADV MAHLAPE SELLO: Okay.

MR CHABI: So it's slightly off that project to arrive at the hurdle rate.

20 **ADV MAHLAPE SELLO:** Now you say the hurdle rate used here is 18.56 was that a prescribed rate and if so by what or is that a rate that is randomly used in the business case, where does the 18.56% derive from?

MR CHABI: Well there is a policy to that effect, the Wacc and Hurdle Rate Policy.

ADV MAHLAPE SELLO: That's what prescribes what the applicable hurdle rate will be?

MR CHABI: For the various projects it will be Brownfields or Greenfields.

ADV MAHLAPE SELLO: So now this being Greenfields it had to be 18.56 so it was not open to whoever was working on the business case to decide that they are going to use a hurdle rate of 12?

MR CHABI: No.

ADV MAHLAPE SELLO: It wasn't it was a prescribed rate okay. From
10 your paragraph 6 of – now we understand how you arrive at the net present value and let me just check at this point you, by you I mean ALL5 having done your investigations you don't take issue with the treatment of all these costs to determine the net present value?

MR CHABI: We were happy with the approach taken involving the costs, we had certain views I suppose along the way, the tax asset was treated and by tax asset in this case I mean if you have a loss in one year you can carry it over and I think the taxation rules at this point allow you to carry it over for five years, in the model it was done for one year which is a very conservative approach, in other words we
20 were deciding not to carry this thing for five years but for one year and that has an effect of reducing your present value. So we were – we accepted that approach.

ADV MAHLAPE SELLO: Would it have the effect of reducing the NPV significantly or?

MR CHABI: Well had the ...(indistinct) of five years it would have

increased the NPV.

ADV MAHLAPE SELLO: It would have increased it?

MR CHABI: Yes.

ADV MAHLAPE SELLO: So are you suggesting this was a more stringent approach?

MR CHABI: This is a more conservative approach yes than, I guess, it's more pessimistic.

ADV MAHLAPE SELLO: A different treatment might may have resulted in a higher NPV?

10 **MR CHABI:** A higher profit yes.

ADV MAHLAPE SELLO: So because now they employed a conservative approach came out with a lesser NPV you are happy to accept that ...(intervenes).

MR CHABI: We are happy to accept that.

ADV MAHLAPE SELLO: There are no real issues there?

MR CHABI: Correct.

ADV MAHLAPE SELLO: From your then paragraph 6.7 you say the second measure is the ETC, right and you made the point as your slide 6 shows us that the project was profitable at an ETC of R38.6 billion,
20 you see that?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Now you take it from there and just to give you guidance if you go over at slide 7 at some point, that might be a slide that is relevant to the next issues you are going to discuss.

MR CHABI: Okay I think it is a – I should address this slide I

suppose.

ADV MAHLAPE SELLO: Yes.

MR CHABI: So Chair this slide, essentially is a sensitivity test on the discount rate and its impact on the net present value, we spoke about the weight of average cost of capital in other words the average of what shareholders would cost for the capital and what your debt holders will cost for they want to provide you as capital, the average of that. For this case it was 12.56% okay and that's towards the end.

Starting off at the far end of the slide 12.6% - at 12.6% – if
 10 12.6% was used as the risk discount rate this would have produced a profit in that present value of R34.1 billion you drop that by 1% – I mean you increase that by 1% so move up from 12.6 to 13.6 your profit drops to 26.2. Now this is indicative of an increase of the level of risk if you increase your risk discount rates, it's synonymous with you assuming that the risk of the project has increased. So I want to discount my cash-flow by a higher rate and that has the effect of lowering your profit.

The objective of this slide is to show you how exponential this profit – the distribution of this profit is and if you look at that, it drops
 20 exponentially so – and I think in the statement I do mention, I can just get back to those specific numbers, I can't find it but essentially the difference between 2.7 and 5.9 I think is about – well R3.2 billion if you look at the next difference between 5.9 and 9.7 I think you're looking at about roughly 4.

So that difference increases with a drop in the discount rate so

exponentially the difference keeps increasing and upward sloping, profit position there as you drop the discount rate by 1%.

ADV MAHLAPE SELLO: So we know from what you informed us that at 18.5% hurdle rate there was a profit of R2.7 billion.

MR CHABI: Correct.

ADV MAHLAPE SELLO: You increase that hurdle rate by 1% and you wipe out all profit?

MR CHABI: Yes and that is essentially internal rate of return.

ADV MAHLAPE SELLO: To 19.6%.

10 **MR CHABI:** Correct, so just a 1% increase in that risk discount rate would have wiped out your profit of R2.7 billion in this instance.

ADV MAHLAPE SELLO: And that hurdle rate would only drop the less risky the project was. So you would use, let's say a 17.6 right down, let's say to 12 depending on the risk profile of the project.

MR CHABI: Okay so the risk discount rate would drop with a decrease in risk yes, that's what you would expect to see.

ADV MAHLAPE SELLO: And as it decreases then it gives you more profit?

MR CHABI: Correct.

20 **ADV MAHLAPE SELLO:** Which you calculate at 12.6% would have been a profit of R34 billion?

MR CHABI: Yes.

ADV MAHLAPE SELLO: Now there's a significant difference or change between the rate at 13.6 and 12.6 it's a – so that reflects – does that give a true sense of the value of that 1% difference in the

hurdle rate? There's an impact, the 1% change has.

MR CHABI: Sorry?

ADV MAHLAPE SELLO: It's the impact the 1% change of the hurdle rate has on the projected profit.

MR CHABI: Correct and that impact increases as you drop the discount rate.

ADV MAHLAPE SELLO: Okay you make a point about the ETC and what the ETC establishes and doesn't establish. What it considers or doesn't consider and you say the estimated total cost speaks purely to
10 cost and does not consider revenue and therefore is not a measure to determine profit?

MR CHABI: Yes.

ADV MAHLAPE SELLO: Okay and you mention that it is inappropriate therefore to have regard to the ETC only in order to determine the profitability of the project?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Why are you pointing this out to us in particular?

MR CHABI: I point that out because there seemed to have been an
20 over emphasis on ETC at the expense of the profitability of the project.

ADV MAHLAPE SELLO: There seems to have been – where was this please be more specific you say you speak in general terms that there seems to have been?

MR CHABI: Besides starting with the mandate that we should check the ETC and having looked deeper into the business case we realised

actually the ETC only makes up 20% of the cost, the project is a lot bigger than this ETC that we are referring to, the memorandum, I think a bit later, as we all – well we'll come to it.

ADV MAHLAPE SELLO: Ja for the record tell us again what memorandum this is?

MR CHABI: The 23 May 2014 memorandum speaking of the increase in ETC and that is the headline on that memorandum the Board might have wanted to look beyond the ETC and get the profitability of the project and that seems to have been addressed in one or two
10 paragraphs whereas ETC made up the remaining 80 odd paragraphs.

ADV MAHLAPE SELLO: And that memorandum is the memorandum to the Board of Transnet at the time on the 23rd of May, thereabout 2014?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Seeking approval for the increase of the ETC from R38 billion to R54 billion?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And you are saying in that memorandum there seems to have been an over-emphasis on ETC?

MR CHABI: In justifying the ETC.

20 **ADV MAHLAPE SELLO:** In justifying the ETC?

MR CHABI: The increase in the ETC yes.

ADV MAHLAPE SELLO: And your view is that less attention was given to the profitability of the project?

MR CHABI: Correct.

ADV MAHLAPE SELLO: To the totality of the project okay. You then

lead into your paragraph 6.8 and you talk about what you must address in order to determine the financial viability of the 1064 transaction, you see that?

MR CHABI: I do.

ADV MAHLAPE SELLO: Okay can we deal with that in brief and we are now dealing, I think, specifically with your variables ...(intervenes).

MR CHABI: So we have discussed this.

ADV MAHLAPE SELLO: We have discussed this in reference to the slides yes, that would be slide 5 which is the slide which was dealing
10 with revenue and variables making up revenue and costs.

MR CHABI: Correct, I think the one part we had not discussed the 6.83 which is the view on the assumptions made to the variables.

ADV MAHLAPE SELLO: Sorry, I didn't hear that please say that again?

MR CHABI: So looking at that, 6.8.1 has been dealt with which is the – relates to the revenue costs.

ADV MAHLAPE SELLO: Yes.

MR CHABI: In the business case the net present value of R2.7 billion has been addressed.

20 **ADV MAHLAPE SELLO:** We've dealt with that.

MR CHABI: The reasonability of the assumptions in relation to ETC has not yet been addressed.

ADV MAHLAPE SELLO: Okay then perhaps let's deal with that.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Before we do Mr Chabi we have dealt with

the volumes.

MR CHABI: We have.

ADV MAHLAPE SELLO: Which you deal with at 7.2 we've dealt with the distance the tariffs the costs you recall where we dealt with the total cost of ownership, revenue cost and the like. We must deal with the total cost of ownership before you express an opinion on the reasonability of the assumptions.

MR CHABI: Shouldn't we?

ADV MAHLAPE SELLO: The total cost of ownership, what you deal
10 with from your paragraph 7.6.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Before you express an opinion on the reasonableness of assumptions we must deal with some of these aspects yes.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay and that, Chair, you'll find at page 16 starting at paragraph 7.6.

CHAIRPERSON: Yes I've got it.

MR CHABI: So Chair starting off on paragraph 7.6 this looks at the
20 total cost of ownership and we have dealt with this in some detail highlighting what the costs were but we did not speak specifically to the ETC component although we did allude to it earlier on and the ETC in this instance looked at the capital of acquiring the – or the cost of acquiring the locomotives, so the price per locomotive, there was a 2% localisation premium in the business case added to the price to allow

for the likelihood of the locomotive manufacture, locally being higher than that abroad.

I think reasonably so, so ETC was the price the localisation premium also included inflation, so escalation in the price over the various years also included – and that's escalation or inflation locally and abroad because a part of these locomotives were to be manufactured there was a foreign component to it and there was a local component to the locomotive so different inflation or escalation rates would apply on these locomotives. We also had a foreign currency risk
 10 hedging cost, a Forex cost and we had contingencies, so those are the elements that made up ETC in this business case and as mentioned ETC made up – formed the part of total cost of ownership.

Now how was ETC, and I'm not sure if we should actually address this now how the ETC was modelled or much later, I can go through the modelling process quickly or shall I say the deviation of 3.6 or leave that for later?

ADV MAHLAPE SELLO: Let's leave that for later.

MR CHABI: For later okay thank you. So just to give you a brief explanation of – starting off with diesels, so the price assumed for
 20 diesel locomotives in the 2013 business case was 2.6 million Dollars and 3.5 for electrics, 50% of that 2.6 million was to be borne locally, so that's 1.3 million Dollars okay, so 1.3 million Dollars worth of locomotive if I can use that term was to be manufactured in South Africa, 1.3 million Dollars worth of locomotive was to be manufactured overseas, in this instance looking at the US given that we're dealing

with the US Dollar price.

The foreign component of the locomotive, the 1.3 million Dollars, would be escalated as you would expect by foreign escalation, using foreign escalation rates and what was assumed in this instance was about 2.3% a year escalation. The local component of the 1.3 million Dollars would be escalated because that is in rands using local inflation indices or rates, that's a better term to use and there we I think the ...(indistinct) was between 5.3 and 5.7% over the period or 5.9% okay. So we can see that the inflation rates are materially
 10 different in this instance, the economies are different, they're subject to different economic conditions so you can expect those changes in prices to differ between the two economies.

So to arrive at a price for the diesel locomotive in year one with the model assuming the 2.6 million Dollar price did not escalate that in that year, however used for the foreign component because that had to be hedged and we'll demonstrate that there was hedging in a short while, the forward rate for the Dollar in a year, and I think at that point it must have been 9.582 or something to that effect. So the foreign component of course to convert that amount to Rand terms had
 20 to be multiplied by 9.5 rands to the Dollar to arrive at a Rand price to arrive at that foreign component and ...(intervenes).

ADV MAHLAPE SELLO: That was the exchange rate at the time?

MR CHABI: That was the exchange rate applied at the time.

ADV MAHLAPE SELLO: Yes.

MR CHABI: And the rest of course, was just – to the local component

of course you had to add the 2% premium to that, the sum of those factors I gave you, the Rand price in that year, I think it was about R25.2 million, let me just check that.

ADV MAHLAPE SELLO: You deal with – just look at your 7.6.4.1 you give it in Dollar terms at 2.6 million for diesel and 3.5 for electric locomotives.

MR CHABI: Correct, okay yes to that gave us a total of R25.2 million rands per locomotive – diesel locomotive in 2013 ...(intervenes).

ADV MAHLAPE SELLO: At an exchange rate of 9.5.

10 **MR CHABI:** 9.58 odd.

ADV MAHLAPE SELLO: Okay.

MR CHABI: The same process was followed for the years to follow, however the Rand component was escalated at the local rate of inflation, the foreign component at the foreign rate of inflation and whatever that amounted – so in year two you would take the 1.6 million Dollars, escalate it by 2.3% and then that figure is then what you then hedge, multiply at the forward rate in year two. The combination of that gives you a price and that price was R26.7 million in 2014.

ADV MAHLAPE SELLO: Per locomotive?

20 **MR CHABI:** Per locomotive.

ADV MAHLAPE SELLO: And that is what you have to hedge?

MR CHABI: No, no so this already includes the hedging cost.

ADV MAHLAPE SELLO: Oh so it already includes the hedging cost?

MR CHABI: The 26 – it's a Rand amount and it's a combination of the local component in Rand terms and the foreign component in Rand

terms allowing for the 2% localisation premium.

ADV MAHLAPE SELLO: Allowing for 2 – yes. So if it were to be set out in an Excel Spreadsheet you say you are looking at the initial capital outlay, the acquisition cost right, would it be correct to say, in that acquisition cost the Chair should expect to be able to locate the base price of the locomotive, the localisation premium, I'm looking at paragraph 7.6.2, the escalations to the price, the hedging costs and contingencies.

MR CHABI: Correct.

- 10 **ADV MAHLAPE SELLO:** And the cumulative of all that is what's going to tell me what the acquisition costs, the pure acquisition costs are?

MR CHABI: Well it's going to tell you what the ETC is.

ADV MAHLAPE SELLO: What the ETC is?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Yes okay, overleaf you deal – what you've just dealt with is an example – was a diesel locomotive and then the same process is repeated for electric locomotives which is what you deal with at page 17, are you still with me?

MR CHABI: Correct.

- 20 **ADV MAHLAPE SELLO:** Okay and if you look at your paragraph 7.6.10 at page 18 there's your 9.1285 that was your spot rate, that was exchange rate as at April 2013?

MR CHABI: Correct so.

ADV MAHLAPE SELLO: What is the source of that exchange rate or did you ...(indistinct) that exchange rate that you have reflected here?

MR CHABI: Oh that's the business case, the financial model all of these derives from the business model.

ADV MAHLAPE SELLO: These figures?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And equally so then the forward rates as set out immediately below that at page 18 looking at 2014, 2015, 2016, 2017, 2018, 2019 all those derived from the financial model?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And it applying those various rates amongst
10 other that eventually, to the original locomotive price that will eventually lead us to the R38.6 billion?

MR CHABI: Correct, applying these rates allowing for inflation and all the other variables.

ADV MAHLAPE SELLO: Yes absolutely, the contingencies. From paragraph 19 you deal with the detail of the cost.

MR CHABI: Paragraph 19?

CHAIRPERSON: You said from paragraph?

ADV MAHLAPE SELLO: Page 19 too many P's I apologise Chair. For the record your page 19 of your statement you then unpack the various
20 costs, the personal costs, fuel costs, maintenance costs.

MR CHABI: Those are still the costs making up TCO, Total Cost of Ownership.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Correct.

ADV MAHLAPE SELLO: And that detail we have dealt with in part,

previously.

MR CHABI: We have.

ADV MAHLAPE SELLO: We don't have to worry about – so now we have taken into consideration all the assumptions.

MR CHABI: Well I think it is important to mention one thing Advocate, the maintenance costs.

ADV MAHLAPE SELLO: Maintenance costs?

MR CHABI: We've got two different tables, two different Forex rates within the business plan.

10 **ADV MAHLAPE SELLO:** Okay take us through that, talk to us to that.

MR CHABI: Now we found it important to speak about the various exchange rates found in the business case because the mandate will tell us that hedging is included in 30.6, hedging costs I included in the 30.6 billion or not. We came across hedged forward curves for foreign currency hedging we also came across forecasts and those forecasts are what we have under the maintenance costs and we have them specifically under maintenance costs because forecasts – forecasted rates are only applied in projecting maintenance costs and that is the only instance where we saw forecasted rates being applied in the
20 business case.

Everywhere else it was the forward curve.

ADV MAHLAPE SELLO: And we will get to the relevance of what you point out later when we're talking about the treasury curve rate. For now, then we've considered the variables and assumptions that underpin the ETC.

MR CHABI: We have.

ADV MAHLAPE SELLO: Okay and you summarise these at your slide 8 and having taken us through that detail are you now in a position to express a view as regards the reasonability of these assumptions?

MR CHABI: Correct, so a lot of these costs were escalated, well the ETC the locomotive price – the local component of the locomotive prices was escalated using SA Producer Price Indices, it is undoubtedly the right index to use given that you look at manufacturing goods, the locomotives in the same sense, not CPI but PPI.

10 **ADV MAHLAPE SELLO:** Yes.

MR CHABI: We're happy with the fact that the variable itself was PPI, it's the appropriate index to use. The assumptions used in the business case at the time was around 6% going forward and I think 5.7 to 5.9 in the initial period, we were also happy with those assumptions I think largely considering what it had been in the past and looking at the five-year period preceding it was about 3.6% and the 10-year preceding it was about 5.6%. We felt that the assumptions made in the business case were pretty much in line with what he had observed historically and where it was likely to go.

20 **ADV MAHLAPE SELLO:** If you could go to slide 9 then, you show us a graph there that reflects ...(intervenes).

MR CHABI: That's US now.

ADV MAHLAPE SELLO: That's US?

MR CHABI: So we're still speaking about SA.

ADV MAHLAPE SELLO: You're still speaking about SA okay?

MR CHABI: Alright Chair on the foreign currency and I think we'll still get to that – discuss that a bit later but we simply state that those rates were forward curve rates, so hedging costs were allowed for and we'll unpack that later but earlier we spoke about the 6% margin over the weighted average cost of capital, it's quite a high margin especially considering that the cost of equity used to arrive at the weight was about 16% so you're looking at an additional 2% over the cost of equity for this type of project, it's a high risk project given that Transnet had never undertaken this type of project before 80.56% was considered
10 acceptable also considering that it was evidence based looking at a number of companies, not just locally but abroad about 160.

ADV MAHLAPE SELLO: How many?

MR CHABI: About 160.

ADV MAHLAPE SELLO: 160?

MR CHABI: That's what they researched so we considered that 80.56% as a reasonable discount rate to use in discounting the cash flows. On the US side we had a – it was a bit concerning that the financial model applied CPI as opposed to PPI because we thought, okay these are locomotives okay they're not consumer goods they are
20 producer goods they will be affected by producer price changes rather than consumer price changes.

We then looked at the correlation between CIP in the United States and PPI and the correlation, as you can see there is was very, very high and positive for that matter, I mean CPI and PPI in the US they pretty much track each other as can be seen from the graph. We

also find that for the most part US CPI led US CPI except above US PPI, it was slightly higher and I think when you look at the average going back it was about 3.6 compared to 3.3. 3.6 being that of the United States and 3.3 being that of – sorry being that of CPI and 3.3 being that of PPI.

So we're happy with US CPI because, again that implied a certain level of conservatism I suppose, being a little pessimistic around the price of locomotives going forward. So at least the incentive was not to push this project through when you look at the
 10 business case but to be very conservative when presenting to the Board and saying, listen it's R3.7 billion and we have, where we could apply margins to our assumptions to allow for any additional risk that might have crept in that could creep in if we did not allow for, either in our insurance or in the risk discount rate.

ADV MAHLAPE SELLO: And the purpose – before I get to the purpose, slide 9 is what you produced it doesn't come from the business case it doesn't come from ...(intervenes).

MR CHABI: Oh yes correct, so this was sourced from I think this day's trading economics but there's ...(intervenes).

20 **ADV MAHLAPE SELLO:** Yes this is what you sourced?

MR CHABI: This is market data.

ADV MAHLAPE SELLO: Yes and the purpose was to see how the right – the correct rate which ought to have been the US PPI related over the period to the US CPI?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And the takeout from that slide must be that the differences between the two indices is slight – it's a slight difference and the use of the US CPI did not unduly inflate or reduce the ETC, so it ...(intervenes).

MR CHABI: It served to increase it slightly.

ADV MAHLAPE SELLO: It served to increase it but ever so slightly.

MR CHABI: Yes.

ADV MAHLAPE SELLO: But using US CPI we come in at 38.6 billion looking at your graph what would you say would perhaps have been the
10 right ETC using the PPI.

MR CHABI: US PPI wouldn't expect to come any lower than 38.4 billion.

ADV MAHLAPE SELLO: So 38.4 as against the 38.6 and what opinion do you express on that, the fact that they used the wrong index?

MR CHABI: Well I won't say they used the wrong index but they're probably trying to be more prudent and conservative, we're happy with the 38.6 as an ETC.

ADV MAHLAPE SELLO: So then that now that we have looked at this particular issue, the inflation issue both local and foreign.

20 **MR CHABI:** And foreign yes that's right.

ADV MAHLAPE SELLO: Are you then able, in your position now, to express a view on the reasonableness in the assumptions made in determining the ETC?

MR CHABI: Well I think – there's another slide that we looked at another sensitivity that we ran and this speaks to – I mentioned this,

I'm not sure if I did but local content as well was a variable in this instance it varied from diesel to electric, we look at the detailed requirements that are – the business case speaks to the 60/40 for electrics and the 55/45 for diesel, 60% required local content on the electrics and 55% local content required on the diesel and – however, the business case modelled this ETC on a 50/50 on an assumption of 50 locally and 50% abroad, we tried to assess the impact of this and we found the impact to be negligible here as well.

I think if you move away from a 50% local content and you
 10 assume a 60% local content the impact in the price is a drop in the ETC as can be seen. It's pretty much the same 38.6 billion compared to 38.555 billion.

ADV MAHLAPE SELLO: So the 2billion difference.

MR CHABI: So it's a, in our view, a negligible difference, negligible in the sense that it will not ...(intervenes).

ADV MAHLAPE SELLO: No, no my apologies my calculation it's lunch time.

MR CHABI: Sorry?

ADV MAHLAPE SELLO: I say my calculation is entirely wrong, it's the
 20 hour. I said the difference between the two is negligible they are both 38 billion just that the other one is .55 and the other is 6 so yes.

MR CHABI: So moving to 60 would have actually reduced the ETC and increased the net present value as can be seen from 2.739 to 2.75 billion and that's what an impact of an increase or a change in that assumption would have done to this business case.

ADV MAHLAPE SELLO: Okay.

CHAIRPERSON: You didn't realise we have gone ...(intervenes).

ADV MAHLAPE SELLO: I was hoping we wouldn't go much I just wanted him to – this is, I think the last point to conclude.

CHAIRPERSON: Yes okay do that.

ADV MAHLAPE SELLO: On his first mandate then.

CHAIRPERSON: Okay.

MR CHABI: So I suppose in conclusion we were happy with the mechanics of the model in other words how the model actually
10 modelled, projected and discounted the cash flows. We're happy with the variables employed within the model, the assumptions made around those variables of course within the context of our mandate one variable being the number of locomotives which we did not interrogate we took as is. We were also happy with 38.6 billion ETC and I'm not sure if this is the point where we answer if it includes all the other – but I ...(intervenes).

ADV MAHLAPE SELLO: No.

MR CHABI: No, we're not at that stage.

ADV MAHLAPE SELLO: Thank you Chair then, if we may, apologies.

20 **CHAIRPERSON:** Yes we'll take the lunch adjournment and resume at 14:05, we adjourn.

REGISTRAR: All rise.

INQUIRY ADJOURNS

INQUIRY RESUMES

CHAIRPERSON: Okay let us continue.

ADV MAHLAPE SELLO: Thank you Chair. Mr Chabi just before we broke for lunch we had completed and you had given your finding as regards one of the issues you were mandated to investigate. We now turn to the second issue which is addressing the actual ETC of 38.6 billion. You deal with that from your page 27 at paragraph – from paragraph 9.11. Now as is our practice before we deal with the detail of this ETC of 38.8 billion – 38.6 billion my apologies perhaps it might be appropriate to put up onto the screen slide 11.

CHAIRPERSON: And you could switch on your microphone as well.

- 10 **ADV MAHLAPE SELLO:** And in this slide you summarise the mandate and your findings. So if you could just quickly take us through that?

MR CHABI: Okay. So the second part of the mandate entailed assessing whether the 38.6 billion was a reasonable cost for the locomotive. I think we spoke briefly about that.

ADV MAHLAPE SELLO: Yes.

MR CHABI: And whether that included Forex Hedging and escalation.

ADV MAHLAPE SELLO: Yes.

- MR CHABI:** The finding in that regard was the 38.6 billion was a reliable estimate for the locomotive – for the 1064 locomotives and the
20 ETC did indeed include Forex Hedging and escalation.

ADV MAHLAPE SELLO: As you correctly point out we have touched somewhat on the reasonableness of the 38.6 billion.

MR CHABI: Ja.

ADV MAHLAPE SELLO: For the 1064 and in this session we will deal with only those aspects that we did not perhaps cover before we broke

for lunch.

MR CHABI: Okay.

ADV MAHLAPE SELLO: But the bulk of our time on this issue will be spent on the question of whether or not the 38.6 billion included Forex Hedging and escalation.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay. Now starting at your page 27 as I said paragraph 9.11 you then may take us through how you arrived at the finding that is reflected at slide 11?

10 **MR CHABI:** Okay. So if I may Chair? So I have got overhead slide 12.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Which details the delivery schedule. We have spoken to this already. Again just quickly going through it was 100 right through to 2017 for diesel locomotives in each year and 65 locomotives in the year 2018 and that is ending in March 2018. And we can see the electrics being shifted out one year starting in April 2014 and ending March 2015 we were expecting 65 electric locomotives. 130 right through to 2018 and 144 locomotives in the last year – the year ending March 2019.

20 **ADV MAHLAPE SELLO:** Yes.

MR CHABI: And that is a total of 1064 locomotives. What I point beneath point to underneath that table is the four month testing period. So one thing I omitted to mention earlier on was that 90% of the price was paid on delivery for the locomotive. That is how the business schedule is developed with the remaining 10% paid four months later

after testing. The revenue as well followed that philosophy. You can only generate revenue once the locomotives are operational so your revenue only kicked in four months after delivery of the first locomotive. The business case also allows for that delay in time. A four month delay.

ADV MAHLAPE SELLO: So the revenue we have been considering of 109 billion over time – over the period was based on this four month delay.

MR CHABI: Correct.

10 **ADV MAHLAPE SELLO:** The testing of the locomotives.

MR CHABI: It accounted for the delay.

ADV MAHLAPE SELLO: It accounted for that yes.

MR CHABI: In the operation of the locomotives. The four month delay period was one of the aspects we also engaged with – engaged on – with Transnet Officials. Whether four months was a reasonable period for testing their view was based on practice it was around nine months. It will take about nine months to – from delivery to getting the locomotives to start operating. Basically nine months to test. What the four month delay did in the business case was to bring the costs
20 forward a bit and again that has the – and well has the impact of reducing your profit. Because you incurring costs a lot sooner than you would have initially anticipated or expected if you had used the nine month lead period. So we were happy with the four month delay – again it was conservative.

ADV MAHLAPE SELLO: Okay. We then now deal with the breakdown

of the 38.6 billion specifically and for that purpose I think we should have regard to your slide 13.

MR CHABI: Okay. So slide 13.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Is presented – projected overhead. So we break down the 38.6 billion into the various components that we spoke to earlier on except for the localisation premium. The localisation premium we have allowed for in the locomotive price. We then – we will look at SA PPI and what proportion – what amount that formed in the 38.6 billion. We
10 will look at US PPI and what amount that formed in the 38.6 billion. The foreign currency cost as well we will look at that and what amount it formed in the 38.6 billion and the contingency amount. Essentially all of that made up your 38.6 billion we discussed it. We then divide – we divided those costs by locomotive type as well. We looking at diesels and looking at electric locomotives.

ADV MAHLAPE SELLO: Help us here? What we see on slide on 13 is a product of your work. The slide as currently presented does not exist in any of the documentation provided you in the form that you present it at 13?

20 **MR CHABI:** Correct. In the form presenting that amount.

ADV MAHLAPE SELLO: So this is as a result of an analysis you conducted of the financial model?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Now are you able to point us to the source of information that led you to the conclusions you draw on this slide?

MR CHABI: So would it be from the financial model.

ADV MAHLAPE SELLO: Yes.

MR CHABI: And from certain sheets in the financials – certain worksheets in the financial model.

ADV MAHLAPE SELLO: Okay.

MR CHABI: I can speak to the sheet?

ADV MAHLAPE SELLO: You refer us to annexure AC4 at your paragraph 9.16.

MR CHABI: Correct we look at annexure AC4.

- 10 **ADV MAHLAPE SELLO:** Yes. I – in that paragraph I picked up a little error. I think the paragraph is incomplete. It concludes that this annexure is titled in the financial model but does not give the title.

MR CHABI: Oh. Apologies for that.

ADV MAHLAPE SELLO: Is that not supposed to read inverts TCO locos CAPAX.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay. So we must add that.

MR CHABI: Apologies Chair.

ADV MAHLAPE SELLO: Sentence at the end of paragraph 9.16.

- 20 **CHAIRPERSON:** What do we add?

ADV MAHLAPE SELLO: At the end Chair of that paragraph.

CHAIRPERSON: 9.?

ADV MAHLAPE SELLO: 9.16.

CHAIRPERSON: Ja.

ADV MAHLAPE SELLO: It should read what you have currently is this

annexure is titled in the financial model but then does not give you the title.

CHAIRPERSON: H'mm.

ADV MAHLAPE SELLO: So we propose to add the title and we do so by opening inverts we write capital "TCO".

CHAIRPERSON: Okay shall I arrange that replace it with an amended page?

ADV MAHLAPE SELLO: I shall

CHAIRPERSON: You give me an amended page.

10 **ADV MAHLAPE SELLO:** We will do so Chair.

CHAIRPERSON: That would replace. *Ja*.

ADV MAHLAPE SELLO: But for purposes of the record at least just state the title of that annexure?

MR CHABI: It is titled TCO Locos CAPAX.

ADV MAHLAPE SELLO: Okay.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: Now you direct us to annexure AC4 and that starts at your page 162. Now if you could just go page by page it is supposed, so we will start at 162 we may for our purposes ignore 163

20 correct? Please check your page 163.

MR CHABI: I have 163 here.

ADV MAHLAPE SELLO: We may ignore that graph there.

MR CHABI: Oh we can ignore that yes.

ADV MAHLAPE SELLO: Okay.

MR CHABI: We can ignore that.

ADV MAHLAPE SELLO: And you want in particular for us to have regard to 163. Page 163.

MR CHABI: Page 163 and in particular the table.

ADV MAHLAPE SELLO: The table.

MR CHABI: To the left of the graph yes.

ADV MAHLAPE SELLO: Chair page 163 has got a table to the left and on the right is a graph. We may ignore the graph for purposes of our discussion. What is important is the table. But the reproduction at page 163 is very tiny and difficult to read. What we have done is we
10 have reproduced a larger table which I beg leave to hand a copy in of.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: And we propose that that be numbered 163.1. it comes already numbered.

CHAIRPERSON: Oh okay.

ADV MAHLAPE SELLO: Thank you Chair. Now Mr Chabi you intend to go to this specific worksheet right in order to help us understand how you arrive at the figures that you set out in your slide 13.

MR CHABI: Yes.

ADV MAHLAPE SELLO: If you could take us there.

20 **CHAIRPERSON:** Is what you have on the screen now 163.1?

ADV MAHLAPE SELLO: It is coming up. No it is coming up.

CHAIRPERSON: Oh.

ADV MAHLAPE SELLO: There it is Chair. Now it is coming up.

CHAIRPERSON: Oh okay.

ADV MAHLAPE SELLO: Yes. Yes.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Now you will recall because now slide 13 – if the Chair could just keep it open slide 13? At slide 13 you give us the total respectively of the locomotive price, the SAAPPI escalation cost, USCPI escalation cost foreign hedging and contingencies.

MR CHABI: Correct.

ADV MAHLAPE SELLO: So you give us the totals for both electric and diesel and you conclude at the bottom with a total ETC of 38.6 billion.

MR CHABI: Correct.

- 10 **ADV MAHLAPE SELLO:** So that we will keep handy and then you can help us work through this worksheet.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Would it be correct to say the worksheet you are referring us to supports the conclusions drawn at slide 13?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay.

MR CHABI: In part.

ADV MAHLAPE SELLO: Then – I part?

MR CHABI: Yes.

- 20 **ADV MAHLAPE SELLO:** Okay then identify those parts and help us understand slide 13?

MR CHABI: Okay so there are a number of worksheets we would need to work through in order to demonstrate what we have in slide 13. The second worksheet we would need to work through is the third worksheet titled Main Control Input.

ADV MAHLAPE SELLO: Okay.

MR CHABI: Is the Chair able to see? Okay. Chair if I can point you to the red cells.

CHAIRPERSON: Yes.

MR CHABI: And the third one in particular. If you can see where my cursor is it shows you 38.6 billion. If that is ...(intervenes).

ADV MAHLAPE SELLO: That is our ETC.

MR CHABI: That is our ETC,

ADV MAHLAPE SELLO: Yes.

10 **CHAIRPERSON:** Yes.

MR CHABI: Okay. That is per the business case. Just beneath that cell you can see the nett present value of 2.7 billion.

CHAIRPERSON: H'mm.

MR CHABI: Again trying to substantiate the view that the business case was actually derived from this ...(indistinct). What we will attempt to do in this instance is to look at the inflation assumptions made locally and abroad. Look at the assumptions made around foreign exchange – the foreign exchange rate going forward and adjust those and determine what – and well basically observe the impact it has on
20 the 38.6 billion. Hopefully that will suffice as proof that the 38.6 billion allowed for both costs. But I guess before we get there as well it would be ideal to look at what the locomotives would have cost Transnet had they decided to acquire them as at April 2013. Going back to your initial suggestion and discussion around ETC about acquiring them right there and not spreading over the delivery period. I think once we

have verified that it would become clear that this is what the locomotives will have cost you barring all the additional costs.

ADV MAHLAPE SELLO: Okay. Please proceed.

MR CHABI: So Chair I will go back to the annexure before you which is TCO Locos CAPAX.

ADV MAHLAPE SELLO: And by that you mean annexure AC4?

MR CHABI: AC4.

ADV MAHLAPE SELLO: In our ...(indistinct) yes.

MR CHABI: Yes. And I will attempt to explain what you have before
10 you.

CHAIRPERSON: Yes. In particular we are going to 163.1 or?

ADV MAHLAPE SELLO: Indeed Chair.

CHAIRPERSON: Indeed okay.

ADV MAHLAPE SELLO: The table yes.

CHAIRPERSON: Okay.

MR CHABI: So Chair the first table which is the top part as you can see there and I maybe I should highlight all of that.

CHAIRPERSON: Yes.

MR CHABI: That table is what we are looking at. Relates to the
20 projection of the diesel locomotive prices right through to 2022. We know however that the delivery schedule ended in 2019. Following the cursor – maybe I should use the mouse instead. That is the financial year in red as can be seen. Second row says Diesel. ZAR locomotive essentially is the price of the locomotive in Rand terms. And we can see starting April 2013 the price of the locomotive in Rands was R25.2

million. We can that price – that is the next cell is the yellow cell is held constant right through the year. So up to March 2014. It is important to understand how this price – how this – how we arrive at his 25.2. You will recall Chair the price of the diesel locomotive that we had started off with was 2.6 million Dollars. I attempted to explain how we move from 2.6 million Dollars to 25.2 million Rands. The assumption made was 50% of the locomotive content would be sourced locally and 50% would be sourced abroad. And that is 1.3 million Dollars locally, 1.3 million Dollars abroad. However to allow for the
 10 additional cost of manufacturing this locomotive locally a 2% premium was added onto the local components of the 1.3 million Dollars. So going back with the cursor 25.2 million Dollars the price in Dollars – I mean 25.2 million Rands the price in Dollars is 2.6. Just beneath that you have 12.7 million Rands. It is roughly half of 25.2 million Rands. But I will get into that shortly. The foreign bit sits at 12 – sorry 12.5 million Rands and we can see just beneath that the percentage foreign which 50% of the 2.6 million Dollars and it is reflected there as 1.3 million. I am not sure if the Chair is following

ADV MAHLAPE SELLO: H'mm.

20 **MR CHABI:** So we are still in that column. 1.3, 12.5, 12.7, 2.6, 25.2. Your 25.2 is the sum or the addition of those two cells. I will highlight them in red. 12.7 and 12.5.

ADV MAHLAPE SELLO: And then ...(intervenes).

MR CHABI: It is no – sorry.

ADV MAHLAPE SELLO: Sorry that 12.7 – is 12.7 million Rands.

MR CHABI: Rands.

ADV MAHLAPE SELLO: Being the local portion of the 25.2 million.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Which is the cost of the locomotive?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And the 12.5 million is the foreign component of that price?

MR CHABI: Yes.

ADV MAHLAPE SELLO: Translated into Rands?

10 **MR CHABI:** Correct.

ADV MAHLAPE SELLO: Okay. And you say that ...(intervenes).

MR CHABI: So 12 ...(intervenes).

ADV MAHLAPE SELLO: The sum of those two give us 25.2?

MR CHABI: Million Rands.

ADV MAHLAPE SELLO: That is how we determine that the price of the locomotive is 25.2?

MR CHABI: Correct.

20 **ADV MAHLAPE SELLO:** Adding of course the – now the 12.7 for the local portion of the price has taken into consideration the 2% localisation already?

MR CHABI: And that is why it is higher than the foreign component.

ADV MAHLAPE SELLO: Okay.

MR CHABI: Had we not had the 2% because we are assuming 50/50 would expected those two figures to be the same.

ADV MAHLAPE SELLO: Yes.

MR CHABI: But because of the 2% premium on the local content it is higher in Rand terms. And I suppose in your words Chair that principle should follow right through. And we can test that principle across the various years. So in 2013 – well year 2013 ending March 2014 12.7 higher than 12.5. So the 12.7 is the local is higher than the foreign. If we look at the next year we still see the same principle applying.

ADV MAHLAPE SELLO: Yes.

MR CHABI: I am not sure why it is different in that cell.

ADV MAHLAPE SELLO: And *ja* – but as you go further appears that
10 the foreign component becomes higher.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Is there an explanation for that?

MR CHABI: Just a minute. Okay. So the reason you see the foreign component increasing at a higher rate than the local component it is because of the hedging cost. So allowing for that and the escalation you come up with the price locally that is higher than the price abroad and you will likely see that from the table. If you look at the component prices, the prices make up the 38.6 billion you will see that SA PPI only came in at if we look at the totals – this is slide 13.

20 **ADV MAHLAPE SELLO:** As at slide 13 *ja*.

MR CHABI: The total for SA PPI came in at 1.8 billion however take into account USCPI and FOREX we are looking at about 4 billion. So the foreign component in terms of price actually increases beyond the local component. So that is allowing for the exchange rate.

ADV MAHLAPE SELLO: Yes.

MR CHABI: But we can see in the first year allowing for that 50/50 and the 2% above on the – 2% premium the local component is higher than the foreign component.

ADV MAHLAPE SELLO: Yes okay. Okay.

MR CHABI: I think at this point going back to slide 13 I think we will try and derive the 30.476 billion we have there. Or maybe just focus on the diesel part and try and derive the 11.147.

ADV MAHLAPE SELLO: I think there is a principle that cuts across. You perhaps can make an example with the diesel in 13/14 and then if
10 that is applicable you then say we can apply the same principle across if not you will explain what principle to apply and then you can extend that same principle to the electrics.

MR CHABI: Correct. So we can just be ...(intervenes).

ADV MAHLAPE SELLO: So let us deal with it..

MR CHABI: Focussed on diesel.

ADV MAHLAPE SELLO: Example of the diesels *ja*.

MR CHABI: And if we happy with diesels we should happy with electrics. So Chair we know that the starting price for diesel locomotives was 2.6 million Dollars.

20 **ADV MAHLAPE SELLO:** Yes.

MR CHABI: And that was in 2013 – April 2013. Had they acquired all the diesel locomotives in April 2013 allowing for the 2% localisation they would have paid about 11 billion Rands for those diesel locomotives? How do you arrive at that? Should I do a calculation on my end while I speak to it?

ADV MAHLAPE SELLO: Ja you explain it to us yes.

MR CHABI: Okay. So we take the ...(intervenes).

ADV MAHLAPE SELLO: Just make sure you are clear for the – for tomorrow's reader of the transcript that they can follow what you saying.

MR CHABI: Okay. So we take the 2.6 million Dollars. The exchange rate that applied at the time was 9.5854 – sorry Chair maybe I should actually take you through the additional cells.

ADV MAHLAPE SELLO: 518?

10 **MR CHABI:** Sorry.

ADV MAHLAPE SELLO: 9.158?

MR CHABI: Correct that is the forward rate. And that is very correct so we should applying the spot rate not the forward rate. Thanks.

ADV MAHLAPE SELLO: And just to perhaps – we do not have to go to the – you can – you stated – just check your pages 18 paragraph 7.6.10? You tell us that the spot rate as at 18 April 2013 was 9.1285.

MR CHABI: Just check that. So this – okay so on page 18 yes the spot rate was 9.12185.

ADV MAHLAPE SELLO: Yes. No 1285.

20 **MR CHABI:** 1285 correct.

ADV MAHLAPE SELLO: Ja. Okay so now we have located our spot rate.

MR CHABI: Correct.

ADV MAHLAPE SELLO: And we know the price then in 2013 was 2.6 million Dollars?

MR CHABI: So to get the Rand.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Part we take the 2.6 million multiplied by the spot rate at the time and that gives us 23.7 million. So 23.7341 million Rands.

ADV MAHLAPE SELLO: Yes.

MR CHABI: However this still does not include that 2% localisation.

CHAIRPERSON: Please raise your voice again?

MR CHABI: Okay so the 2% - this price of 23.7341 does not include the 2% localisation premium. So to this price we need to add the 2%
10 localisation premium. But the 2% only applies to the local component. So in effect we adding 1%. Because it is half of 2%.

ADV MAHLAPE SELLO: H'mm.

MR CHABI: So we take this 23.7341 and we multiply it by 1.01 and that gives us the price with the localisation premium allowed for.

ADV MAHLAPE SELLO: H'mm.

MR CHABI: That gives us a price of 23.971441 per diesel locomotive and that is in Rand terms. I must state it is different to the 25 that we see here.

ADV MAHLAPE SELLO: Ja.

20 **MR CHABI:** Because the 25 that we see here uses the forward rate of 9.585. We then take this 23 – this price per locomotive at the spot price allowing for the 2% localisation premium and multiply it by the number of diesel locomotives we would have acquired at the time. In this instance it is 465. And that gives us 11146.72.

ADV MAHLAPE SELLO: Yes.

MR CHABI: 11146.72.

ADV MAHLAPE SELLO: Now that 11 you say it is 11.146?

MR CHABI: 11 – sorry 11,146.72.

ADV MAHLAPE SELLO: And that is the figure at your slide 13 under diesel for locomotive price you have rounded off to 11,147?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay.

MR CHABI: So had your quite older diesel locomotives as at April 2013 this is what you would have paid in terms of ETC just for your diesels.

10 Moving that across to electrics it would have been 19.329 billion. So we are happy that we now have the price of the locomotives. So anything – that tells us there is a difference then between the 30.476 we seeing the 30.6 billion. We now need to understand what that difference is?

ADV MAHLAPE SELLO: So we can say at this juncture now we know that the ETC was 38.6. What we have done is to extract the cost of the locomotive free from all other associated costs.

MR CHABI: Correct.

20 **ADV MAHLAPE SELLO:** So we know of the 38.6 the actual cost of the locomotives were 30.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay. So then we look at the makeup of the difference between the two.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Yes.

MR CHABI: So Chair still focussing on the diesel tab we have shown that the local price increases by a certain amount each year and if I take you to – so I will just highlight the row that I am looking at in red. If the Chair is able to – is it highlighted there Chair? No.

ADV MAHLAPE SELLO: Just scroll down or up.

MR CHABI: Sorry.

ADV MAHLAPE SELLO: I do not know what would happen.

MR CHABI: I am working off the wrong sheet – my apologies.

ADV MAHLAPE SELLO: You working off – okay.

10 **MR CHABI:** My apologies Chair I am working off the wrong sheet. So Chair that is the row of interest which relates to the price of the local component of the locomotive in Rand terms.

ADV MAHLAPE SELLO: H'mm.

MR CHABI: 12.7 is the starting price but this 12.7 is based on – if I go further down Chair I will highlight again a row of interest here. Is based on that exchange rate of 9.59.

ADV MAHLAPE SELLO: H'mm.

MR CHABI: Allow to flick between pages. I think on page 18 again I have put there the table applicable to this forward curve and we can
20 see in year 2014 the rate was 9.5854 rounded off here to 9.59 and that we can increase that for Chair to – there we go. If I increase the number of decimal places we can see the 5854 coming up.

ADV MAHLAPE SELLO: And then that before you leave that row that number then changes in every successive year?

MR CHABI: Correct.

ADV MAHLAPE SELLO: It goes up to 10.40. Then goes to 10.52 to 11 and so forth until eventually in 2022/2023 it is at 14.30.

MR CHABI: 14.30. So we can see from this that the Rand was expected to depreciate over those years, because the amounts needed in Rand terms per Dollar kept increasing over the years.

ADV MAHLAPE SELLO: Okay.

MR CHABI: Going back to the top row in red. You can see the 13.7 is a function of the price in the previous year raised – this can be seen. I highlighted the cells that are affected there, by 5.3%.

10 **ADV MAHLAPE SELLO:** Huh-uh.

MR CHABI: The Chair can see that. So 5.3% feeds into that price as can be seen and if we look at the row where 5.3 comes from. It is titled SA PPI.

ADV MAHLAPE SELLO: Huh-uh.

MR CHABI: If the Chair is happy with that. I will again highlight that and that carries on in each of the respective years. I think for the Chair's comfort I will look at another 16.6 in this instance and we can see it references 5.5% from the SA PPI row. So we can see those percentages feed into the locomotive price.

20 **ADV MAHLAPE SELLO:** Huh-uh.

MR CHABI: Stated in red. I will try and demonstrate this for the ZAR foreign component and that is row beneath that. So I am just going to revert and refer to the row of interest here which is the row just under that and that is the part dealing with the foreign component, but in ZAR terms ...(intervenes).

ADV MAHLAPE SELLO: Huh-uh.

MR CHABI: And I mentioned here this is affected by two quantities. So it can be seen here the 1.3 is affected by the – I will come here. Exchange rate can be seen there at 10.4. This however does not include the localisation number you can see on top.

ADV MAHLAPE SELLO: H'mm.

MR CHABI: So it takes the value as can be seen Chair. I just want to show you that it is not just the exchange rate, but also US CPI. So you will notice that to get to the 12.5 you have got to take the 1.3 just
10 beneath that. Sorry. That is already at 9.5. Use the next one and apply the exchange rate of 10.04 to it. So I am looking at 13.3 in this instance, because remember the 12.5 is already in Rand terms from the 25.2 on top which used 9.5854.

If you look at the next one R13.3 million it takes the \$1.3 million beneath it and then multiplies that by the exchange rate. So R10,00 to the Dollar at the time to give you the price in Rands.

CHAIRPERSON: Mr Chabi some of these – the application of some of these numbers one will understand when one goes through your evidence

20 **MR CHABI:** Report.

CHAIRPERSON: Very slowly in a transcript. Yes. Yes. Continue.

MR CHABI: But I would not want to lose you at any point.

CHAIRPERSON: No. No fault with you.

MR CHABI: Okay Chair.

CHAIRPERSON: No fault with you, but some of them you know one

needs to ...(intervenes).

MR CHABI: Spend some time on it.

CHAIRPERSON: To spend some time.

MR CHABI: Right.

CHAIRPERSON: Look at a hard copy. At least people like me not on a screen. Look in a hard copy.

MR CHABI: And I appreciate.

CHAIRPERSON: Try and follow it properly.

MR CHABI: Agreed.

10 **CHAIRPERSON**: The application of percentages and all of that. Yes, but continue.

MR CHABI: Okay. As mentioned the 30.3 million that we are looking at there is – comes from the 1.3 multiplied by the exchange rate, but where does that 1.3 come from? It comes from the price in the previous year raised by US CPI and we can see that when I highlight that cell it looks at the 1.3 in the previous year and the 2.2% just beneath in the row labelled US inflation.

20 So we can see US inflation – I am trying to demonstrate that US inflation feeds into the price as can be seen. SA PPI feeds into the price and this exchange rate series feeds into the price. I think we can be satisfied that these three variables feed into the price of a locomotive.

ADV MAHLAPE SELLO: Okay. Now you will recall while you are looking at the next issue that with reference to slide 13. We at least have determined the PO price of the locomotive if they were they were

acquired in April 2013 ...(intervenes).

MR CHABI: That is correct.

ADV MAHLAPE SELLO: And we know that we should have spent 30 billion according to the business case?

MR CHABI: Correct.

ADV MAHLAPE SELLO: But the AGC that was actually approved was 38.6 billion and your reference to the slide is to demonstrate to us that the 38.6 billion is derived at by taking the locomotive price – total locomotive price and you add the inflation and you add the hedging.

10 **ADV MAHLAPE SELLO:** This slide does exactly what you are talking about except that it does it on an individual locomotive.

MR CHABI: Huh-uh.

ADV MAHLAPE SELLO: What you have ...(intervenes).

MR CHABI: Sorry.

ADV MAHLAPE SELLO: On the slide. So we are working – the slide works off one locomotive.

MR CHABI: Oh. This particular slide?

ADV MAHLAPE SELLO: Yes.

MR CHABI: Correct.

20 **ADV MAHLAPE SELLO:** Sorry. Not the slide. Let me say the ...(intervenes).

MR CHABI: To the ...(intervenes).

ADV MAHLAPE SELLO: The worksheet.

MR CHABI: The worksheet. Yes.

ADV MAHLAPE SELLO: Yes. The worksheet works off one locomotive.

So it is one locomotive adding the 2%, Adding the PPI ...(intervenes).

MR CHABI: CPI.

ADV MAHLAPE SELLO: Or ...(intervenes).

MR CHABI: CPI.

ADV MAHLAPE SELLO: CPI as the case maybe ...(intervenes).

MR CHABI: The cost of hedging.

ADV MAHLAPE SELLO: And then – yes and then hedging that part of the price that is in foreign exchange ...(intervenes).

MR CHABI: Correct.

- 10 **ADV MAHLAPE SELLO:** And that will then give you the total price of that diesel locomotive inclusive of these two costs?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay. When we go to slide 13 you follow the same thinking. Except you do not start off with one locomotive. You got the price for the locomotive and you multiply it by the number of locomotives in the diesel category and in the ...(intervenes).

MR CHABI: Electric.

- ADV MAHLAPE SELLO:** Electric category. You calculated the accumulative PPI across all the diesel locomotives and that is the –
20 that is why you come up with 388 million. That is for all of them at slide 13.

MR CHABI: Oh for diesel. Yes.

ADV MAHLAPE SELLO: For diesel. You do the same. So whereas then this particular worksheet works per individual locomotive. Your slide 13 is the accumulative based there of all locomotives split up into

...(intervenes).

MR CHABI: Diesel.

ADV MAHLAPE SELLO: Electric and diesel.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Am I right thus far?

MR CHABI: That is correct Advocate.

ADV MAHLAPE SELLO: Now you recall you took the Chair to a slide – no, to a worksheet where you indicated the 38.6 billion and you said that the Chair should take note of that cell.

10 **MR CHABI:** Yes.

ADV MAHLAPE SELLO: Yes.

MR CHABI: So I take it the Chair is happy that we have gone back to the original case on this worksheet.

CHAIRPERSON: Are we moving away from 163.1?

ADV MAHLAPE SELLO: We are coming back Chair.

CHAIRPERSON: We are coming back to it?

MR CHABI: We are coming back.

ADV MAHLAPE SELLO: Yes.

CHAIRPERSON: Okay.

20 **MR CHABI:** So ...(intervenes).

ADV MAHLAPE SELLO: It is just that you had flagged that other worksheet and I want us to remind ourselves the importance of that worksheet and its interrelation to this particular one.

MR CHABI: Okay.

ADV MAHLAPE SELLO: That is on the screen.

MR CHABI: Alright.

ADV MAHLAPE SELLO: *Ja.*

MR CHABI: So Chair I think we pointed to the 38.6 billion here and we know that is the ETC. A lot spoken of ETC of the 38.6 billion. A change in any of the variables we looked at on the previous worksheet should affect this 38.6 billion. I think I will spare you the trouble of having to show you how that sheet leads into this 38.6 billion, because it is involved in a number of other sheets.

As mentioned there are 54 sheets in this model of which 49
10 or 48 – I think have been used to model the transaction. So if the Chair will accept and we can demonstrate that by just changing one of these variables ...(intervenes).

CHAIRPERSON: H'mm.

MR CHABI: And see what impact it has on the 38.6 billion and then start with the revision of this table thereafter.

ADV MAHLAPE SELLO: Yes. Please do. Please.

MR CHABI: We change SA PPI, US inflation the forward curve.

ADV MAHLAPE SELLO: And you may move anyone of them.

MR CHABI: Okay.

20 **ADV MAHLAPE SELLO:** I suggest perhaps we change the one that will demonstrate a significant change or at least a – you know. Appreciable change to the 38.6 billion. So which one do we ...(intervenes)?

MR CHABI: That will be the exchange rate ...(intervenes).

ADV MAHLAPE SELLO: Let us do the exchange rate then.

MR CHABI: And I will put a number there that is not reasonable,

because I will put zero put in there.

ADV MAHLAPE SELLO: Huh-uh.

MR CHABI: Although you cannot apply – acquire a draft for R0,00 or maybe let us just use R1,00. So R1,00 per \$1,00 under that forward ...(intervenes).

ADV MAHLAPE SELLO: Let us do zero and I, because the question is whether or not the 38.6 billion took into consider – hedge that – exchange rate at all.

MR CHABI: Included the Forex.

- 10 **ADV MAHLAPE SELLO:** You know. So the screen – the worksheet you have up there would appear to suggest that there was hedging involved which is what you took us through.

MR CHABI: Yes.

ADV MAHLAPE SELLO: Okay. Now let us remove all hedging and see what happens to the 38.6 billion.

MR CHABI: Okay. So taking the Chair back to that cell. I have changed in place of the 9.5854. I have put zero.

ADV MAHLAPE SELLO: Before you switch worksheets please remove all the hedging right through the years.

- 20 **MR CHABI:** Okay.

ADV MAHLAPE SELLO: Let us all make it zero right across.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Okay.

MR CHABI: Is the Chair happy with that? So it is zero right through. So ...(intervenes).

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: So what you have just done is take out all the hedging.

MR CHABI: And as can be seen Chair that capex comes down to 2.782 billion. From 38.6 billion to 2.7 billion. That is ...(indistinct).

CHAIRPERSON: Thank you.

MR CHABI: But then again as I mentioned you cannot expect the exchange rate to be zero. That means you are acquiring the locomotive at no cost essentially.

10 **ADV MAHLAPE SELLO:** *Ja.*

MR CHABI: On the foreign component. Hence that significant drop.

ADV MAHLAPE SELLO: So what you basically are trying to communicate to us is what we see in the red cells there the total of 38.6 is intricately linked to this worksheet. Any changes in this worksheet will change that 38.6 billion automatically.

MR CHABI: Correct and the NPV.

ADV MAHLAPE SELLO: And the NPV ...(intervenes).

MR CHABI: The model is highly consistent.

ADV MAHLAPE SELLO: So then getting back to your slide 13.

20 **MR CHABI:** Okay.

ADV MAHLAPE SELLO: You then have set out the Forex Hedging. Again in globular terms of diesel. That is for all the locomotives over the period of acquisition. For electric at 2.4 billion. Similarly for all of them over the period of acquisition and you have a total figure of 3.358 and so that is the hedging cost of the foreign component – foreign

exchange component of the acquisition of the ...(intervenes).

MR CHABI: Oh.

ADV MAHLAPE SELLO: Locomotives over a seven-year period. Okay and just like with inflation you are suggesting we must add that to our original locomotive price of 30.

MR CHABI: Correct.

ADV MAHLAPE SELLO: 476.

MR CHABI: So the approach to take here is, let us first try and arrive at 30.476 million.

10 **ADV MAHLAPE SELLO:** Huh-uh.

MR CHABI: That we see on the slide.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Yes. Is that we are going?

ADV MAHLAPE SELLO: Coming again.

MR CHABI: Is that where we are going?

ADV MAHLAPE SELLO: Yes.

20 **MR CHABI:** Okay. So we will try and arrive at 30.476 million and again as mentioned that assumes you have acquired all your locomotives as at April 2013. That means no inflation costs locally and abroad and you are acquiring everything at the spot rate in April 2013. To do that we have got to change the forward curve role to reflect the spot rate and not the forward curve.

So every single number in that row will be 9.1285. So I will reference that. So Chair will note that in the first row there where the cursor is we have got 9.1285 which is a spot rage.

ADV MAHLAPE SELLO: H'mm.

MR CHABI: We will copy the spot rate right across.

ADV MAHLAPE SELLO: Huh-uh.

MR CHABI: As mentioned we assume no inflation because we are acquiring the locomotives as at 18 April 2013. So we will plug in zero. A rate of 0% right across for SA PPI and 0% right across for US CPI. So as the Chair will see we have got zero right across for SA PPI and zero right across for US CPI.

You will notice where my cursor is the localisation premium of
10 2% is still included. That as I mentioned is not the 30.476 million. We could have excluded it, but then we thought being such a tiny amount let us just leave it within the locomotive pricing. In any case it forms part of the locomotive price, because that is what it would cost you locally to get that local component.

Going back to the sheet with the 38.6 billion. We should expect to see a change in that sheet and we see 32.708 billion in there. That includes the contingency of 2.2 billion. We also need to deduct that ...(intervenes).

ADV MAHLAPE SELLO: And that is as a result of the manipulation of
20 the actual forward curve. Instead of reflecting the increasing exchange rate over the period. You just used the consistent exchange rate?

MR CHABI: The spot rate. Yes.

ADV MAHLAPE SELLO: Spot rate ...(intervenes).

MR CHABI: So we ...(intervenes).

ADV MAHLAPE SELLO: And you applied it cross the seven years?

MR CHABI: Correct.

ADV MAHLAPE SELLO: So you said assuming then that there was no change in the exchange rate you would have used the 9.1258 for seven years and that would have given you an ETC of 32 billion?

MR CHABI: No. Sorry Advocate. Can I just ...(intervenes) ?

ADV MAHLAPE SELLO: Okay.

MR CHABI: Follow through.

ADV MAHLAPE SELLO: I say the exercise you have just done now you assumed for purposes of this exercise that the exchange rate over the
10 seven-year period will stay at 9.1258?

MR CHABI: Two. *Ja*. 285.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Correct.

ADV MAHLAPE SELLO: 285. Okay.

MR CHABI: Yes.

ADV MAHLAPE SELLO: 1285. That is correct.

MR CHABI: And that there was no inflation right through locally
...(intervenes).

ADV MAHLAPE SELLO: There was no inflation right through.

20 **MR CHABI:** And abroad.

ADV MAHLAPE SELLO: Yes.

MR CHABI: *Ja* and then I have now just deducted the contingency of 2.23 billion, because that as we know was a balance and cost item.

ADV MAHLAPE SELLO: Okay.

MR CHABI: *Ja*.

ADV MAHLAPE SELLO: Which is the final – the last entry on your slide 13?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay.

MR CHABI: Taking you back to the main control input sheet. You will notice Chair that figure is 30.476 billion. So I have essentially stripped out all the costs from the 38.6 billion to arrive at the pure locomotive. Aligned with the two percent localisation premium and that ties in with what you have in slide 13.

10 **CHAIRPERSON:** Okay.

ADV MAHLAPE SELLO: Then just to remind ourselves this – these spreadsheets we have been working on are the spreadsheets provided to us by Transnet?

MR CHABI: Correct.

ADV MAHLAPE SELLO: These are the – this is the financial model where Transnet tells us that 38.6 billion you will see in the business case is underpinned by these calculations?

MR CHABI: Correct.

20 **ADV MAHLAPE SELLO:** Would it be correct then to surmise that the inclusion of exclusion of the exchange – the hedging costs and the inflation from the 38.6 will be determined by these worksheets. Not by – by anything else. The worksheets will tell us whether or not the hedging is part of the 38.6 or not?

MR CHABI: Correct.

ADV MAHLAPE SELLO: So any suggestion that the 38.6 billion did not

include hedging or escalation must be rejected if the financial model is to be accepted?

MR CHABI: Yes.

ADV MAHLAPE SELLO: You cannot accept both.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Because the financial model tells us it is inclusive?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And that is a long process we have just gone
10 through and that Chair was a bit to demonstrate that the 38 – what the
38.6 billion included. This issue will become relevant going forward
when we discuss the increase from 38.6 to 54 billion, because time and
again mister – as you heard previously from Mr Callard and
Mr Sedumedi from MNS that there has consistently been a suggestion
that the 38.6 billion did not include these costs and Mr Chabi today was
trying to demonstrate to us that they in fact did and he draws that
conclusion from the very worksheets the financial model provided to
him by Transnet. Okay.

CHAIRPERSON: Thank you.

20 **MR CHABI:** Shall we continue to derive at the other costs?

ADV MAHLAPE SELLO: Yes.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Sorry. Let me hear you.

MR CHABI: Should we then continue to derive the other costs? The
1.8 million. The 7.13. The 3358.

ADV MAHLAPE SELLO: We are now back in slide 13?

MR CHABI: 13. Yes.

ADV MAHLAPE SELLO: I take it that you then have – you are able to show us with reference to AC4 the SA PPI escalation cost for the diesel and the electric. That is the slide we are looking at. The worksheet we are looking previously. You equally showed us the US CPI?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Showed us the Forex and you allowed for contingency?

10 **MR CHABI:** Correct.

ADV MAHLAPE SELLO: Now as I indicated that worksheet shows us all those costs but in respect of one locomotive?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Do we accept that your slide 13 then give – just gives us the total cost based on 1064?

MR CHABI: We do.

ADV MAHLAPE SELLO: The exercise you just took us through do you suggest that we take that exercise. We apply it to electrics. We worked on diesel.

20 **MR CHABI:** We can do that.

ADV MAHLAPE SELLO: Ja. So why, but you say the same principle is applicable?

MR CHABI: To electrics. Yes.

ADV MAHLAPE SELLO: And once we have applied it to the electrical locomotives. We will multiply by that number of electrical locomotives

and it will give us escalation cost of PPI of 1.432 billion as per slide 13?

MR CHABI: Correct. It would.

ADV MAHLAPE SELLO: And that the total of 1.821 billion is a simple arithmetic exercise. It is 388 for diesel, escalation plus 1432.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Which gives us 1821?

MR CHABI: Correct.

ADV MAHLAPE SELLO: I think we understand. I am will – I am happy
10 to accept what you said. Slide 13, but it is not for me to accept. It is
for the Chair.

MR CHABI: Correct. Yes.

ADV MAHLAPE SELLO: The question I guess – the main one is
whether your conclusions and findings at 13 are defensible with
reference to the financial model. Would you say they are?

MR CHABI: I would say they are.

ADV MAHLAPE SELLO: Okay. Then any clarification I guess that the
Chair may require.

CHAIRPERSON: I am sure there is a good chance that there will be
20 questions for clarification after going through the transcript at my own
pace.

ADV MAHLAPE SELLO: Okay.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Then justly before we leave your slide 13.
You have the last entry of total 2.232 billion for contingency.

MR CHABI: Yes.

ADV MAHLAPE SELLO: Would you like to quickly talk us through that?

MR CHABI: Well 2.23 billion is simply the reserve set aside as per my understanding for capital spares and all of that for the locomotives. So I understand it was a scientifically derived based on the capital spares that we required for the locomotives.

ADV MAHLAPE SELLO: So the contingency of 2.2 billion you find reasonable and appropriate in the circumstances?

MR CHABI: One must also look at the percentage that it forms as part
10 of the total – of the capital costs.

ADV MAHLAPE SELLO: Yes.

MR CHABI: It is about 7%. If I am not mistaken. I find that reasonable.

ADV MAHLAPE SELLO: Okay. So we now have established through what we have discussed this afternoon that the 38.6 billion ETC was the locomotive price duly escalated in terms of the SA PPI and US CPI. Taking into consideration the hedging costs and contingencies and that is how we arrive at 38.6?

MR CHABI: Correct.

20 **ADV MAHLAPE SELLO:** At your slide 14 then you give us a comparison of foreign currency forward rates. That is slide 14. Could you quickly explain to us why you find it necessary to share this piece of information with us and the graphs?

MR CHABI: So Chair I think we discussed this briefly earlier on. It is one thing to show slide 13 with a breakdown of what the R38.6 billion

include, but that is not proof enough that the 38.6 billion includes inflation and foreign currency hedging and the costs that we claim it to be and even if it did. It is not proof enough that those were the – it includes them to those amounts.

To the extent reflected on slide 13. Specifically with reference to the forward curve applied. The argument could be fair and fine. You have foreign currency forecasts in there. There may seem to just be forecasts and not foreign exchange hedge rates as Transnet calls them.

- 10 **ADV MAHLAPE SELLO:** Before you go into any further detail. Can you explain each ...(intervenes)?

MR CHABI: The difference?

ADV MAHLAPE SELLO: Each one?

MR CHABI: Okay.

ADV MAHLAPE SELLO: Ja. The difference between each one.

- MR CHABI:** So the forward curve as we have seen and as we have been discussing gives you rates at which a commercial bank would contract with you for the Dollar in future. In other words they are prepared to pay at the end of year one R9.5854 to the Dollar to every
- 20 Dollar you bring forward or give you a Dollar for every R9.5854 that you bring to them. Okay.

So they contract with you on that basis on those rates. So regardless of what the exchange rate does they will stick to the agreement and exchange currency with you at the stipulated rate.

ADV MAHLAPE SELLO: Yes.

MR CHABI: With a forecast it takes into account other factors. It is not a rate that you are certain to get in future. It is not contractible. It is simply a view on where the currency is going to be in time to come in the future basically going forward. The process of arriving at Forex hedged rates and that used to arrive at forecasted rates are different. The processes are different.

For hedged rates you look at the differences in interest rates in the current – in the countries of interest. Okay. It is based on what is termed. Sorry to introduce jargon here. Arbitrage-free pricing. In
10 other words there is no free lunch. So considering that you have R100,00 today and you have a choice between investing it in a Money Market Account here and with a foreign country of interest is the US. Okay.

Investing it in a Money Market Account in the US. The forward rate is that which equates the investment at the end of the year. So effectively you are not in a better position investing in the States or investing locally and that is how your forward curve is derived.

ADV MAHLAPE SELLO: Now before you move on. When we dealt with
20 Annexure 4 at page 163.1 you highlighted the foreign exchange futures on that very worksheet.

MR CHABI: The one overhead?

ADV MAHLAPE SELLO: The exchange rate – the hedging, you see the hedging on the Forex shift.

MR CHABI: Correct.

ADV MAHLAPE SELLO: *Ja* and you indicated to the Chair that that is the hedging.

MR CHABI: That is the forward curve yes.

ADV MAHLAPE SELLO: The forward curve, do you know where Transnet obtained those figures from?

MR CHABI: From the Treasury Department where the Treasury Department obtained it from?

ADV MAHLAPE SELLO: No Transnet.

MR CHABI: From the Treasury Department.

10 **ADV MAHLAPE SELLO:** From the Treasury Department so just talk to us about that, the Treasury Department provides SOE's or what does the Treasury Department then provide?

MR CHABI: Well in this instance the Treasury Department would assist with foreign currency, risk hedging, they would obtain these rates it's not sure whether it's internally or on the market.

ADV MAHLAPE SELLO: Okay so these are as determined by Treasury?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Now if you could pull up your slide 14.

20 **MR CHABI:** 15?

ADV MAHLAPE SELLO: Yes 15 apologies, why is yours 15 and mine 14 – yes I'm looking for that slide headed comparison of foreign currency forward rates. You have Transnet forward rates and Bloomberg forward rates. You touched a bit on forecast rates we will get there. Just explain to us what it is you are doing here with

reference to the Treasury curve rate?

MR CHABI: Okay so essentially we're trying to dispel the argument that the rates used there could have been forecasted rates and not necessarily forward exchange rates – forward curve rates basically. So what we did is and hence my explanation in terms of – well my explanation of how the forward curve is derived versus forecasted rates, the processes used to derive at those two curves are different, your forecasted rates versus your forward rates. Forward rates, there's a deterministic process it does not matter where you go, you will get

10 the same forward curve if you're looking at two countries of interest at a particular point in time, they are based on interest rates, locally and abroad, in this case the United States and in particular where South Africa is concerned we're looking at the Johannesburg Interbank Average Rate okay which is the average of the deposit rates across the banks in South Africa and that is a terminal figure. You can pick that off, it's market data available it's the same wherever you pick it up to try and source it from and LIBOR in the United States which is the London Interbank Offered Rate okay it's an average of money market rates.

20 We then went on to the markets to understand, as at April 2013 given this stream of cash-flows which is the cash-flows that Transnet would have like to hedge at the time okay for the locomotives – with a seven-year delivery schedule what would the forward curve have looked like at the time allowing for the brokerage fees, transaction costs, that a bank would charge over and above the forward curve to enter into a

contract with Transnet. We did that exercise and what we have there as your Bloomberg forward written fact, this was obtained from Bloomberg, okay if you perform the same exercise of Thompson Reuters you should get the same curve. So you approach any bank as at April 2013 you should get this forward curve because at that date you knew what the spot rate is because your forward curve is a function of your spot rate at the time, it's a function of your Jibar rates going forward at that point in time and is a function of your Libor rates going forward at that point in time and those rates are not variable, they're
10 stated because the average is across a number of entities on the market.

ADV MAHLAPE SELLO: So then what conclusion do we derive from that slide?

MR CHABI: So looking at that curve we can see that the rates – the curve derived from Bloomberg pretty much mirrors the curve that Transnet Treasury applied to the 1064 business case.

CHAIRPERSON: Just repeat that please?

MR CHABI: The curve derived from Bloomberg mirrors that applied by Transnet's Treasury Department.

20 **ADV MAHLAPE SELLO:** To get to the 38.6 billion?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And that, as we said, we see in Annexure 4 AC4 at page 163.1 it's those figures, 9.5, 9.10, 10.04, 10.52 and you have plotted them in a chart here on the slide and you compare them against the Bloomberg rates and I see that if there is – there are

differences sometimes it's ...(intervenes).

MR CHABI: They're very minor and they relate to differences between bank charge between banks in terms of their charges.

ADV MAHLAPE SELLO: And the figures in blue, those figures we get from the model?

MR CHABI: Correct, the financial model.

ADV MAHLAPE SELLO: The Transnet forward rates, overleaf you then make another comparison which is forward rates versus forecasted rates.

- 10 **MR CHABI:** Correct, so as mentioned earlier there were two exchange rate tables applied in the business case, the forward curve and forecasted rates and if the Chair recalls, based on our discussions earlier I actually put that table under maintenance cost to reflect where they were applied. They were applied purely to forecast maintenance costs. Transnet's policy, below a certain threshold does not require you to go and hedge exposures. Maintenance costs fell below that threshold hence a forecast was sufficient for modelling purposes in this instance and as can be seen these are the forecasted rates used in the financial model. These forecasted rates are quite different to the
- 20 forward curve rates as can be seen. These rates, actually, in certain instances show an appreciation in the rand, we know from our forward curve we see a depreciation in the Rand right through to 2022. That is the difference between the two, forward curve rates were applied for ETC, Global Insight Forecasted Rates were applied for maintenance costs and maintenance costs do not form part of ETC, they form part of

TCO hence the distinction that's why we went through the cost I had to show you, TCO and what TCO is made up of, ETC and then you have your personnel costs, your maintenance costs, your fuel costs, your emission costs and so forth. So it really, I think we have demonstrated that they were applied, forecasted rates were applied but not to ETC and what was applied in modelling the ETC was the forward curve which was verified using market data.

ADV MAHLAPE SELLO: And you make this comparison in this slide to demonstrate that the 38.6 billion was arrived at not with reference to
10 forecasted rates but to actual forward rates, that's the first point. The second is, you acknowledge that the business case does make use of forecasted rates.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Except those rates are confined strictly to the issue on maintenance?

MR CHABI: Correct.

ADV MAHLAPE SELLO: And in the previous slide you then said, if we accept that I have demonstrated that the rates used as the forward rates obtained from Treasury Department I have compared those
20 against the rates I obtained from Bloomberg and they are more or less in line with one another?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Would that be a correct summation?

MR CHABI: Yes.

ADV MAHLAPE SELLO: Okay you then go further in that slide and in

your statement give us more detail – forward.

MR CHABI: Concluding slide?

ADV MAHLAPE SELLO: Yes.

MR CHABI: Do I have a different slide on ...(intervenes).

ADV MAHLAPE SELLO: Then you reach – we now have worked out the makeup of the 38.6 billion, we have calculated the escalation rate, the Forex, we have demonstrated that what was taken into consideration is actual forward rates and not forecasted rates and now we must draw a conclusion from that exercise and what is your
10 conclusion?

MR CHABI: Okay so look at the mandate I think it entailed assessing whether the 38.6 billion was an acceptable estimate for the ETC, our view is, yes it was and acceptable ETC at the time. Did it include Forex hedging rates, it did, did it allow for Forex hedging, it did, did it allow for Forex hedging costs, it did, did it include escalation, it did, I think we have demonstrated that by zero rising some of those costs and observing the impact on the 38.6 billion, so yes it allowed for all of those for those two costs in particular, escalation locally and abroad and Forex hedging and was an acceptable estimate.

20 **ADV MAHLAPE SELLO:** And I think we have indicated earlier that any suggesting that the 38.6 billion did not include Forex hedging and escalation you would reject outright?

MR CHABI: Correct.

ADV MAHLAPE SELLO: With that conclusion then we have disposed of the two issues that you were required to investigate and comment on

so far as 1064 is concerned and we are now at your page 36 of your statement where we are dealing with the third aspect which is the increase in estimated total costs from 38.6 billion to 54.5 billion.

CHAIRPERSON: You said that takes us to what page of the statement?

ADV MAHLAPE SELLO: 36 Chair.

CHAIRPERSON: Page?

ADV MAHLAPE SELLO: 36.

CHAIRPERSON: 36 Okay

10 **ADV MAHLAPE SELLO:** Okay?

CHAIRPERSON: I've done a lot of numbers today, okay alright.

ADV MAHLAPE SELLO: There are a few and unfortunately we are about to get more, there's no warning.

CHAIRPERSON: They have to be done *ja* we – let's continue.

ADV MAHLAPE SELLO: We shall soldier on, this ...(intervenes).

CHAIRPERSON: You didn't say that to go to law one must go and do actuarial science 101.

ADV MAHLAPE SELLO: No count me out Chair I'm not going there.

CHAIRPERSON: Yes.

20 **ADV MAHLAPE SELLO:** Did you want to say something before we ...(intervenes).

MR CHABI: It's fine.

ADV MAHLAPE SELLO: Okay we are now at your page 36, slide 18 right.

MR CHABI: Okay.

ADV MAHLAPE SELLO: And your mandate now – you were now looking as I said at the increase in ETC from 38.6 billion to 54.5 billion?

MR CHABI: To what sorry?

ADV MAHLAPE SELLO: We are looking at the increase from 38.6 billion to 54.5 billion.

MR CHABI: Correct.

ADV MAHLAPE SELLO: Earlier you corrected me and said it's .9 I said .5.

10 **MR CHABI:** 15.9 is the increase yes.

ADV MAHLAPE SELLO: And you start this at your slide 18, statement page 36 starting then at your paragraph 9.47 can you take us through the issues relevant to this particular enquiry and help us work through it and understand how we arrive at an increase of 15.9 billion before you express a view thereon?

MR CHABI: Okay so I think just to reiterate what the mandate was here identify the reasons put forward for the increase from 38.6 billion to 54.5 billion that represents a 15.9 billion increase in the ETC. Assess the quantum's, asses the reasonability of those reasons, assess
20 the reasonability of the amounts next to those reasons okay and give an opinion on a reasonable increase over the period, it was, essentially a one-year period from April 2013 to March 2014. Should I carry on to the finding?

ADV MAHLAPE SELLO: We don't have a finding on this one we work through the issues before we get to the finding.

MR CHABI: Alright.

ADV MAHLAPE SELLO: Because of the nature of the enquiry you know, so I guess we will go straight into dealing with the issues that are relevant to this determination.

MR CHABI: Okay should we at this point then refer to the memorandum on the first page?

ADV MAHLAPE SELLO: We are happy to and by memorandum you're referring to your Annexure AC5 starting at your statement page 164, is that so?

10 **CHAIRPERSON:** Is that the memorandum from Group CEO?

ADV MAHLAPE SELLO: Marked AC5.

CHAIRPERSON: AC5 *Ja*, it's a memo ...(intervenes).

ADV MAHLAPE SELLO: It starts at 165, it's a memo to the Transnet Board is that the memo you are talking about?

CHAIRPERSON: *Ja* it's from the Group CEO, yes.

MR CHABI: It says, to the Transnet Board of Directors from the Group CEO at the time.

ADV MAHLAPE SELLO: I was clarifying is that the memo you are directing us to?

20 **MR CHABI:** That is the one.

ADV MAHLAPE SELLO: Okay the Chair has located it as well.

MR CHABI: Okay so Chair, the reason for this memo I guess the purpose put forward and I will just read it on the memo verbatim so:

“The purpose of this memo is for the Board to note the reasons for the increase in ETC and to request that the

Board of Directors approve an increase in ETC for the acquisition of 1064 locomotive from GFB of TFR from 38.6 billion to 54.5 billion.”

So that’s the first paragraph. The Executory summary in that memo ...(intervenes).

ADV MAHLAPE SELLO: Before you go into the Executive summary just so that everyone can follow, what we are reading or what we’ll be reading under the Executive summary is captured in your slide 24 perhaps you might want to run ahead a bit and bring up slide 24, am I
10 correct?

MR CHABI: You are correct okay; can I however revert back to the previous slide which also captures this?

ADV MAHLAPE SELLO: Yes so I say when you deal with the Executive summary in the memo it should be with reference to slide 24.

MR CHABI: Slide 24 okay.

ADV MAHLAPE SELLO: So that everybody can follow what you are saying.

MR CHABI: Okay.

ADV MAHLAPE SELLO: Yes.

20 **MR CHABI:** So Chair, slide 24 essentially replicates that table in the memo on the slide. Now I’ll take you through the various components. I think to facilitate understanding let me just go back to this slide and explain to you how this slide links to table two or am I jumping the gun as per my statement?

ADV MAHLAPE SELLO: May I suggest we deal first with the

Executive Summary and then we go to table two being a more involved table and try and then we will try and link it back to this table under the Executive Summary.

MR CHABI: Okay.

ADV MAHLAPE SELLO: So on your screen then if you could go to slide 24 for this purpose we shall revert to this one, yes thank you.

MR CHABI: Okay so this table is a replica of what we have in the Executive summary in the – those are the reasons advanced for the increase in ETC. Starting off with the first one, the reason put forward
10 was an update of the business case for updated economic factors and I think I have captured that verbatim and that amounted to 5.4 billion. I have 5.39 billion but essentially it is 5.4 billion or roundabout and that accounts for 34% of the increase in ETC, so essentially of that 15.9 billion. The second reason put forward, before I explain each of those is risk mitigation looking at Forex and escalation amounting to 9.5 billion and that makes up 59% of the ETC, I mean of the ETC increase of 15.9 billion. We then have TE scope at an amount of 2.6 billion making up 16% of the increase in ETC, we have contingencies, contingencies have gone up in this instance if you recall Chair it was
20 2.232 billion from the business case it is now 4.9 billion or 4.95 billion to be exact and that's 31% of that increase and in addition to that there was, according to the memo, a saving and I'll just read it verbatim, what the source of that saving is, it says,

“Lower capital acquisition costs of the locomotive
obtained through the competitive tender and

negotiation process less the batch pricing adjustment of 2.7 billion”,

And that saving is noted at 6.5 billion Rands making up negative 41% of that 15.9 billion Rand increase.

ADV MAHLAPE SELLO: So if one tries to understand this table in layman’s terms, would I be correct to say the ETC had to increase because one of updated economic factors of taking into consideration Forex and escalation as listed there.

MR CHABI: Correct.

10 **ADV MAHLAPE SELLO:** The TE scope and the contingency except what changes is the amount of the contingency because our original business case had to take into consideration contingency but that in all this there has been a saving of 6.5 billion?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Would I be correct in interpreting it in that way?

MR CHABI: Correct.

ADV MAHLAPE SELLO: Okay have – do you in your report deal specifically with this saving, are you in a position to assist the Chair to
20 locate where this saving comes from?

MR CHABI: I cannot pick up the saving when I look at it, when I go through the memo.

ADV MAHLAPE SELLO: You can’t pick up a saving?

MR CHABI: I can’t pick up a saving.

ADV MAHLAPE SELLO: Why not?

MR CHABI: I suppose it will become clearer as we go through the relevant cost items starting off with the locomotive price but they do not contain ...(intervenes).

ADV MAHLAPE SELLO: Okay then let's do it that way because we would like to be able to follow and see this saving of 6.5 billion and while I'm at that – because I would expect, correct me if I'm wrong, that I must apply that saving to the increased ETC, I must have my saving of 6.5 billion and I would like you to help us work through the memo to show me how that saving is applied to whatever new cost there is.

10 **MR CHABI:** Okay.

ADV MAHLAPE SELLO: Okay so if you can.

MR CHABI: If I can?

ADV MAHLAPE SELLO: Yes.

MR CHABI: To try and identify or locate the 6.5 billion saving?

ADV MAHLAPE SELLO: Absolutely, okay.

MR CHABI: I suppose at this point we look at the more detailed table two.

ADV MAHLAPE SELLO: Okay and table two you mean table two of AC5?

20 **MR CHABI:** Of AC5, that is correct Chair.

ADV MAHLAPE SELLO: Of Annexure AC5.

CHAIRPERSON: Is that – did you say what page on the Annexures?

ADV MAHLAPE SELLO: AC5, we are back in our ...(intervenes).

CHAIRPERSON: AC5?

ADV MAHLAPE SELLO: AC5.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: And Mr Chabi you are referring us to a table?

MR CHABI: Table two of AC5.

ADV MAHLAPE SELLO: Yes.

MR CHABI: Gives you a build-up from the locomotive price right up to the 54.5 billion.

ADV MAHLAPE SELLO: With your permission that table two Chair is to be found at page 169. Now Chair what you have at page 169, I think was not meant to be read we have ...(intervenes).

10 **CHAIRPERSON:** Did you say was not meant to be read?

ADV MAHLAPE SELLO: it was not meant to be read.

CHAIRPERSON: Red in colour, read as in reading.

ADV MAHLAPE SELLO: As in reading the print is so small we have extracted from the reference bundle a copy of that table presented better it is exact the same and we propose to hand it in as 169.1, this will facilitate working through the table than relying on the original table in the memo.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: I've just paginated it 169.1 Chair. Do you
20 have a legible copy of that before you Mr Chabi?

MR CHABI: I have put it overhead and it's the middle column.

CHAIRPERSON: Is it the same thing over there?

ADV MAHLAPE SELLO: No it's not exactly the same thing this is your worked on document.

MR CHABI: Correct but the middle column reflected this table but it

doesn't have the numbers ...(intervenes).

ADV MAHLAPE SELLO: Okay for the moment the Chair should ignore what is on the screen he should listen to you as you assist him to work through table two that's what we want to – you sent us to table two so ...(intervenes).

CHAIRPERSON: We've got this on the slides at page 21, what's on the screen.

ADV MAHLAPE SELLO: Yes Chair, 21, 22 and we will come back to that because that particular slide already includes an opinion, his
10 opinion so I think it would be a bit – a tad confusing to seal with it at this juncture, we will get to it so it's best we work our way through table two. Now as the Chair said we're working through figures; it's been a day of figures.

CHAIRPERSON: We don't have a choice today we have to continue with figures.

ADV MAHLAPE SELLO: We don't have a choice, it's 15:30 I need to find out from Mr Chabi, Mr Chabi by 16:00 would we have worked our way through table two, what's your assessment? Comfortably and in a manner that's understandable or will we need more time?

20 **MR CHABI:** I think we will have – the next half an hour.

ADV MAHLAPE SELLO: The next half an hour?

MR CHABI: Correct but only so far as linking, going through table two and linking that to the table in the Executive summary.

ADV MAHLAPE SELLO: Because I ask this question Chair, because if we leave table two hanging and try to pick it up tomorrow – so when we

engage with table two we take it all the way.

CHAIRPERSON: You talk about tomorrow, there's no tomorrow.

ADV MAHLAPE SELLO: Yes Chair.

MR CHABI: I was told the witness would be only one day and tomorrow got given other commitments.

ADV MAHLAPE SELLO: Is there Friday Chair?

CHAIRPERSON: There's no Friday either.

ADV MAHLAPE SELLO: Then the only choice we have Chair, I wasn't aware of that, because we actually had more witnesses lined up for you
10 tomorrow.

CHAIRPERSON: Well I don't know what happened but even with Mr Chabi I had to ask whether he would need the whole day then I was told that definitely he would need the whole day but in terms of the programme for this week, tomorrow and Friday I was told there would be no witness and Monday, the next hearing is Tuesday the 3rd, Wednesday the 4th and I'm not sure whether on the 5th there is already a witness or something is still being worked out?

ADV MAHLAPE SELLO: 4, 5, 6, there were witnesses subject to your confirmation.

20 **CHAIRPERSON:** *Ja* I can't remember about 5, I know 3 and 4 are confirmed and I know who the witnesses are. I think I may have said something must be done to explore the possibility of getting a certain witness on the 5th but I can't remember where that process is whether it's finalised or not and I said to Mr Pretorius because Monday and Tuesday this week – Monday and yesterday he was supposed to lead

three witnesses, he only managed to lead two. I said to him the third one he could look at – I don't know whether I said the 5th or the 6th I may have said the 6th because I said we need to finish with him. So I was never made to understand that we need another day for Mr Chabi and ...(intervenes).

ADV MAHLAPE SELLO: May I propose something Chair?

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: That perhaps we consider going to 18:30 – 19:00 today to finish Mr Chabi, we're still on 1064 we haven't touched
10 100.

CHAIRPERSON: We can't go beyond 17:00 today either, you know there are days when we can go even beyond 17:00 and 18:00 and so on but it happens to be a day when I have got other commitments. I think let's talk about – by 16:00 how much time you think will be necessary for the completion of his evidence or let's say from now how many hours will we still need?

ADV MAHLAPE SELLO: I'm conferring here, I'm seeking counsel.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: I'm advised, maximum two hours including
20 100 transaction.

CHAIRPERSON: Maximum?

ADV MAHLAPE SELLO: That's the advice I get Chair.

CHAIRPERSON: Is it minimum or maximum? I just want to make sure nobody made a mistake.

ADV MAHLAPE SELLO: Mr Chabi shakes his head and I shall be led

by him and this is – I guess my concern is this is the one aspect based on the mandate he was given. The Chair will recall that as far as two are concerned he said he did not have a difficulty this is the one aspect that he has serious difficulties with and this is – it's quite important to understand the basis for that conclusion and we would need to work through it. So I too am very concerned that we can work through it in two hours.

CHAIRPERSON: You say you are comfortable with two hours?

ADV MAHLAPE SELLO: No, no I don't – Mr Chabi – it took me more
10 than two hours to even get a sense of what he's talking about let alone understand.

CHAIRPERSON: Yes so what is a reasonable estimate of how many hours we need to – or let me say from where we are now, let's forget about 16:00 in terms of ...(intervenes).

ADV MAHLAPE SELLO: I'd say four hours half a day.

CHAIRPERSON: Four hours?

ADV MAHLAPE SELLO: Yes Chair.

CHAIRPERSON: Well certainly ...(intervenes).

ADV MAHLAPE SELLO: I was going to make a proposal; I know the
20 line-up for Tuesday originally when Tuesday was set up it was supposed to be – those two witnesses were supposed to be for half a day.

CHAIRPERSON: Well you see on – no, no Tuesday is a witness who could take half a day but I'm not sure I had thought even the witness with whom he was supposed to have come previously I would have

thought half a day was good enough for him but he ended up with more than a day he had to come back the following day so it makes it difficult to estimate.

ADV MAHLAPE SELLO: May we then take the 5th because – may we then take the 5th because – Wednesday the 5th because the Chair, is it the 5th – Wednesday the 4th because the Chair is expecting for a witness to be presented on the 4th and no firm plans have been made in that regard and – no firm plans have been made about that witness or witnesses for the 4th and ...(intervenes).

10 **CHAIRPERSON:** No on the 4th the witnesses – the two witnesses are coming.

ADV MAHLAPE SELLO: No they come on the 3rd, they come on the Tuesday.

CHAIRPERSON: Maybe we are talking about two different ...(intervenes).

ADV MAHLAPE SELLO: So there are two for Tuesday there are two for Wednesday.

CHAIRPERSON: Oh no, no, no there are two for Tuesday *ja* two for Tuesday.

20 **ADV MAHLAPE SELLO:** Yes and I'm saying ...(intervenes).

CHAIRPERSON: And the one for the 4th summons was issued and no arrangements or application has been brought so as far as we know he should be here unless you know something that has not reached me.

ADV MAHLAPE SELLO: No Chair I don't.

CHAIRPERSON: So I think – but I think we are talking about the same

witness when we said maybe he would take half an hour, was it the same witness?

ADV MAHLAPE SELLO: No I was talking about the witnesses for Tuesday, those are the witnesses I thought may be short.

CHAIRPERSON: No I was talking about the one for Wednesday.

ADV MAHLAPE SELLO: And Thursday the 5th?

CHAIRPERSON: *Ja* that's the one that I say I'm not sure about but you see also a matter that I will be working on which will take most of my time Thursday and Friday and weekend and Monday, if it doesn't get
10 finished I might need every time possible. So you know when you use part of the day for a hearing it's very difficult to do certain things that need focus and attention later it's much better if you have got a – you set aside a day but I think that we might not be able to fix the date now but we should be able to find three or four hours before the end of next week. If, for example the matter that I'm talking about, I've been able to give it attention and finalised by Monday then we could find Friday, I think Friday is the 6th we could find that we could use that but because this other matter needs priority I wouldn't like to risk. So if it's not going to be too inconvenient to everybody, I would say, let's continue
20 now and maybe go up to 17:00 if that's convenient for everybody and then Monday at some stage, latest Tuesday I can indicate what the possibilities are on either Tuesday no not Tuesday, Wednesday, Thursday or Friday. Mr Chabi I know this is not something that is certain but you hear what I say, how would that work for you, would you be able with that uncertainty until either Monday afternoon or Tuesday?

MR CHABI: I'll work according to your schedule Chair.

CHAIRPERSON: You can okay thank you.

ADV MAHLAPE SELLO: Thank you Chair.

CHAIRPERSON: Okay.

ADV MAHLAPE SELLO: And it's now 15:40, you're able to go to 17:00, Mr Chabi are you comfortable still.

CHAIRPERSON: Are you able for us to work up until five?

MR CHABI: With a cup of tea at some point yes.

CHAIRPERSON: Okay, well let's take – we'll take it at 16:00 is that
10 alright.

ADV MAHLAPE SELLO: Okay.

CHAIRPERSON: Okay it's nearly quarter to on my watch so ... (intervenes).

ADV MAHLAPE SELLO: Do we take it at 16:00 Chair or before he gets into table two because we are getting into table two now.

CHAIRPERSON: Oh is that so?

ADV MAHLAPE SELLO: Ja.

CHAIRPERSON: Okay maybe let's take it now.

ADV MAHLAPE SELLO: So that when we get into table two we try get
20 all the way to the ... (intervenes).

CHAIRPERSON: Okay let's take – and we'll resume at 16:00.

ADV MAHLAPE SELLO: Thank you Chair.

CHAIRPERSON: Okay, we adjourn.

REGISTRAR: All rise.

INQUIRY ADJOURNS

INQUIRY RESUMES

CHAIRPERSON: If we do an hour now up to 17:00 are we going to be left with three hours?

ADV MAHLAPE SELLO: Chair before I answer that may I say something because during the break.

CHAIRPERSON: Yes something was discussed.

ADV MAHLAPE SELLO: We were conferring. Yes. And we were looking at whether we are capable of realistically dealing with this aspect in one hour. Would we be doing justice to it? We have a choice
10 of dealing with it at a very high level and that will not be doing justice to the topic. The sense is that we will not finish it in one hour. When we reconvene the time between when we stop and reconvene will require us to rehash what we do today in order for the remainder to make sense. And that is what we are trying to work through and we are in your hands at this point.

CHAIRPERSON: H'mm. Well maybe let me tell you what I was thinking.

ADV MAHLAPE SELLO: Yes Chair.

CHAIRPERSON: Then you can see how it fits into the discussion
20 during the break that you people had. I was thinking we could take an hour now do justice to Mr Chabi's evidence then adjourn. Then on Tuesday explore the possibility of starting early with him on Tuesday.

ADV MAHLAPE SELLO: Yes Chair.

CHAIRPERSON: Say 09:00. So 09:00 to 10:00 is another hour. Maybe if we add another hour before I – we start with Tuesday's first

witness we go up to 11:00. That is two hours. So that gives us three hours including the hour that we will do now. And I was wondering whether – you said four hours but I do not know whether we could finish within three hours without doing any injustice to his evidence. I do not know what you think?

ADV MAHLAPE SELLO: I think three hours would be a fair amount of time. If the Chair will recall we are still dealing with 1064 we then need to go to 100. But as Mr Chabi indicated his mandate on 100 was a narrower mandate. It is not as involved as with 1064. So insofar as
 10 100 is concerned we need very little time. We could just highlight the key issues. The bulk of the principles that emanate from this 1064 are applicable to 100 so we could just by extension deal with 100 in that manner. So if we were to perhaps take an hour today and try and find another two hours to complete next week it might help. The concern we had was the break between when we finish today and when we reconvene. That it should not be too long otherwise we have to rehash this hour for that evidence to make sense. But if we – there is a possibility we may come back on Tuesday then it is doable Chair. Then it is doable.

20 **CHAIRPERSON:** Is the short answer that because of the time that may be necessary to refresh everyone's memory the three hours would not be enough?

ADV MAHLAPE SELLO: No.

CHAIRPERSON: One hour today and two hours on Tuesday morning.

ADV MAHLAPE SELLO: The view was the remaining portion of his

evidence insofar as 1064 is concerned is best dealt with in one fell swoop in order for it to make sense.

CHAIRPERSON: Oh okay.

ADV MAHLAPE SELLO: If it is broken the longer the break between when he appears.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: The more likely the need to rehash again – restart.

CHAIRPERSON: Okay.

10 **ADV MAHLAPE SELLO:** Next time we reconvene.

CHAIRPERSON: So is the position therefore that three hours would be fine but it should rather be at a stretch?

ADV MAHLAPE SELLO: Preferably.

CHAIRPERSON: And not one hour today and two hours on Tuesday.

ADV MAHLAPE SELLO: Preferably yes. Because it is a singular topic now.

CHAIRPERSON: Oh.

ADV MAHLAPE SELLO: It is a single topic that we are dealing with.

CHAIRPERSON: Okay.

20 **ADV MAHLAPE SELLO:** Yes. And then that would be enough to complete his evidence?

ADV MAHLAPE SELLO: It would.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: We could find in the interim means and ways of perhaps presenting the evidence on transaction 100.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: In a quicker manner.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: But like I say all the principles would have been established through 1064.

CHAIRPERSON: Yes. *Ja. Ja.*

ADV MAHLAPE SELLO: Yes.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Yes Chair.

10 **CHAIRPERSON:** Okay. The witness for – oh there are two witnesses on Tuesday.

ADV MAHLAPE SELLO: On Tuesday. On Tuesday yes Chair. Our best bet would have been on Wednesday subject to whether or not the witness the Chair referred to who has been served with summons.

CHAIRPERSON: *Ja.*

ADV MAHLAPE SELLO: Is able to appear.

CHAIRPERSON: Yes.

ADV MAHLAPE SELLO: And I do not know where do we get the answer for that.

20 **CHAIRPERSON:** You know I think Wednesday for that witness – I think it may be better that we start – we adjourn the hearing to – the hearing of Mr Chabi's evidence to Wednesday.

ADV MAHLAPE SELLO: Yes Chair. We start at 09:00. Because if we start at 09:00 and we need three hours that take us to 12:00, is that right?

ADV MAHLAPE SELLO: To 12:00.

CHAIRPERSON: To 12:00.

ADV MAHLAPE SELLO: Or maybe sooner if we find a better way perhaps of ...(intervenes).

CHAIRPERSON: Eh?

ADV MAHLAPE SELLO: Or maybe before 12:00 – maybe sooner than 12:00.

CHAIRPERSON: Oh *ja* maybe sooner.

ADV MAHLAPE SELLO: If we find a better way of ...(intervenes).

10 **CHAIRPERSON:** Maybe sooner.

ADV MAHLAPE SELLO: Working through it.

CHAIRPERSON: Maybe sooner. But again Tuesday's witness is – could be very – could be quite short even though there two.

ADV MAHLAPE SELLO: We had anticipated but we may be wrong that both of them would be a – would be half a day witnesses.

CHAIRPERSON: *Ja*.

ADV MAHLAPE SELLO: But we could be wrong.

CHAIRPERSON: Maybe we should rather adjourn to Wednesday and we do the best we can to finish before the expiry of three hours if
20 possible but if not at least we do not go beyond three hours.

ADV MAHLAPE SELLO: Beyond twelve yes Chair.

CHAIRPERSON: *Ja* I think maybe we do that. Is Wednesday's suitable? Are – would you be available on Wednesday?

MR CHABI: Certainly Chair I would.

CHAIRPERSON: You would be available. So maybe that is what we

should do and ...(intervenes).

ADV MAHLAPE SELLO: We will aim for 11:30.

CHAIRPERSON: *Ja* to try and finish 11:30.

ADV MAHLAPE SELLO: So then perhaps the Chair can have a 15 minute break.

CHAIRPERSON: *Ja*.

ADV MAHLAPE SELLO: Before then he ...(indistinct) the other two witnesses. Yes Chair.

CHAIRPERSON: Yes *ja*. Okay no I think let us do that. So let us
10 adjourn then for today to Wednesday is the 4th I think it is.

ADV MAHLAPE SELLO: The 4th December yes.

CHAIRPERSON: Wednesday the 4th December commencing at 09:00 and then we will see how it goes. Okay.

ADV MAHLAPE SELLO: Now we happy with that arrangement Chair.

CHAIRPERSON: Okay. Okay Mr Chabi we will adjourn the hearing of your evidence to Wednesday at 09:00 and – so we will continue of Wednesday morning.

ADV MAHLAPE SELLO: Yes Chair.

CHAIRPERSON: Okay we adjourn.

20 **ADV MAHLAPE SELLO:** Thank you Chair.

REGISTRAR: All rise.

INQUIRY ADJOURNS TO 4 DECEMBER 2019

TRANSCRIBER'S CERTIFICATE FOR COMMISSION OF INQUIRY INTO STATE
CAPTURE
HELD AT
PARKTOWN, JOHANNESBURG

DATE HELD : 2019-11-27

DAY: : 194

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