



# **EXHIBIT BB4(g)**

**YUSUF MAHOMED**

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

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**AFFIDAVIT OF THE GENERAL MANAGER: OFFICE OF THE GROUP CHIEF FINANCIAL OFFICER OF TRANSNET**

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I, the undersigned

**YUSUF MAHOMED**

do hereby make oath and say that:

**1. INTRODUCTION**

- 1.1 I am an adult male employed by Transnet SOC Ltd ("Transnet") as the GM: Office of the Group Chief Financial Officer ("GCFO") with effect from 1 November 2012.
- 1.2 I was appointed as a full time employer at Transnet since 12 March 2007 within Group Finance.
- 1.3 Between 2004 and 2007 I worked for Transnet on a contract basis for a period of approximately 8 months on an annual basis.
- 1.4 Since 2003, up to 2019 (including the period when I was on contract) I on average work for eight months of the year and take a religious sabbatical for four months.
- 1.5 Whilst being completely committed to serving Transnet as my employer, I am also very committed to my religion i.e. Islam which plays an integral part on my life.



- 1.6 Over the last 16 years, I have been involved in religious activities in my community, in South Africa and abroad. These activities, are carried out with the main aim and effort to:
- 1.6.1 Develop a better spiritual self by spending time in gatherings and programmes that are focussed on spiritual upliftment and self-reformation.
  - 1.6.2 Making an effort in surrounding communities as well as communities far afield for the true teachings of Islam to come alive.
- 1.7 I feel that it is necessary to note that, the entire religious trip undertaken by myself and each person in our group is personally financed.
- 1.8 In this regard, you will seldom witness people taking an extended leave of absence of which a major portion of it is unpaid, as many, including myself, are also committed financially.
- 1.9 I consider this little effort of mine to be something I can give back to mankind on a whole. Hence by attempting to take such bold steps over the last 16 years confirms my seriousness in my cause, as I am prepared to undergo some personal self-sacrifice for it.
- 1.10 I am also convinced that my efforts thus far and what I intend doing is an invaluable opportunity for uplifting myself, fellow people of South Africa and fellow humanity.



## 2. PURPOSE OF STATEMENT

- 2.1 The facts contained herein are true and correct and fall within my personal knowledge and belief, save where otherwise stated or apparent from the context.
- 2.2 On 10 May 2019 I received a Notice in terms of Rule 3.3 of the Rules governing proceedings of the Commission of Inquiry into allegations of state capture, corruption and fraud in the public sector including organs of state (the Commission”).
- 2.3 The Notice pertains to the envisaged presentation of evidence before the Commission by Mr Francis Callard (“Callard”), which the commission has identified as implicating or potentially implicating myself in, inter alia, improper and/or unlawful conduct in relation to Transnet SOC Limited (“Transnet”) and/or certain of Transnet divisions. The Notice, as served, was accompanied by a copy of Mr Callard's statement and annexures “FC52” and FC 53”.
- 2.4 From a review of Mr Callard's witness statement and the annexures provided by the commission, I wish to provide the commission with additional information and context that I believe will provide the context to the said statements/allegations made by Mr Callard and eliminate the potential of causing confusion, misunderstanding or unintended inferences.
- 2.5 In order to resolve these issues, I wish to present evidence to the Commission, both verbal and by way of written submission. To this end, in compliance with Rule 4.4 of the Rules, the sections that follow detail those aspects of Callard's statement with which I take issue.



- 2.6 My statement is premised upon documents, memorandums, correspondences, emails and mandates in my possession (which I have read).
- 2.7 I proceed now to provide context around my involvement in the 1064 locomotive business case and deal with Mr Callard's statement.

A handwritten signature in black ink, consisting of a stylized 'C' followed by a vertical line and a flourish.

### 3. CONTEXT

3.1 In my role as GM: Office of the GCFO I am responsible for the following:



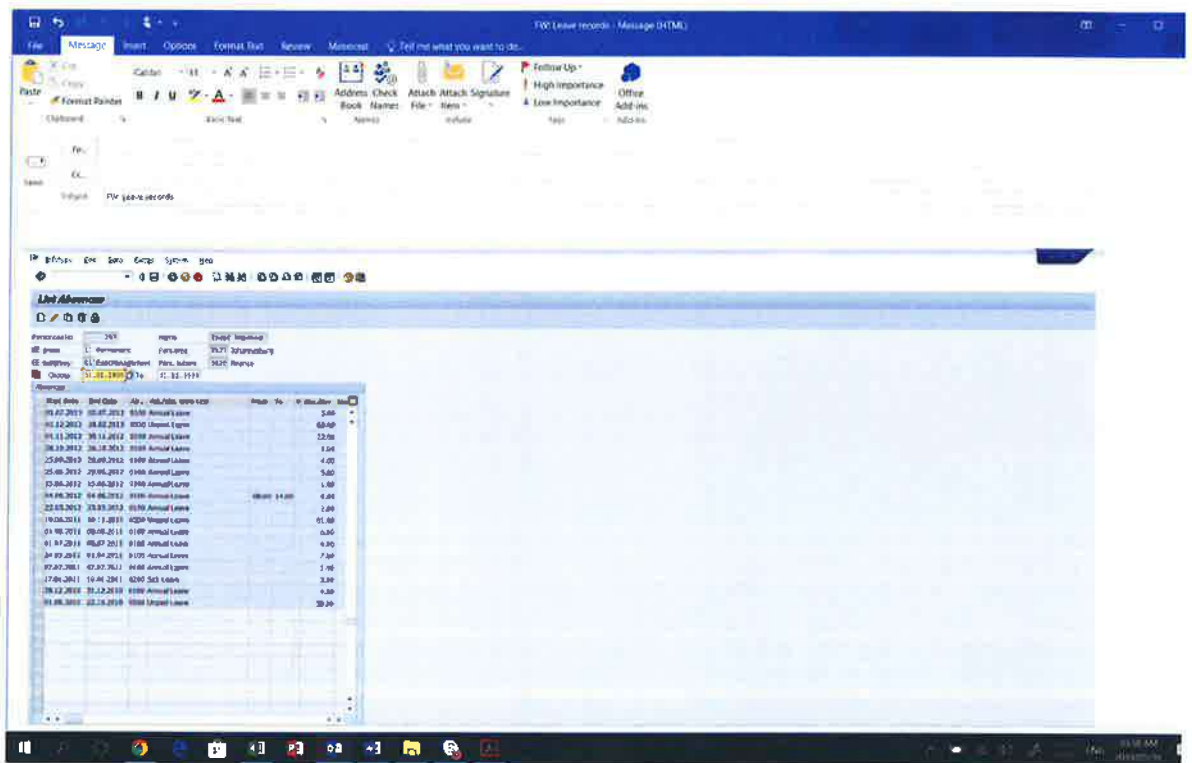
3.2 For purposes of this statement I detail the “pack management process” which entailed the process flow for governance committee submissions:

- 3.2.1 Driving the process of collating input from various stakeholders into the relevant governance committee agendas;
- 3.2.2 Collate submissions from various Corporate (TCC) departments and Operational Divisions (ODs) of Transnet;
- 3.2.3 Continuous liaison and follow- up with various TCC departments and OD's to ensure all submissions are delivered within the deadlines stipulated;
- 3.2.4 High level review of submissions and making edits to enhance the grammar and presentation quality.
- 3.2.5 Making edits and updates to various documents as required by the GCFO
- 3.2.6 Coordinate signatures on submissions for the Board Audit Committee, Board Assets and Disposals committee as well as the Board committee

*Handwritten signatures:*

from the GCFO and GCE for approval/recommendation prior to submission to Company secretariat and then to the relevant committee;

- 3.3 Relevant to any role I played in the 1064 business case, I draw your attention to the fact that I was on leave for the period 1 November 2012- 28 February 2013. Refer below for leave records.



- 3.4 The 1064 transaction advisors were appointed on 6 December 2012.
- 3.5 The 1064 transaction advisors were deployed to support the internal teams. The business case was the responsibility of TFR, supported by GCIA and Mckinsey.
- 3.6 I had no role in the in any capacity on the 1064 locomotive project team including but not limited to the following streams:
  - 3.6.1 Finance, Procurement, Commercial, Operations, Business case, Technical and Legal.

*[Handwritten signature]*

4. MR CALLARD'S STATEMENT

- 4.1 Ad Paragraph 110 and 111: I note Mr Callard's allegation herein and provide the following timeline and sequence of events relevant to the said inclusion of "excluding the potential effects from forex hedging, forex escalation and other price escalations "
- 4.2 I can confirm that at no stage did I calculate or verify the calculations of forex hedging, forex escalation, and other price escalations
- 4.3 In my view, based on my recollection and review of documents, the sequence of events of the approvals/recommendation of the ETC "excluding the potential effects from forex hedging, forex escalation and other price escalations at various committees were as follows:

Date	Committee	Document	Page	Comments	Annexures YM
18 April 2013		<ul style="list-style-type: none"> <li>Powerpoint presentation</li> </ul>	<ul style="list-style-type: none"> <li>Page 27</li> </ul>	<ul style="list-style-type: none"> <li>Email received from Fabio Pedrazzi (Mckinsey )</li> <li>ETC for the acquisition is estimated at R38.6bn as per the corporate plan (excluding potential effects from forex hedging, forex escalation, and other price escalations)</li> </ul>	<ul style="list-style-type: none"> <li>1 and 1 a</li> </ul>
18 April 2013	Capital investment committee	<ul style="list-style-type: none"> <li>Minutes</li> </ul>	<ul style="list-style-type: none"> <li>Page 23 of the warrant (part1)</li> </ul>	<ul style="list-style-type: none"> <li>Minutes - The resolution states that the ETC of the acquisition of R38,6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation and other price escalations).</li> </ul>	<ul style="list-style-type: none"> <li>2</li> </ul>
22 April 2013	Exco	<ul style="list-style-type: none"> <li>Approval Memo</li> <li>Minutes</li> </ul>	<ul style="list-style-type: none"> <li>All</li> </ul>	<ul style="list-style-type: none"> <li>Memo and minutes : "ETC of the acquisition of R38,6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation and other price escalations)"</li> </ul>	<ul style="list-style-type: none"> <li>3 memo</li> <li>3a-Minutes</li> </ul>
23 April 2013	BADC	<ul style="list-style-type: none"> <li>Business case</li> <li>Approval Memo</li> <li>Powerpoint presentation</li> <li>Minutes</li> </ul>	<ul style="list-style-type: none"> <li>Page 4 Bus case</li> <li>All memo</li> <li>Page 27 ppt</li> <li>All minutes</li> </ul>	<ul style="list-style-type: none"> <li>Bus case – excluding borrowing costs</li> <li>Memo .ppt and minutes - As above: "ETC of the acquisition of R38,6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation and other price escalations)"</li> </ul>	<ul style="list-style-type: none"> <li>4 Bus case</li> <li>4a -memo</li> <li>4b -ppt</li> <li>4c -minutes</li> </ul>
25 April 2013	BOD	<ul style="list-style-type: none"> <li>Business case</li> <li>Approval Memo</li> <li>Powerpoint presentation</li> <li>Minutes</li> </ul>	<ul style="list-style-type: none"> <li>Page 4 Bus case</li> <li>All memo</li> <li>Page 27 ppt</li> <li>All minutes</li> </ul>	<ul style="list-style-type: none"> <li>Bus case – excluding borrowing costs</li> <li>Memo .ppt and minutes - As above: "ETC of the acquisition of R38,6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation and other price escalations)"</li> </ul>	<ul style="list-style-type: none"> <li>5 Bus case</li> <li>5a-memo</li> <li>5b -ppt</li> <li>5c-minutes</li> </ul>
29 April 2013		<ul style="list-style-type: none"> <li>Nireh circulates bus case</li> </ul>		<ul style="list-style-type: none"> <li>Per FC page 26</li> <li>Bus case – excluding borrowing costs</li> </ul>	<ul style="list-style-type: none"> <li>FC 110</li> </ul>
30 April 2013		<ul style="list-style-type: none"> <li>Alignment change by YM</li> </ul>	<ul style="list-style-type: none"> <li>Bus case</li> </ul>	<ul style="list-style-type: none"> <li>Per FC page 27 para 110 111</li> <li>Bus case – excluding the potential effects from forex hedging, forex escalation and other price escalations</li> </ul>	<ul style="list-style-type: none"> <li>FC 111</li> </ul>

## 5. CONCLUSION

5.1 Based on a review of the above I would like to draw the following to the attention of the commission:

5.1.1 The change on 30 April 2013 was made after the approval of the BOD and other committees at which the resolutions taken included the ETC of R38,6b was approved/recommended *"excluding potential effects from forex hedging, forex escalation, and other price escalations"* at the:

5.1.1.1 CAPIC – 18 April 2013

5.1.1.2 EXCO – 22 April 2013

5.1.1.3 BADC – 23 April 2013

5.1.1.4 BOD – 25 April 2013

5.1.2 The change was on instruction of Mr Singh to align the business case to the approval memoranda and submissions of the committees listed above and represented a mere transfer of the information that was already approved.

5.1.2.1 In making the edits of Mr Singh, I would have acted upon his instruction and trusted his knowledge as he was intimately involved in the business case.

5.1.3 It is clear and proven that the nature of the change was:

5.1.3.1 Aligned to the memoranda, powerpoint presentations and minutes of the various committees prior to my change where the ETC of R38,6b *"excluding the potential effects from forex hedging, forex escalation and other price escalations"* was approved/recommended.

5.1.3.2 Aligned to the email of 18 April 2013 from Fabio Pedrazzi (Mckinsey) including the recommendation of an ETC of R38,6b *"excluding the potential effects from forex hedging, forex escalation and other price escalations."*



5.1.4 I can confirm that:

5.1.4.1 I had no role in the in any capacity on the 1064 locomotive project team/streams for Finance, Procurement, Commercial, Operations, Business case, Technical and Legal.

5.1.4.2 At no stage did I calculate or verify the calculations of forex hedging, forex escalation, and other price escalations.

5.1.4.3 I was not part of any of the governance committees that approved the ETC of R38,6b "excluding the potential effects from forex hedging, forex escalation and other price escalations.

5.1.4.4 The business case was the responsibility of TFR, supported by GCIA and Mckinsey.



AL AHMED

**Deponent**

Thus signed and sworn to at Wendywood on this 17 day of May 2019, the Deponent having acknowledged that he understands the contents of this affidavit, that it is both true and correct to the best of his knowledge and belief, that he has no objection taking the prescribed oath and that the prescribed oath is binding on his conscience. I certify that the above affidavit was sworn to before me and that the provisions of the regulations contained in *Government Notice No. R. 1258 of 21 July 1972*, as amended by *Government Notices No. 1648 dated 19 August 1977* and *No. R. 1428 dated 11 July 1980*, have been complied with.

[Signature]  
COMMISSIONER OF OATHS

**FULL NAMES:**

**DESIGNATION:**

**AREA:**

**ADDRESS:**

**MICHAEL MOTSOENENG BILL**  
COMMISSIONER OF OATHS: Ex OFFICIO  
PRACTISING ATTORNEY: R.S.A.  
85 WESTERN SERVICE ROAD  
WENDYWOOD, SANDTON  
2090

4MYM-11/

**Yusuf Mahomed Transnet Corporate JHB**

**From:** Yusuf Mahomed Transnet Corporate JHB <yusuf.mahomed@transnet.net>  
**Sent:** Tuesday, 28 August 2018 3:37 PM  
**To:** Yusuf Mahomed Transnet Corporate JHB  
**Subject:** FW: Updated BADC ppt doc - FINAL  
**Attachments:** 20120418 - Procurement of 1064 locomotives for the General Freight Business - FINAL.pptx

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**From:** <fabio\_pedrazzi@mckinsey.com>  
**Date:** 18/04/2013 at 12:43:38  
**To:** "Anoj Singh Corporate JHB" <Anoj.Singh@transnet.net>, <Niresh.Budhai@transnet.net>, "Yusuf Mahomed Transnet Corporate JHB" <Yusuf.Mahomed@transnet.net>, "Thembi Lekganyane Transnet Freight Rail JHB" <Thembi.Lekganyane@transnet.net>  
**Cc:** <vikas\_sagar@mckinsey.com>, <naseem\_saloojee@mckinsey.com>, <alinafe\_thupa@mckinsey.com>, <nischal\_baijnath@mckinsey.com>  
**Subject:** Updated BADC ppt doc - FINAL

All,  
Please find attached the updated BADC ppt document.  
We will put this document +  
a. Final Business Case Word document (with annexures)  
b. Final Business Case Word document (without annexures)  
c. Final Business Case PDF (without annexures)

on a stick and provide to Niresh for uploading to BADC portal.

Thanks,  
Fabio

*(See attached file: 20120418 - Procurement of 1064 locomotives for the General Freight Business - FINAL.pptx)*

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Fabio Pedrazzi  
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+=====  
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## **Procurement of 1064 Locomotives for the General Freight Business**

### **Board Acquisition and Disposal Committee**

**April 18, 2013**

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*CS*

*WMM*

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- 1 Purpose: recommending the procurement of 1064 locomotives for GFB for BoD approval
- 2 Problem: Recapitalisation of the locomotive fleet is needed...
- 3 ... to capture GFB commodity growth and drive shift in road to rail
- 4 Solution: Procure 1064 locomotives for the MDS period
- 5 TFR is operationally ready
- 6 Procurement strategy: aligned with Government's objectives and maximises socio-economic benefits to South Africa and Transnet
- 7 Sound governance in place
- 8 Funding aligned with MDS objectives and sources for funding
- 9 Recommendation: the acquisition of 1064 locomotives for approval by the BoD

9

## Recommendation: the 1064 locomotives acquisition for approval by the Board of Directors

TRANSNET



delivering freight reliably

There is a business need for the purchase of 1064 new locomotives for Transnet and South Africa



The risks are comprehensively identified and appropriately mitigated



The business will be operationally ready to execute



### BADC recommends the following to the BoD for approval:



1. The acquisition of 1064 locomotives for the General Freight Business
2. ETC for the acquisition is estimated at R38.6bn as per the corporate plan (excluding potential effects from forex hedging, forex escalation, and other price escalations)

*Handwritten signatures and initials.*

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**EXCERPT FROM THE DRAFT MINUTES OF THE TRANSNET CAPITAL INVESTMENT COMMITTEE MEETING NO 13/4 HELD ON THURSDAY, 18 APRIL 2013 AT 14:00 IN BOARDROOM, 4623, 46<sup>TH</sup> FLOOR, CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG**

**8.2 TFR: Acquisition of 1064 locomotives (ETC R36 700m)**

8.2.1 The Acting Chairman took the Committee through the updated presentation.

8.2.2 The purpose of the submission is to approve:

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

8.2.3 The Acting Chairman highlighted the following:

-The RFP for this acquisition has been issued.

-Approval was obtained from the Board to conduct the Board approval and the PFMA process in parallel.

-This business case was tabled on 18 April 2013 at the newly constituted Locomotive Steering Committee, which is a sub-committee of the Group Executive Committee. The Locomotive Steering Committee has recommended the business case for approval to the Group Executive Committee.

-The main difference between the presentation in the pack and the one being presented is the NPV. The forex rates included in the model previously were high. The forex rates have now been amended downwards, which creates a NPV on the business case at hurdle rate of R2.7 billion. Accordingly, the R0.3 billion NPV at hurdle rate in the pack has been amended to R2.7 billion. Consequently the business case is more robust.

-The requirement for the locomotives.

8.2.4 Ms Pillay enquired into whether the amount of 1064 is the optimal number for the locomotive investment and what informs the amount of 1064.

8.2.5 The Acting Chairman stated that:

-Slide 5 of the submission depicts the outcome if Transnet did nothing.

-Locomotives will be retired at a rapid rate and new locomotives will be acquired which creates a substitution effect.

-The amount of 1064 locomotives has been informed by the fleet plan which was approved by the Board and the locomotive strategy.

-Slide 7 addresses the question of whether 1064 is the correct amount. There are 2 issues that Transnet needs to monitor :

(i)The ability to achieve volumes due to economic downturn and other factors;  
and

(ii)The operational efficiency of the locomotives.

If the assumptions in the business plan are correct and the operational efficiency is achieved, Transnet will require 1064 locomotives. If not, Transnet faces a risk of overcapitalising the business. Slide 7 informs the fact that, headroom exists to manage economic and volume risk, accordingly if there is an economic downturn Transnet will not purchase 1064 locomotives, it will acquire the number of

*BM MW*

locomotives required, depending on the operational efficiencies.

-The contracting and procurement strategy will address these risks.

-The high level risks that Transnet needed to mitigate against, were built into the tender e.g. Delivery schedule risks; volume risks etc.

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

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

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

13/4/6



MM 3YM-17 7

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**MEMORANDUM**

www.transnet.net

**To:** Transnet Executive Committee

**From:** Mr Anoj Singh, Group Chief Financial Officer

**Date:** 18 April 2013

**SUBJECT: ACQUISITION OF 1064 LOCOMOTIVES FOR TFR'S GENERAL FREIGHT BUSINESS**

**PURPOSE:**

1. The purpose of this memo is to obtain support from Exco for submission to the Transnet Board Acquisitions and Disposals Committee Special Meeting of 23 April 2013 for the Acquisition of 1064 locomotives for TFR's General Freight Business.

**BACKGROUND:**

2. Transnet embarked on the Market Demand Strategy (MDS) in 2012/13. One of the key objectives of the MDS is to increase General Freight volumes from 80mt to 170mt over the seven year period. In order to achieve these volumes in addition to other expansionary initiatives Transnet developed a R300,1 billion seven year capital investment plan (2012/13 to 2018/19). One of the major projects included in the capital investment plan to facilitate the above mentioned growth is the Acquisition of 1064 locomotives for TFR's General Freight Business.
3. The acquisition of 1064 locomotives for TFR's General Freight Business was conceptualised in 2011 and initiated around April 2012. The Department of Public Enterprises was engaged on various occasions in 2012 to take the Department through the transaction.
4. The business case was tabled through the internal approval bodies (TFRIC, CAPIC and Exco) in addition to the above engagements.
5. In view of the magnitude of the transaction and the dependence of the MDS on the capacity creating capability of this acquisition as well as the various risks that this project poses to Transnet, it was decided to engage the services of a Transaction Advisor to assist with the various facets of the transaction. These include:
  - a. Business case development
  - b. Contracting strategy
  - c. Risk mitigation
  - d. Demand Analysis
  - e. Business Integration
  - f. Procurement of the locomotives which includes the development and roll out of a tender strategy that is robust, fair, value generating and capable of withstanding scrutiny from any interested and affected party.

*[Handwritten signatures and initials]*

6. The attached business case is the product of a team consisting of TFR and Group Finance that ensured the development of a robust business case of the highest standard.

#### **DISCUSSION:**

7. This business case provides the rationale to invest in the profitable General Freight Business (GFB) by procuring 1064 new locomotives (465 diesel, 599 electric). This business case demonstrates a clear need to accelerate locomotive deployment to enable delivery against Transnet's Market Demand Strategy and achieve South Africa's broader socioeconomic objectives. The new locomotive purchase will:
- a. Create value for Transnet by enabling:
    - i. TFR to deliver 170 mt by 2018/19 and thereby achieve its MDS target.
    - ii. This will result in a positive NPV (R2,7 billion at the TFR hurdle rate of 18.56% and R34,1 billion at the TFR WACC of 12.56%,
    - iii. Top-line growth
    - iv. Enhanced return on assets (ROA), and
    - v. An improved environmental footprint.
  - b. Lower the cost of doing business in South Africa by enabling operational efficiencies that will increase customer satisfaction and facilitate a shift from road to rail.
  - c. Create and preserve 28,000 direct and indirect South African jobs, and R68 billion in economic impact through local supplier development.
8. A robust procurement strategy and appropriate governance processes have been designed and instituted to ensure transparency, fairness, and value maximisation for Transnet. A funding plan and forex management strategy are detailed in the business case.
9. The risks that are inherent in a procurement event of this nature have been identified and mitigation strategies are or will be put in place.
10. The average age of the current GFB fleet of 1 888 locomotives is 32 years. The design life of a locomotive is 30 years. No investment was made in locomotives between 1992 and 2008 and current acquisitions (50 like new, 100 diesels, 43 diesels and 95 electrics) fall far short of the market demand and road to rail migration initiative.
11. The two options explored include the 'do nothing' scenario which is economically unviable and does not support the volume growth expected in the MDS. The only viable option is for Transnet to invest in the acquisition of the 1064 locomotives (599 electric and 465 diesel).
12. Benefits of the acquisition include:
- a. Improved operational efficiency:
    - i. Increased availability of fleet from the current 85% to 93%
    - ii. Improved reliability as newer fleet is less susceptible to breakdowns

Acquisition 1064 locomotives to Exco



Ym3

- iii. Increased tractive effort will result in fewer locomotives required to pull a similar length train
  - iv. Dual Voltage design enables trains to traverse AC and DC configurations avoiding the time consuming practice of changeovers.
  - v. Fleet standardisation will result in a simplified maintenance regime
  - b. Create business opportunities for Transnet Engineering who will participate substantially in the localisation programme.
  - c. Enhanced return on assets and improved financial sustainability
13. Benefits for the country include:
- a. Creation of R68 billion in localisation benefits for the economy as the Transnet local content requirement is 55% and 60% for diesel and electric locomotives respectively.
  - b. Catalyse the sustainable development of a South African locomotive production industry based on the procurement of 1064 locomotives over approximately 7 years and an estimated on-going annual need of 80 locomotives driven by TFR's 30-year replacement life policy
  - c. Development of manufacturing skills and creation and preservation of 28 000 direct and indirect jobs
  - d. Improve road safety (fewer road fatalities) and general road condition by moving freight from road to rail.
  - e. Environmental impacted in a positive way through reduced carbon emissions by the newer fleet.
14. Benefits to business include:
- a. Increased customer satisfaction as improved fleet reliability results in reliability and predictability of service which provides 'piece of mind' to customers.
  - b. Lowering the cost of doing business by aggressively pursuing a shift from road to rail as rail becomes more cost effective for transportation of freight for distances greater than 300km.
15. Programmatic procurement strategy: The procurement strategy for this project has been approved by the Board of Directors and include the following key aspects:
- a. Alignment to Government's socio-economic policy framework
  - b. Developing skills, creating jobs and transferring technology through increasing the local content thresholds (55% for diesel and 60% for electric locomotives)
  - c. Open tender process which will result in the broadest possible supplier base bidding for Transnet's business thereby maximising value for Transnet
  - d. A six step evaluation methodology will be applied with the following criteria:
    - i. Price 60% weighting
    - ii. Supplier development 20% weighting
    - iii. Broad-based Black Economic Empowerment 20% weighting

Handwritten signature and initials, possibly 'J. van der Merwe' and 'M.M.', located at the bottom right of the page.

## 16. Some of the key risks identified include:

Risk	Mitigating actions/considerations
<p>Volumes: volume risk has the greatest potential to impact NPV. A slight underperformance (7% versus MDS targets), Transnet would experience revenue shortfalls of R16.4 billion and a reduction in NPV of R1.7 billion. However, under the worst case scenario (growth of volumes in line with GDP) NPV would be reduced by over R20 billion.</p>	<p>This reinforces the need for a flexible procurement and contracting strategy, allowing locomotives to be brought online as they are needed.</p>
<p>Delivery schedule. TFR already has a shortfall of DC electrics, with the electric locomotive shortfall projected to grow to approximately 140 by 2015. Given the previously expected timelines to procure new locomotives locally, TFR may not be able to close this shortfall until the end of the MDS period. Under the base case (procurement in line with schedules stipulated in the RFP), R13.3 billion in MDS revenues would be at risk; this would triple under a moderately delayed scenario with further downside under the worst-case scenario.</p>	<p>Procurement and production timelines are being tightly managed to ensure the swiftest possible locomotive delivery, and immediate mitigation strategies are being explored. These include front-loading orders with international suppliers and exploring leasing options.</p>
<p>Tariffs. The MDS GFB tariffs are expected to increase faster than CPI through 2020 (7% versus 6%). Given that the pricing on almost all GFB commodities is below the cost of full economic recovery even after taking into account all efficiencies, the pricing corridor in TFR's plan is achievable. However, should global and local economic conditions create challenges and tariffs above CPI cannot be implemented, the implication would be a reduction in the NPV of the business case by upwards of R4 billion.</p>	<p>Cost reduction and efficiency improvement initiatives will need to be developed on a continual basis to ensure that the Transnet cost base is as lean as possible.</p>
<p>Foreign exchange exposure. The Rand's depreciation against the US dollar by 10% this year would increase the price for a transaction of this size by approximately R2 billion.</p>	<p>Transnet's Group policy on Financial Risk Management requires that all contracts must be either Rand-based or effectively hedged to minimise the risk of financial loss due to exchange rate fluctuations. Should a Rand-based contract not be possible, hedge accounting will be applied to manage any foreign exchange volatility. The project will be hedged according to the Group policy.</p>
<p>Locomotive purchase price. Additional locomotive price risks (e.g., change order risks related to detailed specifications). A purchase price increase of 10% would have a R1.5 billion impact on NPV.</p>	<p>Price risks need to be actively managed during contracting and negotiations</p>

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

Acquisition 1064 locomotives to Exco

Institutions, and Export Credit Agencies depending on the most cost efficient option.

18. A governance framework has been developed specifically for this transaction and includes:
  - a. Highest standards of confidentiality, reinforced through the High Value Tender (HVT) process with oversight from Transnet Internal Audit
  - b. The establishment of the 1064 Locomotive Steering Committee which is chaired by the GCE and constituted as a sub-committee of CAPIC and mandated by Exco.
  - c. A project management office has been set up at TFR with specific responsibilities of:
    - i. Tracking progress towards milestones,
    - ii. Establishing and owning a virtual data room based on best practice,
    - iii. Scheduling Steering Committee meetings at the Chairperson's request
    - iv. Following up on action items and
    - v. Ensuring confidentiality protocols are in place
19. Operational readiness is critical to TFR, Transnet and the country extracting the benefits the acquisition is capable of delivering. Integration of locomotives with demand, wagons, infrastructure, operations other divisions where port interface is required is thus essential. In addition human resource development underlies all the other integration nodes and thus the training of more than 3000 train drivers and assistants is also a key project dependency.

**BUDGET IMPLICATIONS**

20. The comparison between the business case and cash flows contained in the 2013/14 Corporate is illustrated in the table below:

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21*	Total
Business Case	2 900	4 680	7 830	8 410	7 880	6 670	230	-	38 600
Approved budget*		2 835	7 720	7 888	8 183	8 183	2 419	1 320	38 548
<b>Difference</b>	<b>-2 900</b>	<b>-1 845</b>	<b>-110</b>	<b>-522</b>	<b>303</b>	<b>1 513</b>	<b>2 189</b>	<b>1 320</b>	<b>-52</b>

\*to be approved as part of the 2014/15 Corporate Plan and budgeting process

**FINANCIAL IMPLICATIONS**

21. The financial implications are highlighted in the table below:

Measure	Discount Rate	Result
Net present value (NPV)	12,56% (WACC)	R34,1bn
Net present value (NPV)	18,56% (Hurdle)	R2,7bn
Internal Rate of Return (IRR)	n/a	19%

**DELEGATIONS OF AUTHORITY**

22. The project exceeds the materiality and significance framework threshold of R4 billion and consequently approval from the Shareholder Minister is required in terms of the PFMA.

Acquisition 1064 locomotives to Exco


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**RECOMMENDATION**

23. Exco recommends the following to the BADC for approval:

- a. The business case for the acquisition of 1064 locomotives
- b. ETC for the acquisition is estimated at R38.6bn as per the corporate plan (excluding potential effects from forex hedging, forex escalation, and other price escalations)

**Recommended by**




---

Anoj Singh  
Chief Financial Officer  
Date: 16/04/13

**Recommended by**

---

Brian Molefe  
Group Chief Executive  
Date:

MINUTES OF THE GROUP EXECUTIVE COMMITTEE MEETING NO. 13/3 HELD ON 22 APRIL 2013 AT 08:30 IN ROOM 4623, CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG

For Attention/  
Resolution No

1 CONSTITUTION OF MEETING

1.1 Present

Mr B Molefe	Chairperson
Mr SI Gama	Chief Executive: Transnet Freight Rail
Mr M Gregg-Macdonald	Group Executive: Planning and Monitoring
Ms R Lepule	Group Executive: Results Management Office
Ms NJ Mabandla	Group Executive: Group Legal Services
Ms DC Moephuli	Group Chief Risk Officer
Mr CA Möller	Group Executive: Transnet Capital Projects
Mr T Morwe	Chief Executive: Transnet National Ports Authority
Ms S Pillay	Chief Executive: Transnet Pipelines
Mr A Singh	Group Chief Financial Officer
Ms EAN Sishi	Group Executive: Human Resources
Mr KXT Socikwa	Chief Executive: Transnet Port Terminals
Mr R Wolfenden	Chief Audit Executive (Ernst & Young)

1.2 In Attendance

Ms P Difeto	General Manager: Office of the GCE
Mr D Kalan	General Manager: Commercial (on behalf of Mr Phihlela)
Mr FJ Potgieter	General Manager: Transnet Rail Engineering (on behalf of Mr Vallihu)
Mr M Sigonyela	General Manager: Corporate and Public Affairs
Mr R Toka	General Manager: Security Management
Ms N Khumalo	Deputy Group Company Secretary

1.3 Partial Attendance

Ms ANC Ceba	Group Company Secretary (Partial)
Mr LM Moodley	General Manager, Strategy and Commercial: Transnet Pipelines
Ms L Govender	Manager: Human Capital
Ms M Sexwale	Director at Impact Strategy Consulting

1.4 Apologies

Mr KC Phihlela	Group Executive: Commercial
Mr R Vallihu	Chief Executive: Transnet Engineering

1.5 Welcome

1.5.1 The Chairperson welcomed all members and attendees and having noted that there was a quorum, declared the meeting duly constituted. He noted apologies from Messrs Phihlela and Vallihu. The Attendance Register was circulated for signature.

1.6 Adoption of Agenda

1.6.1 The Agenda was adopted as tabled with the following amendments:

- Item 5.6: The matter was withdrawn from the Agenda.
- Item 5.23: The matter was withdrawn from the Agenda.
- Item 5.29: Item should be for noting.
- Item 6.1: The matter was withdrawn from the Agenda.
- Item 6.5: The matter was withdrawn from the Agenda.

2 SAFETY BRIEF

The safety briefing and evacuation procedures were conducted by means of a safety card.

3 DECLARATION OF INTERESTS REGISTER

3.1 The Declaration of Interests Register was circulated for signature. The Chairperson urged the Committee members to submit their respective annual declaration of interests forms, if

5.3 **TFR: Acquisition of 1064 locomotives (ETC R38.6bn)**

5.3.1 Mr Singh took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to obtain recommendation for the special Board meeting scheduled for 25 April 2013 for the acquisition of 1064 locomotives for TFR's General Freight Business.

5.3.2 The Chairperson enquired on the implications of the project for port alignment, whether the mitigating actions are greater than 5 years. The funding will require approval from SARB if there is opportunity for foreign funding. Mr Singh stated that there will be greater alignment between port and rail business in general e.g. manganese project, amongst others.

**RESOLVED** that the Committee recommended that the Board approves the business case for the acquisition of 1064 locomotives for TFR's General Freight Business at an estimated total cost of R38.6bn as per Corporate Plan (excluding potential effects from forex hedging,

*ANC*

**CONFIDENTIAL AND PRIVILEGED**

**For Attention  
Resolution No  
13/3/2**

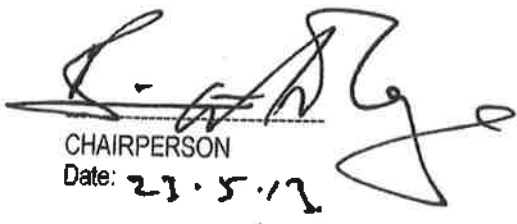
forex escalation and other price escalations).

12 **GROUP EXECUTIVE COMMITTEE MANDATE**

The Committee noted the Group Executive Committee mandate as contained in the meeting pack.

13 **CLOSE**

Mr Sigonyela advised the Committee of the planned march in Machado on 3 May 2013 in support of and in pursuit of justice for Nare Mashamaite. The Chairperson enquired what the Company has done to improve the security of train drivers post the incident. There being no further business to conduct, the Chairperson declared the meeting closed at 14:33.

  
CHAIRPERSON  
Date: 23.5.13

  
AN Keba  
DEPUTY GROUP COMPANY SECRETARY  
Date: 17 MAY 2013

*WMM*  
*CS*

# Procurement of 1064 Locomotives for the General Freight Business



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

Transnet Freight Rail	Capital projects	
1064 Locomotives Team	18/04/2013	Page 1 of 101

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## A. PURPOSE

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

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

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

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

<sup>1</sup> Proportional to MDS-related job creation of 288,000

Transnet Freight Rail	Capital projects	
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**MEMORANDUM**

www.transnet.net

**To:** Transnet Board Acquisitions and Disposals Committee (Special Meeting)

**From:** Mr Brian Molefe, Group Chief Executive

**Date:** 18 April 2013

**SUBJECT: ACQUISITION OF 1064 LOCOMOTIVES FOR TFR'S GENERAL FREIGHT BUSINESS**

**PURPOSE:**

1. The purpose of this memo is to obtain support from the BADC for submission to the Transnet Board of Directors Special Meeting of 25 April 2013 for the Acquisition of 1064 locomotives for TFR's General Freight Business.

**BACKGROUND:**

2. Transnet embarked on the Market Demand Strategy (MDS) in 2012/13. One of the key objectives of the MDS is to increase General Freight volumes from 80mt to 170mt over the seven year period. In order to achieve these volumes in addition to other expansionary initiatives Transnet developed a R300,1 billion seven year capital investment plan (2012/13 to 2018/19). One of the major projects included in the capital investment plan to facilitate the above mentioned growth is the Acquisition of 1064 locomotives for TFR's General Freight Business.
3. The acquisition of 1064 locomotives for TFR's General Freight Business was conceptualised in 2011 and initiated around April 2012. The Department of Public Enterprises was engaged on various occasions in 2012 to take the Department through the transaction.
4. The business case was tabled through the internal approval bodies (TFRIC, CAPIC and Exco) in addition to the above engagements.
5. In view of the magnitude of the transaction and the dependence of the MDS on the capacity creating capability of this acquisition as well as the various risks that this project poses to Transnet, it was decided to engage the services of a Transaction Advisor to assist with the various facets of the transaction. These include:
  - a. Business case development
  - b. Contracting strategy
  - c. Risk mitigation
  - d. Demand Analysis
  - e. Business Integration
  - f. Procurement of the locomotives which includes the development and roll out of a tender strategy that is robust, fair, value generating and capable of withstanding scrutiny from any interested and affected party.

- 6. The attached business case is the product of a team consisting of TFR and Group Finance that ensured the development of a robust business case of the highest standard.

**DISCUSSION:**

- 7. This business case provides the rationale to invest in the profitable General Freight Business (GFB) by procuring 1064 new locomotives (465 diesel, 599 electric). This business case demonstrates a clear need to accelerate locomotive deployment to enable delivery against Transnet's Market Demand Strategy and achieve South Africa's broader socioeconomic objectives. The new locomotive purchase will:
  - a. Create value for Transnet by enabling:
    - i. TFR to deliver 170 mt by 2018/19 and thereby achieve its MDS target.
    - ii. This will result in a positive NPV (R2,7 billion at the TFR hurdle rate of 18.56% and R34,1 billion at the TFR WACC of 12.56%,
    - iii. Top-line growth
    - iv. Enhanced return on assets (ROA), and
    - v. An improved environmental footprint.
  - b. Lower the cost of doing business in South Africa by enabling operational efficiencies that will increase customer satisfaction and facilitate a shift from road to rail.
  - c. Create and preserve 28,000 direct and indirect South African jobs, and R68 billion in economic impact through local supplier development.
- 8. A robust procurement strategy and appropriate governance processes have been designed and instituted to ensure transparency, fairness, and value maximisation for Transnet. A funding plan and forex management strategy are detailed in the business case.
- 9. The risks that are inherent in a procurement event of this nature have been identified and mitigation strategies are or will be put in place.
- 10. The average age of the current GFB fleet of 1 888 locomotives is 32 years. The design life of a locomotive is 30 years. No investment was made in locomotives between 1992 and 2008 and current acquisitions (50 like new, 100 diesels, 43 diesels and 95 electrics) fall far short of the market demand and road to rail migration initiative.
- 11. The two options explored include the 'do nothing' scenario which is economically unviable and does not support the volume growth expected in the MDS. The only viable option is for Transnet to invest in the acquisition of the 1064 locomotives (599 electric and 465 diesel).
- 12. Benefits of the acquisition include:
  - a. Improved operational efficiency:
    - i. Increased availability of fleet from the current 85% to 93%
    - ii. Improved reliability as newer fleet is less susceptible to breakdowns

Acquisition 1064 locomotives to BADC

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- iii. Increased tractive effort will result in fewer locomotives required to pull a similar length train
  - iv. Dual Voltage design enables trains to traverse AC and DC configurations avoiding the time consuming practice of changeovers.
  - v. Fleet standardisation will result in a simplified maintenance regime
  - b. Create business opportunities for Transnet Engineering who will participate substantially in the localisation programme.
  - c. Enhanced return on assets and improved financial sustainability
13. Benefits for the country include:
- a. Creation of R68 billion in localisation benefits for the economy as the Transnet local content requirement is 55% and 60% for diesel and electric locomotives respectively.
  - b. Catalyse the sustainable development of a South African locomotive production industry based on the procurement of 1064 locomotives over approximately 7 years and an estimated on-going annual need of 80 locomotives driven by TFR's 30-year replacement life policy
  - c. Development of manufacturing skills and creation and preservation of 28 000 direct and indirect jobs
  - d. Improve road safety (fewer road fatalities) and general road condition by moving freight from road to rail.
  - e. Environmental impacted in a positive way through reduced carbon emissions by the newer fleet.
14. Benefits to business include:
- a. Increased customer satisfaction as improved fleet reliability results in reliability and predictability of service which provides 'piece of mind' to customers.
  - b. Lowering the cost of doing business by aggressively pursuing a shift from road to rail as rail becomes more cost effective for transportation of freight for distances greater than 300km.
15. Programmatic procurement strategy: The procurement strategy for this project has been approved by the Board of Directors and include the following key aspects:
- a. Alignment to Government's socio-economic policy framework
  - b. Developing skills, creating jobs and transferring technology through increasing the local content thresholds (55% for diesel and 60% for electric locomotives)
  - c. Open tender process which will result in the broadest possible supplier base bidding for Transnet's business thereby maximising value for Transnet
  - d. A six step evaluation methodology will be applied with the following criteria:
    - i. Price 60% weighting
    - ii. Supplier development 20% weighting
    - iii. Broad-based Black Economic Empowerment 20% weighting

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16. Some of the key risks identified include:

Risk	Mitigating actions/considerations
<p>Volumes: volume risk has the greatest potential to impact NPV. A slight underperformance (7% versus MDS targets), Transnet would experience revenue shortfalls of R16.4 billion and a reduction in NPV of R1.7 billion. However, under the worst case scenario (growth of volumes in line with GDP) NPV would be reduced by over R20 billion.</p>	<p>This reinforces the need for a flexible procurement and contracting strategy, allowing locomotives to be brought online as they are needed.</p>
<p>Delivery schedule. TFR already has a shortfall of DC electrics, with the electric locomotive shortfall projected to grow to approximately 140 by 2015. Given the previously expected timelines to procure new locomotives locally, TFR may not be able to close this shortfall until the end of the MDS period. Under the base case (procurement in line with schedules stipulated in the RFP), R13.3 billion in MDS revenues would be at risk; this would triple under a moderately delayed scenario with further downside under the worst-case scenario.</p>	<p>Procurement and production timelines are being tightly managed to ensure the swiftest possible locomotive delivery, and immediate mitigation strategies are being explored. These include front-loading orders with international suppliers and exploring leasing options.</p>
<p>Tariffs. The MDS GFB tariffs are expected to increase faster than CPI through 2020 (7% versus 6%). Given that the pricing on almost all GFB commodities is below the cost of full economic recovery even after taking into account all efficiencies, the pricing corridor in TFR's plan is achievable. However, should global and local economic conditions create challenges and tariffs above CPI cannot be implemented, the implication would be a reduction in the NPV of the business case by upwards of R4 billion.</p>	<p>Cost reduction and efficiency improvement initiatives will need to be developed on a continual basis to ensure that the Transnet cost base is as lean as possible.</p>
<p>Foreign exchange exposure. The Rand's depreciation against the US dollar by 10% this year would increase the price for a transaction of this size by approximately R2 billion.</p>	<p>Transnet's Group policy on Financial Risk Management requires that all contracts must be either Rand-based or effectively hedged to minimise the risk of financial loss due to exchange rate fluctuations. Should a Rand-based contract not be possible, hedge accounting will be applied to manage any foreign exchange volatility. The project will be hedged according to the Group policy.</p>
<p>Locomotive purchase price. Additional locomotive price risks (e.g., change order risks related to detailed specifications). A purchase price increase of 10% would have a R1.5 billion impact on NPV.</p>	<p>Price risks need to be actively managed during contracting and negotiations</p>

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

Acquisition 1064 locomotives to BADC

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- Institutions, and Export Credit Agencies depending on the most cost efficient option.
18. A governance framework has been developed specifically for this transaction and includes:
    - a. Highest standards of confidentiality, reinforced through the High Value Tender (HVT) process with oversight from Transnet Internal Audit
    - b. The establishment of the 1064 Locomotive Steering Committee which is chaired by the GCE and constituted as a sub-committee of CAPIC and mandated by Exco.
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**BUDGET IMPLICATIONS**

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Difference	-2 900	-1 845	-110	-522	303	1 513	2 189	1 320	-52

\*to be approved as part of the 2014/15 Corporate Plan and budgeting process

**FINANCIAL IMPLICATIONS**

21. The financial implications are highlighted in the table below:

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Net present value (NPV)	18,56% (Hurdle)	R2,7bn
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**DELEGATIONS OF AUTHORITY**

22. The project exceeds the materiality and significance framework threshold of R4 billion and consequently approval from the Shareholder Minister is required in terms of the PFMA.

Acquisition 1064 locomotives to BADC

**RECOMMENDATION**

23. BADC recommends the following to the BoD for approval:
- a. The business case for the acquisition of 1064 locomotives
  - b. ETC for the acquisition is estimated at R38.6bn as per the corporate plan (excluding potential effects from forex hedging, forex escalation, and other price escalations)

**Recommended by**



Anoj Singh  
Chief Financial Officer  
Date: 18/04/13

**Recommended by**



Brian Molefe  
Group Chief Executive  
Date: 18.4.13.

MM  
M

**TRANSNET**



delivering freight reliably



## Procurement of 1064 Locomotives for the General Freight Business

### Board Acquisition and Disposal Committee

April 18, 2013

YM 4b 25  
YM-95

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TRANSNET



delivering freight reliably

- 1 Purpose: recommending the procurement of 1064 locomotives for GFB for BoD approval
- 2 Problem: Recapitalisation of the locomotive fleet is needed...
- 3 ... to capture GFB commodity growth and drive shift in road to rail
- 4 Solution: Procure 1064 locomotives for the MDS period
- 5 TFR is operationally ready
- 6 Procurement strategy: aligned with Government's objectives and maximises socio-economic benefits to South Africa and Transnet
- 7 Sound governance in place
- 8 Funding aligned with MDS objectives and sources for funding
- 9 Recommendation: the acquisition of 1064 locomotives for approval by the BoD

*MM*  
*AM*

4/11/2016

# Recommendation: the 1064 locomotives acquisition for approval by the Board of Directors



delivering freight reliably

There is a business need for the purchase of 1064 new locomotives for Transnet and South Africa



The risks are comprehensively identified and appropriately mitigated



The business will be operationally ready to execute



## BADC recommends the following to the BoD for approval:



1. The acquisition of 1064 locomotives for the General Freight Business
2. ETC for the acquisition is estimated at R38.6bn as per the corporate plan (excluding potential effects from forex hedging, forex escalation, and other price escalations)

MM  
at

YMA37b 27

## CONFIDENTIAL AND PRIVILEGED

UM 46

MINUTES OF THE SPECIAL MEETING OF THE BOARD ACQUISITIONS AND DISPOSALS COMMITTEE NO.13/04  
HELD ON 23 APRIL 2013 AT 09:00 IN BOARDROOM 4703, 47<sup>TH</sup> FLOOR, CARLTON CENTRE, JOHANNESBURG

Resolution No/  
For Attention

## 1 CONSTITUTION OF MEETING

## 1.1 Present

Mr IM Sharma	Chairman
Ms Y Forbes	Member (video conference)
Mr ME Mkwanazi	Member
Ms NP Mnxasana	Member (teleconference)
Ms NR Njeke	Member
Ms DLJ Tshepe	Member

## 1.2 In Attendance

Mr A Singh	Group Chief Financial Officer
Ms P Difeto	General Manager: Office of the Group Chief Executive
Mr G Pita	Group Chief Supply Chain Officer
Ms N Khumalo	Deputy Group Company Secretary

## 1.3 Apologies

Mr B Molefe	Group Chief Executive
Ms NJ Mabandla	Group Executive: Group Legal Services

## 1.4 Partial attendance

Mr SI Gama	Chief Executive: Transnet Freight Rail
Mr T Jiyane	Chief Procurement Officer: Transnet Freight Rail

## 1.5 Welcoming and Signing of Attendance Register

1.5.1 The Chairman welcomed all members and attendees present at the meeting. Having noted that there was a quorum, he declared the meeting duly constituted. The Attendance Register was circulated for signature.

## 1.6 Adoption of Agenda

The agenda was adopted as tabled with the following amendment:

- Item 6.2 - Update on the withdrawal of the PPPFA exemption.

## 2 SAFETY BRIEFING AND EVACUATION PROCEDURE

2.1 The safety briefing and evacuation procedures were conducted by means of a safety card.

## 3 DIRECTOR'S DECLARATION OF INTERESTS

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

## 4 LIST OF SUPPLY CHAIN ACRONYMS

4.1 The Committee noted the list.

## 5 MATTERS FOR DISCUSSION/APPROVAL

The Chairman requested that Item 6.2 be dealt with next. These minutes reflect the order of the meeting.

## 5.1 Procurement of 1064 locomotives for the TFR General Freight Business

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- 5.1.1 The item was dealt with as Item 5.1 below Item 5.2.
- 5.2 **Update on the withdrawal of the PPPFA exemption**
- 5.2.1 Management provided feedback on the developments pertaining to the withdrawal of the PPPFA exemption, indicating that a meeting was convened between the Chairman of the Committee, Management (Messrs Singh and Pita) and the Director-General of DPE ("DG"). The focus was on the designation of 100% localisation which will allow SCAW to charge 30% more on bogie castings (and create a financial impact on the Company) and the potential impact from the premium on the locomotives for CSDP. On average, there is a 2% premium anticipated on locomotives; however, this can be as high as 8% depending on the components.
- 5.2.2 Management informed the Committee that the DG was satisfied with the update and he undertook to co-ordinate a meeting between the Minister of Finance and the Shareholder Minister. Unfortunately, the planned meeting did not materialise. Management drafted a letter on behalf of the Shareholder Minister as a brief for a meeting with the Minister of Finance, highlighting the Company's support of the National Treasury initiatives, the unintended consequences of the withdrawal of the PPPFA exemption on SOCs, and further motivating for an exemption on the locomotives.
- 5.2.3 Management informed the Committee that the GCE initiated a similar process with the Accountant-General. In short, National Treasury was receptive of the presentations made on the impact of the withdrawal of the PPPFA exemption and the required urgency in finalisation of the matter. Certain documentation, amongst others, the 1064 RFP and the PWC Analysis on the premium were submitted to National Treasury as supporting documentation in support of the PPPFA exemption. National Treasury sought guidance on whether the Company will accept an exemption with terms and conditions relating to the 2% premium. The outcome of the request is still awaited.
- 5.2.4 Management advised the Committee that the 2% premium is exclusive of the 30% increase that the Company will endure should it adhere to 100% localisation of purchasing steel from SCAW. The surcharge on SCAW will be approximately 35% if the PPPFA is applied, and not the Company's 60/40 methodology. From the analysis, it appeared as though applying the Company's methodology will make economic sense with the 2% premium. For localisation in line with the current PPPFA, the Company will be compelled into procurement of uneconomically viable components, if procured within the country.
- 5.2.5 Management stated that correspondence to the Shareholder Minister indicating CSDP related benefits will be drafted on behalf of the Chairman of the Board. Furthermore a list of advantages emanating from the Company's procurement methodology will be prepared and submitted to the Shareholder Minister as requested.

Mr Singh

*The Committee noted the feedback.*

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

*Messrs Gama and Jiyane joined the meeting at 9:18*

- 5.1.1 The Chairman stated that due to the size and scope of the transaction it was incumbent on the Committee to provide oversight and governance. The Committee appreciated the robust and rigorous processes undertaken in the implementation of the procurement process. The Committee will deal with the award of business and contract finalisation, subject to the Board's approval. Mr Mkwanzai requested Management to ensure that the

S54 PFMA process is managed accordingly.

- 5.1.2 Management took the Committee through the submission as contained in the pack. The submission was taken as read. Management considered various options, and the findings indicated that the Company has to recapitalise the railway and the locomotives. Capex spend in this regard has been low; including refurbishment of the fleet. Continuing with the situation "as is" is not a viable option as it would have severe impact on the Company's revenue. The Company plans to invest in 1064 new locomotives (465 diesel and 599 electric). The design life of a locomotive is 30 years and the average age of the current GFB fleet is 32 years. The available fleet is inadequate for the attainment of MDS targets and the proposed road to rail initiatives therefore the ageing GFB Fleet must be replaced.
- 5.1.3 Management indicated that three main socio-economic development objectives that will be met with the acquisition of the 1064 locomotives were:
- Value creation for the Company in that:
    - The project will deliver 170mt by 2018/19FY and assist the Company to achieve MDS targets;
    - Top-line growth;
    - Enhanced return on assets; and
    - Improved environmental footprint.
  - Lower the cost of doing business through operational efficiencies which will expedite the shift from road to rail and achieve customer satisfaction.
  - Create approximately 28 000 direct and indirect jobs with an added economic impact of R68bn through local supplier development programme.
- 5.1.4 Management informed the Committee that due to the magnitude of the project and the dependence of MDS on capacity creating capability and the risks inherent to the project, the Company employed the services of transaction advisors. The aim is to have a fair and open procurement strategy for locomotives which is value generating and capable of withstanding scrutiny from any interested and affected party. Management developed a programmatic procurement strategy which was approved by the Board with the following as its key features:
- a) Alignment with government's socio-economic policy framework.
  - b) Skills development, job creation and localisation at 55% for diesel and 60% for electric locomotives.
  - c) Open and fair procurement process which will maximise value for the Company.
  - d) An evaluation method will consist of the following criteria price at 60%, Supplier Development at 20% and BBBEE at 20%, respectively.
- 5.1.5 Management indicated that the locomotives will support the Company's road to rail initiative by providing a reliable schedule for railway service. This will attract volumes for the achievement of MDS targets. Management advised the Committee that from a financial perspective the Company has a positive NPV of R2.7bn, and an Internal Rate of Return of 19%. There were various risks associated with the project. Stress tests were conducted and mitigation measures were in place. Key risks were, amongst others, volume risk, delivery schedules, tariff and foreign exchange. The economic downturn was also identified as a risk, however, commodities like manganese, iron ore and Eskom coal give the Company comfort that there are goods that could be transported in bulk for distances greater than 200km.
- 5.1.6 Mr Mkwanazi sought clarity on whether long-term price risk was factored when contracting with the customers; in the long-term, R38bn could be multiplied by 1.5 times. Management informed the Committee the price risk was insignificant; however, it will be mitigated. Further, if there were price changes or the locomotives were not delivered timeously, this

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will affect the Net Present Value and will impact the Company's financial ratios as determined. Delivery schedules and volumes have the biggest impact on NPV and cash interest cover ratio. Sensitivity testing was conducted on both the business case and the Corporate Plan. The price is on base inflation, and it will be adjusted for forward exchange.

5.1.7 Management informed the Committee that the 1064 locomotives will be needed to reach the set volume targets. Should the volumes change, the number of locomotives will be adjusted accordingly. There is headroom for flexibility in the programme should volumes not be realised. The plan is to negotiate the matter with the successful service provider, and ensure that there is no contract cancellation. The delivery period can be extended whilst the consignment remains under the supplier's possession, the penalty can only be time value of money. There will be no consequential damages and loss of profit.

5.1.8 Management informed the Committee that the RFP will be issued on the basis that it can be evaluated with or without PPPFA exemption; 90/10 if the PPPFA is applied and on 60/20/20 if the Company is granted the PPPFA exemption. Management was advised that closing the tender without the PPPFA exemption will not pose a problem. However, it will be crucial to obtain the PPPFA exemption within six weeks into the process. Management will submit a legal opinion at the next meeting to explain the legal position since the Company issued the RFP prior to the expiry date of the PPPFA exemption.

Ms Mabandla

5.1.9 Ms Tshepe enquired whether the benefits of the business case would change if the 90/10 criteria is applied to award a contract if National Treasury does not grant the exemption and the legal advice states that having issued the RFP prior to expiry dates has no effect on the decision. Management stated that according to the analysis conducted by PWC, indications are that there will be a 2% premium from the application of the Company's procurement methodology in the acquisition of the 1064 locomotives, which amounts to R400m against an investment of R70bn into the economy.

5.1.10 Management informed the Committee that in terms of good governance a HVT process is in place with a dedicated PMO based in TFR and a Steering Committee under the leadership of the GCE. The governance process that has been established and a procurement strategy compiled to ensure amongst others, value maximisation, transparency and fairness. A HVT process, which has a two pronged approach, has commenced. It will be essential to provide assurance against fraud and corruption. The HVT Report will be submitted to the Committee for information, in due course. Ms Tshepe commended management on the governance processes. Ms Mnxasana endorsed the project; she was content with the listed benefits, the six step evaluation methodology on the programmatic strategy.

*Ms Mnxasana was excused from the meeting at 9:57.*

5.1.11 Ms Forbes commended management on a well presented business case and raised concern on the transactions risks and dissemination of information coupled with escalation and notice periods, should there be incidents in the data-room. Her concern was on the ability to monitor and the monitoring intervals. The notice processes and escalations were not evident in the presentation. Management indicated that the Company will consider the monitoring tools and ensure that risks are mitigated.

Mr Molefe

5.1.12 Management stated that the interdependencies have been addressed, particularly the role of Human Capital for the provision of train drivers when needed and TE's delivery of services. Wagons will be essential for the movement of locomotives and the infrastructure. There were plans in place to ensure that all the identified challenges are addressed prior

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to the delivery of the locomotives. The impact of the locomotives will show the integration of the initiatives as listed in the Corporate Plan. The wagon built programme was under the management of TE and it is progressing smoothly.

- 5.1.13 Management informed the Committee that there will be no additional funding needed, the budget was incorporated in the Corporate Plan. In response to the question of the findings of the E&Y Report, Management advised that the maintenance costs emanating from the refurbishment programme were conducted as part of the previous strategy, and it was adequate at the time. This then necessitated the change of strategy to MDS to unlock the capability to deliver more volumes.
- 5.1.14 Ms Forbes advised the Committee that it will be essential to understand the pipeline and the market demand that the Company will have to satisfy to reach the targeted levels of volume growth. Management indicated that the estimated figures were conservative. The Company is in a position to aim for a greater market share than currently stated. With the road to rail initiative, the Company was targeting goods that can be transported for distances greater than 200km. The food and food processing sector was excluded due to the required short distance travels for hygiene reasons and other factors. Management informed the Committee of discussions with Massmart and the likelihood that the Company will capture part of the FMCG; although the food and food processing sector were not on the plans in the presentation.
- 5.1.15 Management will amend information on the 7 Year Commodity Growth on p66 of the submission in relation to the figures on the Agriculture and Bulk Liquids ("ABL"). The figures on the highlighted lines were included in the Corporate Plan. There were other commodities in the ABL that were not taken into account. Ms Forbes was concerned that she tried to ascertain an indicator on the pipeline and the demand for sales. She sought comfort that the decision to earmark the identified commodities will bear fruits in terms of sales. Management advised that it was conservative in choosing the key commodities that the Company plans to capture. If the locomotives are procured, the Company will be enabled to secure greater market share than currently forecasted. The figures and commodities identified were not fixed; and they will be reviewed when necessary. Management advised that to achieve oversight, the annual corporate planning processes and the contracting process will be triggered to ensure that there is no overcapitalisation. A holistic view of the GFB business will be submitted to the Committee for consideration in due course.
- 5.1.16 The Chairman advised that as market conditions and the economy changes, the project should be reviewed accordingly. Ms Njeke enquired whether the Wagon cycle times were benchmarked and recommended that they should be included on the slide on risks. High efficiencies are expected with the introduction of the new fleet whilst the Company maintains good safety standards. She further sought guidance on whether the project was dependent on commodities coming on stream and if the investment was reliant on some agreements from customers that will be transporting commodities. Management informed the Committee that there will be a combination of the old and new fleet. There will be good efficiencies from the locomotives and 7 days is the best performance by world class standards. There were 49 GFB contracts, and 21 have been signed. On a "Take or Pay" basis, the Company plans to narrow the gap due to the preference of a higher threshold.
- 5.1.17 The Chairman emphasised the importance of benchmarking in the operations. The new machines can be rendered inefficient if human capital is not up-skilled. There is room for improvement in the enhancement of operational efficiencies. Management informed the Committee that the new machines will provide the Company with efficiencies that were previously unavailable. It will enable Management to save time and achieve efficiencies.

Messrs  
Molefe/Gama

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There will be improvements on "on time arrivals" and operational efficiencies from a myriad of factors.

- 5.1.18 Ms Tshepe sought clarity on the following issues:
- The impact of the renewed investment by logistics companies to the market-share that the Company is planning to capture.
  - Whether there is any middle ground between a "do nothing option" and acquisition of the 1064 locomotives, since no lesser number was stated in the document.
  - The role of TE, its strategy and if it would impact on the OD's plans of shifting towards manufacturing instead of maintenance.
  - If the employment numbers were dependent on the bidders information as the extent of the direct or indirect benefit was not certain.
  - The impact of the 90/10 rule on the socio-economic benefit.
  - Further detail on the 2% premium.
  - Clarity on the evaluation methodology.

5.1.19 Ms Forbes was concerned about the reduction of training days from 22 to 6 days in terms of human resource development, and its impact on the quality of drivers, the current shortfall on the number of train drivers and the closure of depots.

Management responded as follows:

- An independent view on TE's capabilities from a proficiency point of view was sourced. TE will be involved with the under-frame, body, control systems, assembly and leave other aspects of the locomotive to the private sector. The allocation to TE will be 27% of diesel and 33%, respectively. It would have been ideal to include the TE's allocation and role in the RFP for potential bidders to be aware; however, time did not allow. That information sharing process will be undertaken during the post tender negotiations.
- The study from the University of Stellenbosch produced 28 000 of direct and indirect jobs, including downstream benefits. The numbers were conservative; it would have been higher if it was conducted in direct proportion to MDS.
- For the 2% premium, there could be 70% localisation for diesel and 77% for electric over the contract period. Bogeys can be localised and certain aspect of wheels in-housed to a certain extent. Costs of localisation were approximately 8% for certain components.
- The evaluation methodology previously approved by the Board is Price: 60%, Supplier Development: 20% and BBBEE: 20%, respectively.
- Benefit leakage calculation is approximately R10bn as localisation is 9 -18% cost to the premium. A proper cost analysis to be prepared for the special Board meeting on 25 April 2013.
- With the new locomotives, there will be no need for train assistants. This was omitted in the business case as the matter was still under discussion with Labour. The new trains are digital. Management is aiming for graduates from the University of Technologies. As the first line of defence, the same people should be able to fix the basics prior to summoning technicians.
- The Company has acquired 19 simulators for the School of Rail. The courses are for refresher training and the modules have been updated accordingly, hence the reduction of training days from 22 to 6 days. The train drivers will be categorised according to D, C and A upon qualification.

Messrs Molefe/  
Gama

5.1.20 Mr Mkwanazi was uncomfortable with the funding aspect of the project. Management informed the Committee that normal escalations and forex are the two things that will influence the price. With the previous transactions, Management requested a fixed price contract. For this contract, it will be a longer timeframe. However, the price will be fixed. For a rand based contract, the supplier will hedge and the Company will aim for a fully

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fixed price contract. The strategy will be for the supplier to hedge from its balance sheet. There will be no massive price change due to the benchmarks undertaken and there will be no testing of the locomotives. On the submission of the project for award of business, Management will table the current price and the forward price (due to market conditions) to the Committee. ETC contingencies will cater for minor design changes. The Chairman proposed that as a funding option, Management should consider a lease back option which will guarantee fixed price from day 1. Ms Njeke advised Management to focus on the marketing strategy for the success of the project, even though the project was not at implementation stage as yet. She also stated that the project should, amongst others, increase safety standards and curtail the derailments.

5.1.21 Management advised the Committee that the project exceeds the materiality and significance framework threshold it will therefore be dealt with in terms of section 54 of the PFMA, and approval will be sought from the Shareholder Minister. Management informed the Committee that there was a Steering Committee established in DPE (comprising of people from Transnet and DPE) to deal with all section 54 PFMA approvals and the Company will submit the list for the current financial year. The Committee comprises of people from both Transnet and the relevant department. A meeting has been convened for 30 April 2013, where the business case will be submitted for consideration. National Treasury will also send a representative to the said meeting to manage its interests. Management indicated that the plan is to discuss the business case detail at the August 2013 Board workshop.

5.1.22 The Committee *agreed* that the submission will be recommended for Board approval subject to the addition of the following:

- The award of business will be submitted to the Committee for recommendation to Board for approval.
- The signature on the contract must be subject to the Committee and the Board.
- A HVT Report will be submitted to the Committee for consideration.
- A holistic presentation on the GFB spend, efficiencies and its impact on MDS will be submitted to the Committee for consideration.
- There will be an annual update on the status of the transaction to the Committee.
- The Committee will conduct an annual review/approval of the locomotives and wagons programme.
- A presentation on the benefits and the benefit leaks will be tabled at the special Board meeting on 25 April 2013 for consideration.

Messrs  
Singh/Gama

5.1.23 The Chairman requested that the presentation to the special Board meeting on 25 April 2013 should include the amended business case with input from the Committee as stated above. A slide presentation on the PWC Analysis on the premium should accompany the submission. He requested the Committee to consider the appointment of an independent expert to advice on the finance, technical and operational aspects of the transaction as an independent sounding board. He highlighted the need to be able to assess and vet assumptions and mitigation measures presented by Management. Mr Mkwanazi informed the Committee that PWC was involved in the transaction providing expert advice to Management. The terms of reference for the appointment of an independent expert will be formulated and finalised by the Board Steering Committee comprised of the Chairman of the Committee, Chairman of the Board Risk Committee and Mr Singh. The Board Steering Committee will assess the skills required and appoint a service provider. The expert will be appointed to assist the Board.

Mr Singh

**RESOLVED** that the Committee recommended that the Board approves following:

- The business case for the acquisition of the 1064 locomotives for TFR's General Freight Business at an estimated cost of R38.6bn as per the Corporate Plan

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(excluding potential effects from forex hedging, forex escalation, and other price escalations), subject to the amendments proposed under Item 6.1.22 above.


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**6 BOARD ACQUISITIONS AND DISPOSALS COMMITTEE MANDATE**

6.1 The Committee noted the Board Acquisitions and Disposals Committee mandate as contained in the pack.

**7 CLOSE**

There being no further business to conduct, the Chairman declared the meeting closed at 11:21.

  
CHAIRMAN  
DATE: 27/6/2013

  
DEPUTY GROUP COMPANY SECRETARY  
DATE: 27/6/2013



# Procurement of 1064 Locomotives for the General Freight Business



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

*MM*  
*SY*

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## A. PURPOSE

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

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

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

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

<sup>1</sup> Proportional to MDS-related job creation of 288,000

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**MEMORANDUM**

www.transnet.net

**To:** Transnet Board of Directors (Special Meeting)

**From:** Mr Brian Molefe, Group Chief Executive

**Date:** 18 April 2013

**SUBJECT: ACQUISITION OF 1064 LOCOMOTIVES FOR TFR'S GENERAL FREIGHT BUSINESS**

**PURPOSE:**

1. The purpose of this memo is to obtain support from the Board of Directors for submission to the Shareholder Minister (Public Enterprises) for the Acquisition of 1064 locomotives for TFR's General Freight Business.

**BACKGROUND:**

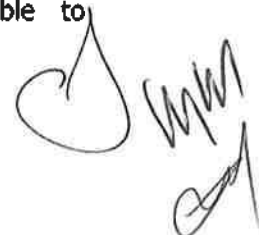
2. Transnet embarked on the Market Demand Strategy (MDS) in 2012/13. One of the key objectives of the MDS is to increase General Freight volumes from 80mt to 170mt over the seven year period. In order to achieve these volumes in addition to other expansionary initiatives Transnet developed a R300,1 billion seven year capital investment plan (2012/13 to 2018/19). One of the major projects included in the capital investment plan to facilitate the above mentioned growth is the Acquisition of 1064 locomotives for TFR's General Freight Business.
3. The acquisition of 1064 locomotives for TFR's General Freight Business was conceptualised in 2011 and initiated around April 2012. The Department of Public Enterprises was engaged on various occasions in 2012 to take the Department through the transaction.
4. The business case was tabled through the internal approval bodies (TFRIC, CAPIC and Exco) in addition to the above engagements.
5. In view of the magnitude of the transaction and the dependence of the MDS on the capacity creating capability of this acquisition as well as the various risks that this project poses to Transnet, it was decided to engage the services of a Transaction Advisor to assist with the various facets of the transaction. These include:
  - a. Business case development
  - b. Contracting strategy
  - c. Risk mitigation
  - d. Demand Analysis
  - e. Business Integration
  - f. Procurement of the locomotives which includes the development and roll out of a tender strategy that is robust, fair, value generating and capable of withstanding scrutiny from any interested and affected party.

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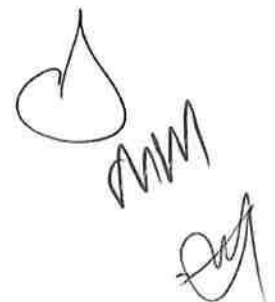
6. The attached business case is the product of a team consisting of TFR and Group Finance that ensured the development of a robust business case of the highest standard.

**DISCUSSION:**

7. This business case provides the rationale to invest in the profitable General Freight Business (GFB) by procuring 1064 new locomotives (465 diesel, 599 electric). This business case demonstrates a clear need to accelerate locomotive deployment to enable delivery against Transnet's Market Demand Strategy and achieve South Africa's broader socioeconomic objectives. The new locomotive purchase will:
  - a. Create value for Transnet by enabling:
    - i. TFR to deliver 170 mt by 2018/19 and thereby achieve its MDS target.
    - ii. This will result in a positive NPV (R2,7 billion at the TFR hurdle rate of 18.56% and R34,1 billion at the TFR WACC of 12.56%,
    - iii. Top-line growth
    - iv. Enhanced return on assets (ROA), and
    - v. An improved environmental footprint.
  - b. Lower the cost of doing business in South Africa by enabling operational efficiencies that will increase customer satisfaction and facilitate a shift from road to rail.
  - c. Create and preserve 28,000 direct and indirect South African jobs, and R68 billion in economic impact through local supplier development.
8. A robust procurement strategy and appropriate governance processes have been designed and instituted to ensure transparency, fairness, and value maximisation for Transnet. A funding plan and forex management strategy are detailed in the business case.
9. The risks that are inherent in a procurement event of this nature have been identified and mitigation strategies are or will be put in place.
10. The average age of the current GFB fleet of 1 888 locomotives is 32 years. The design life of a locomotive is 30 years. No investment was made in locomotives between 1992 and 2008 and current acquisitions (50 like new, 100 diesels, 43 diesels and 95 electrics) fall far short of the market demand and road to rail migration initiative.
11. The two options explored include the 'do nothing' scenario which is economically unviable and does not support the volume growth expected in the MDS. The only viable option is for Transnet to invest in the acquisition of the 1064 locomotives (599 electric and 465 diesel).
12. Benefits of the acquisition include:
  - a. Improved operational efficiency:
    - i. Increased availability of fleet from the current 85% to 93%
    - ii. Improved reliability as newer fleet is less susceptible to breakdowns



- iii. Increased tractive effort will result in fewer locomotives required to pull a similar length train
  - iv. Dual Voltage design enables trains to traverse AC and DC configurations avoiding the time consuming practice of changeovers.
  - v. Fleet standardisation will result in a simplified maintenance regime
- b. Create business opportunities for Transnet Engineering who will participate substantially in the localisation programme.
  - c. Enhanced return on assets and improved financial sustainability
13. Benefits for the country include:
- a. Creation of R68 billion in localisation benefits for the economy as the Transnet local content requirement is 55% and 60% for diesel and electric locomotives respectively.
  - b. Catalyse the sustainable development of a South African locomotive production industry based on the procurement of 1064 locomotives over approximately 7 years and an estimated on-going annual need of 80 locomotives driven by TFR's 30-year replacement life policy
  - c. Development of manufacturing skills and creation and preservation of 28 000 direct and indirect jobs
  - d. Improve road safety (fewer road fatalities) and general road condition by moving freight from road to rail.
  - e. Environmental impacted in a positive way through reduced carbon emissions by the newer fleet.
14. Benefits to business include:
- a. Increased customer satisfaction as improved fleet reliability results in reliability and predictability of service which provides 'piece of mind' to customers.
  - b. Lowering the cost of doing business by aggressively pursuing a shift from road to rail as rail becomes more cost effective for transportation of freight for distances greater than 300km.
15. Programmatic procurement strategy: The procurement strategy for this project has been approved by the Board of Directors and include the following key aspects:
- a. Alignment to Government's socio-economic policy framework
  - b. Developing skills, creating jobs and transferring technology through increasing the local content thresholds (55% for diesel and 60% for electric locomotives)
  - c. Open tender process which will result in the broadest possible supplier base bidding for Transnet's business thereby maximising value for Transnet
  - d. A six step evaluation methodology will be applied with the following criteria:
    - i. Price 60% weighting
    - ii. Supplier development 20% weighting
    - iii. Broad-based Black Economic Empowerment 20% weighting

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16. Some of the key risks identified include:

Risk	Mitigating actions/considerations
<p>Volumes: volume risk has the greatest potential to impact NPV. A slight underperformance (7% versus MDS targets), Transnet would experience revenue shortfalls of R16.4 billion and a reduction in NPV of R1.7 billion. However, under the worst case scenario (growth of volumes in line with GDP) NPV would be reduced by over R20 billion.</p>	<p>This reinforces the need for a flexible procurement and contracting strategy, allowing locomotives to be brought online as they are needed.</p>
<p>Delivery schedule. TFR already has a shortfall of DC electrics, with the electric locomotive shortfall projected to grow to approximately 140 by 2015. Given the previously expected timelines to procure new locomotives locally, TFR may not be able to close this shortfall until the end of the MDS period. Under the base case (procurement in line with schedules stipulated in the RFP), R13.3 billion in MDS revenues would be at risk; this would triple under a moderately delayed scenario with further downside under the worst-case scenario.</p>	<p>Procurement and production timelines are being tightly managed to ensure the swiftest possible locomotive delivery, and immediate mitigation strategies are being explored. These include front-loading orders with international suppliers and exploring leasing options.</p>
<p>Tariffs. The MDS GFB tariffs are expected to increase faster than CPI through 2020 (7% versus 6%). Given that the pricing on almost all GFB commodities is below the cost of full economic recovery even after taking into account all efficiencies, the pricing corridor in TFR's plan is achievable. However, should global and local economic conditions create challenges and tariffs above CPI cannot be implemented, the implication would be a reduction in the NPV of the business case by upwards of R4 billion.</p>	<p>Cost reduction and efficiency improvement initiatives will need to be developed on a continual basis to ensure that the Transnet cost base is as lean as possible.</p>
<p>Foreign exchange exposure. The Rand's depreciation against the US dollar by 10% this year would increase the price for a transaction of this size by approximately R2 billion.</p>	<p>Transnet's Group policy on Financial Risk Management requires that all contracts must be either Rand-based or effectively hedged to minimise the risk of financial loss due to exchange rate fluctuations. Should a Rand-based contract not be possible, hedge accounting will be applied to manage any foreign exchange volatility. The project will be hedged according to the Group policy.</p>
<p>Locomotive purchase price. Additional locomotive price risks (e.g., change order risks related to detailed specifications). A purchase price increase of 10% would have a R1.5 billion impact on NPV.</p>	<p>Price risks need to be actively managed during contracting and negotiations</p>

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

Acquisition 1064 locomotives to Board of Directors

- Institutions, and Export Credit Agencies depending on the most cost efficient option.
18. A governance framework has been developed specifically for this transaction and includes:
    - a. Highest standards of confidentiality, reinforced through the High Value Tender (HVT) process with oversight from Transnet Internal Audit
    - b. The establishment of the 1064 Locomotive Steering Committee which is chaired by the GCE and constituted as a sub-committee of CAPIC and mandated by Exco.
    - c. A project management office has been set up at TFR with specific responsibilities of:
      - i. Tracking progress towards milestones,
      - ii. Establishing and owning a virtual data room based on best practice,
      - iii. Scheduling Steering Committee meetings at the Chairperson's request
      - iv. Following up on action items and
      - v. Ensuring confidentiality protocols are in place
  19. Operational readiness is critical to TFR, Transnet and the country extracting the benefits the acquisition is capable of delivering. Integration of locomotives with demand, wagons, infrastructure, operations other divisions where port interface is required is thus essential. In addition human resource development underlies all the other integration nodes and thus the training of more than 3000 train drivers and assistants is also a key project dependency.

**BUDGET IMPLICATIONS**

20. The comparison between the business case and cash flows contained in the 2013/14 Corporate is illustrated in the table below:

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21*	Total
Business Case	2 900	4 680	7 830	8 410	7 880	6 670	230	-	38 600
Approved budget*		2 835	7 720	7 888	8 183	8 183	2 419	1 320	38 548
Difference	-2 900	-1 845	-110	-522	303	1 513	2 188	1 320	-52

\*to be approved as part of the 2014/15 Corporate Plan and budgeting process

**FINANCIAL IMPLICATIONS**

21. The financial implications are highlighted in the table below:

Measure	Discount Rate	Result
Net present value (NPV)	12,56% (WACC)	R34,1bn
Net present value (NPV)	18,56% (Hurdle)	R2,7bn
Internal Rate of Return (IRR)	n/a	19%

**DELEGATIONS OF AUTHORITY**

22. The project exceeds the materiality and significance framework threshold of R4 billion and consequently approval from the Shareholder Minister is required in terms of the PFMA.

Acquisition 1064 locomotives to Board of Directors

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**RECOMMENDATION**

23. Board recommends the following to the Shareholder Minister (Public Enterprises) for approval:

- a. The business case for the acquisition of 1064 locomotives
- b. ETC for the acquisition is estimated at R38.6bn as per the corporate plan (excluding potential effects from forex hedging, forex escalation, and other price escalations)

**Recommended by**

Anoj Singh  
Chief Financial Officer  
Date: 18/04/13.

**Recommended by**

Brian Molefe  
Group Chief Executive  
Date: 18.4.13.



**TRANSNET**



delivering freight reliably



## Procurement of 1064 Locomotives for the General Freight Business

**Board of Directors**

**April 25, 2013**

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- 1 Purpose: recommending the procurement of 1064 locomotives for GFB for BoD approval
- 2 Problem: Recapitalisation of the locomotive fleet is needed...
- 3 ... to capture GFB commodity growth and drive shift in road to rail
- 4 Solution: Procure 1064 locomotives for the MDS period
- 5 TFR is operationally ready
- 6 Procurement strategy: aligned with Government's objectives and maximises socio-economic benefits to South Africa and Transnet
- 7 Sound governance in place
- 8 Funding aligned with MDS objectives and sources for funding
- 9 Recommendation: the acquisition of 1064 locomotives for approval by the BoD

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## Recommendation: the 1064 locomotives acquisition for approval by the Board of Directors



There is a business need for the purchase of 1064 new locomotives for Transnet and South Africa



The risks are comprehensively identified and appropriately mitigated



The business will be operationally ready to execute



### BADC recommends the following to the BoD for approval:



1. The acquisition of 1064 locomotives for the General Freight Business
2. ETC for the acquisition is estimated at R38.6bn as per the corporate plan (excluding potential effects from forex hedging, forex escalation, and other price escalations)

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MINUTES OF THE SPECIAL BOARD OF DIRECTORS OF TRANSNET SOC LTD MEETING NO. 13/3 HELD ON 25 APRIL 2013 AT 14:20 IN BOARDROOM 4623, 46<sup>TH</sup> FLOOR, CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG

Resolution No/  
For Attention

1 CONSTITUTION OF MEETING AND APOLOGIES

1.1 Present

Mr ME Mkwanazi	Chairperson
Mr MA Fanucchi	Non-Executive Director
Ms Y Forbes	Non-Executive Director
Mr HD Gazendam	Non-Executive Director
Mr B Molefe	Group Chief Executive
Ms N Moola	Non-Executive Director ( <i>teleconference</i> )
Ms NR Njeke	Non-Executive Director
Mr IM Sharma	Non-Executive Director
Mr IB Skosana	Non-Executive Director
Ms E Tshabalala	Non-Executive Director
Ms DLJ Tshepe	Non-Executive Director
Mr A Singh	Group Chief Financial Officer

1.2 In attendance

Ms P Difeto	General Manager: Office of the Group Chief Executive
Ms NJ Mabandla	Group Executive: Group Legal Services
Ms ANC Ceba	Group Company Secretary

1.3 Partial attendance

Mr SI Gama	Chief Executive: Transnet Freight Rail
Mr G Pita	Group Chief Supply Chain Officer

1.4 Apologies

Mr NK Choubey	Non-Executive Director
Ms NP Mnxasana	Non-Executive Director

4.4 Procurement of 1064 locomotives for the TFR General Freight Business

*Mr Pita joined the meeting at 14:34*

4.4.1 The Chairperson took the Board through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to obtain recommendation for the acquisition of 1064 locomotives for TFR's GFB. The matter was considered by the Board Acquisitions and Disposals Committee ("the Committee"). The Committee made inputs to the supporting documents; however, the amendments were effected post the issue of the Board pack.

4.4.2 Management highlighted, amongst others, the following:

- Most of the current fleet will be retired within 10 years. Refurbishment options to extend the life of locomotives have been exhausted, and new locomotives should be procured. New locomotives will yield a number of benefits to Transnet and South Africa such as lowering the cost of doing business in South Africa and capture value for Transnet.
- The context to 1064 locomotive acquisition was based on the following:
  - Undercapitalisation of the fleet since 1990s;
  - Limited spend on GFB relative to other rail businesses;
  - Ageing rolling stock fleet and infrastructure unable to meet rising demand; and
  - Locomotive age beyond 30 to 35 year benchmarks.
- GFB expansion was historically undercapitalised with the focus on the replacement over expansionary expenditure. Given the current trajectory of TFR's fleet run-out plan, if there is no investment intervention, cumulative revenue of R73bn will be at risk by the end of MDS in 2019, with further revenue at risk thereafter.
- The NPV for the transaction is R2.7bn (hurdle rate) and R34.1bn (WACC).
- Risks will be managed within the compiled mitigation plans. Volumes were the biggest driver of risk, and flexible strategies will be implemented. Headroom exists to manage economic conditions and volume risk. The contracting strategy will be flexible. The

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- purchase could be staged in batches to meet evolving business needs.
- The procurement strategy will be through a transparent RFP procurement process. A six-step evaluation methodology will be applied, based on the evaluation criteria (Price 60%, Supplier development 20% and BBBEE 20%). The local content will be increased through the development of skills, job creation and technology transfer.
- Stringent measures were implemented to enable good governance and mitigate risks.
- The transaction will be funded from the MDS funding sources, and R2.8bn will be needed for pre-project activities.
- TFR is operationally ready to absorb the new locomotive fleet.

Mr Gama joined the meeting at 14:50

4.4.3

Management indicated that the Committee **agreed** that the submission will be recommended for Board approval subject to the addition of, amongst others, the following:

- The award of business will be submitted to the Board for approval.
- A High Value Tender Report will be submitted to the Committee for consideration.
- A holistic presentation on the GFB spend, efficiencies and its impact on MDS will be submitted to the Committee for consideration.
- There will be an annual update on the status of the transaction to the Committee.
- Management will provide benefits of the 90/10 vs. 60/40 procurement methodologies.
- Management will provide benchmark models locomotives and wagon efficiencies.
- The contracting strategy will be augmented to cater for a potential economic downturn.
- The introduction of the new locomotives should improve the safety record.

4.4.4

Mr Skosana requested clarity on the proposal to appoint an independent expert on the transaction. Ms Njeko stated that the Committee concluded that it will not proceed with the appointment of an independent expert for the transaction; however, certain Committee members were requested to investigate whether there is a need for an external service provider, considering the internal audit resources. Mr Sharma stated that the proposal on the appointment of an independent expert was on the context of, amongst others; assessing the business case on behalf of the Board and benchmarking the viability of the business case and make recommendations on best practice. The 1064 should be the maximum number of locomotives procured, and it could be less if there are operational efficiencies. The independent expert will not assist on the governance or procurement process. Responding to Ms Moola's enquiry, Management clarified that ECAs will be used as an umbrella and no US-based company will be imposed for the transaction.

4.4.5

Management took the Board over the issues raised from the DPE/National Treasury meeting of 25 April 2013 as, amongst others, the following:

- The extent to which the new technology will be applied.
- The ability to convert the locomotives from narrow to standard gauge and the impact of the conversion.
- The extent of harmonising the network between AC and DC locomotives.
- The role of TE in the transaction (concern over potential anti-competitiveness).
- Proposed plans on skills transfer.
- Concern on the volumes.
- Consideration of alternative sources of funding.

4.4.6

Mr Skosana requested details on Transnet's average volume growth in the last 6 years. Management indicated that growth was minimal as there was no investment in capacity to grow the volumes. Due to the non-investment; growth was at 4% in the last few years. The Company was on the "death curve" due to the ageing fleet. However, MDS will assist to capture the volumes. The market and the product were available. Mr Gazendam sought clarity on the impact of the liability on the credit rating, the possibility of procuring the 1064 locomotives in "manageable portions" and the impact of the transaction if Transnet is privatised (and the impact of the liability on the balance sheet).

4.4.7

Mr Fanucchi stated that logistics businesses need to be fully in-synch with replacement

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and investments. There should be a continuous process beyond 2019 to consistently keep the fleet younger. MDS saved Transnet from a "death curve". The customers want reliability of service and cheaper prices. There are certain markets that will not be won from rail to road due to the nature of the services required, e.g. the parts and accessory distribution for trucking and some FCMG market.

4.4.8 Management stated that MDS referred to fleet renewal, and the fleet numbers remain unchanged. The Company decided to shift from small scale procurement to a programmatic purchase so that the manufacturing facilities are concluded at once. The 1064 locomotives will be procured over a number of years; based on the prevailing economic conditions. The contracting strategy will allow for flexibility over the 7-year period. The Company will not procure the locomotives from a single supplier.

*Ms Tshepe was excused from the meeting at 15:30.*

4.4.9 Management indicated that the risks will be managed through a flexible contracting strategy, and contingent stock in an economic downturn will be considered. Standard & Poor will release a report in two days' time, and there were certain portions of the report which were favourable towards Transnet. The draft Standard & Poor report was read out to the Board which indicated that "funds from operations ("FFO") will be a key critical indicator, and will need to remain above 16%" (currently at 18%). Standard & Poor will review FFO to determine whether the Company can execute MDS. Ms Tshabalala enquired about the cost of maintenance if there are various suppliers. Management stated that the Company will have Maintenance Service Agreements. The IP will be transferred to Transnet to ensure that TE can assist with maintenance. The benefit leakage PPPFA vs. Transnet's methodology is a R20bn multiplier effect.

*Mr Sharma was excused from the meeting at 15:40.*

4.4.10 Ms Njeke informed the Board that there were two additional provisos from the Committee; operational efficiencies and a marketing strategy to be attained on year 1 of operation. Mr Gazendam stated that the gauge question is related to a potential market for the Company. Management will compile a PFMA application, which will be submitted to the Board for information purposes. DPE sought to understand what the fall-back position will be if the Company cannot execute the plan due to balance sheet shortfalls, in which case the leasing options in the procurement process will be considered.

Mr Singh


RESOLVED that the Board approved the following:

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

13/3/4

CLOSE

The Chairperson thanked the Board for its commitment. There being no further business to conduct, the Chairperson declared the meeting closed at 15:45.

  
CHAIRPERSON  
DATE:

  
GROUP COMPANY SECRETARY  
DATE: 31 MAY 2013  
Board of Directors 13-3 26 Apr 2013



105.4. The MNS Report Volume 1 records that the minutes of the 18 April 2014 Locomotive Steering Committee Meeting were signed in September 2014.<sup>5</sup>

106. The resolution of the meeting however states:

106.1. "The Steering Committee **RESOLVED** that it recommends that the Group Executive Committee approves:

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

107. I received the draft minutes on 25 April 2013. I do not recall acting on them till extensively researching the business case history and contradiction as to whether forex hedging and escalation were included or not.

108. I cannot explain the above contradiction in the draft minutes.

109. I interpret from the e-mail from McKinsey dated 24 April 2013 that they were party to the presentation to BADC on 23 April and BADC requested a few minor updates.  
(Annexure 50)

110. On 29 April 2013 Budhai circulates "20130429 1064 1500 Locomotive Business Case\_NoAnx\_Board.pdf" for review and comment. The business case has been updated as per the input from BADC on 23 April (Annexures 51 and 51A). The Purpose as set on page 4 still reads "... Accordingly it is recommended that the 1064 Locomotives Business Case be approved at a cost of R38.6 billion excluding borrowing costs"

<sup>5</sup> MNS Report Volume I 14 August 2018, para 4.3.14, page 75.

111. On 30 April 2013 Budhai emails the file "20130430 1064 0900 Locomotives Business Case\_NoAnx.pdf".
- 111.1. The cover page dated 25 April 2017 indicates it is the Final Version to the Board of Directors. The Purpose per page 4 reads: ".....Accordingly, it is recommended that the 1064 Locomotives Business Case be approved with estimated total costs of the acquisition of R38.6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation and other price escalations)." (Annexure 52)
- 111.2. The metadata for this file indicates it was last modified on the machine of Yusuf Mahomed, Office of The Group Chief Financial Officer, Transnet on 30 April 2014 at 10:31. The total editing time was four minutes (Annexure 53).
112. This file was widely circulated as the final version and this amendment has caused considerable confusion.
113. McKinsey and Group had control of the final versions of the Business Case and PowerPoint presentations.
114. Given the extensive communication and response to hedging and forex issues in the formative stages of the final business case, together with the partial editing of the PowerPoint presentation and business case it is my considered opinion that the altering of the final business case and PowerPoint presentation with the phrase "excluding potential effects from forex hedging, forex escalation, and other price escalations" was a deliberate misrepresentation.
115. The Transnet Board approved version is, however, used as a point of reference and is included as Annexure 54. It is further referred to as the final 1064 business plan or simply the business plan where the context allows.



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