

ANNEXURE "MSM 33"

Transnet SOC Ltd
Registration
Number
1990/000900/30

Carlton Centre
150 Commissioner
Str. Johannesburg
2001

P.O. Box 72501
Parkview
South Africa, 2122
T +27 11 308 2526
F +27 11 308 2312

TRANSNET



MEMORANDUM

www.transnet.net

To: Acquisition and Disposal Committee

From: Siyabonga Gama, Group Chief Executive

SUBJECT: **REQUEST FOR APPROVAL OF A MATERIAL AMENDMENT (CESSION OF THE AGREEMENT) TO THE GFB CONTRACT - PROVISION OF PROFESSIONAL SERVICES TO SUPPORT TRANSNET IN INCREASING GENERAL FREIGHT BUSINESS WITH A BREAKTHROUGH TO REACH THE PLANNED VOLUME TARGETS (GSM/15/03/1255)**

PURPOSE:

1. The purpose of this submission is to request the Acquisition and Disposal Committee to approve the following material amendment to the GFB contract:
 - i. Cession of the abovementioned contract from Regiments Capital (Pty) Ltd to Trillian Capital Partners (Pty) Ltd,
 - ii. Increase in scope for the detailed capital optimization support services
 - iii. Increase in contract value from R375 million to R463.3 million and the extension of the end date from 30 September 2016 to 31 March 2018.

BACKGROUND:

2. A confine and award request for Regiments Capital (Pty) Ltd (Regiments) for the Provision of Professional Services to support Transnet SOC Ltd in increasing General Freight Business with a breakthrough to reach planned volumes for financial years 2015/2016 and 2016/2017 for R375 million was approved by the Acquisitions and Disposals Committee (ADC) on the 30 March 2015.
3. A confine and award process was followed and an RFP was issued to Regiments on 2nd April 2015 and closed on 17th April 2015.
4. A letter of intent (LOI) approved by the Acting Group Chief Executive on 20 May 2015 was issued to Regiments Capital.
5. Given the downturn in the economy Transnet introduced a number of initiatives to support EBITDA including setting up a project factory to drive specific initiatives.

Request for approval of material amendment to the GFB contract - Cession of the contract from Regiments to Trillian.

6. As a result of the above, Regiments Capital was requested to submit a revised proposal aligned to the amended scope of work to cover aspects of the above initiatives.
7. The scope of the contract was as follows:
- Realisation of the GFB volume targets for 2015/2016 and 2016/2017.
 - Implementation of the processes and tools to ensure sustainability and capacity building; upgrade and embed operational capabilities on key flows to ensure execution as per plan (Replicate coal line approach).
 - Validate long term demand as basis for the GFB business case.
 - Build key account plans, commercial capabilities and technology solutions to drive the road to rail shift beyond 2015/2016.
 - Identification of new markets and commodities that can be leveraged to produce additional GFB volumes including new markets identified by TFR such as FMCG;
 - Sales, marketing and commercial initiatives;
 - Cost Sweep and Cash Lab;
 - Driver based budgeting;
 - Project Management Office. Initiatives being driven by the project office are*:
 - Revenue and Back to Rail
 - GFB
 - Operational Improvement
 - Dedicated task force to capture opportunities
 - etc.
 - Digital customer offerings
 - Increase in ease of doing business. Track and trace, spot ordering, real-time customer feedback etc.
 - Revenue diversification
 - Africa revenue
 - Monetization of the property portfolio
 - Value added services
 - etc.
 - Revamped sales and marketing organization
 - Incentives
 - Effectiveness
 - Skills and driven sales and marketing teams
 - etc.
 - Tightening the belt

Request for approval of material amendment to the GFB contract – Cession of the contract from Regiments to Trillian.

- Lowering of operational cost
 - Capital portfolio optimization
 - Setup Project office in the office of the GCFO
 - etc.
8. The total fees with the additional scope of work amounted to a total of R375m.
 9. The revised scope of work and a request to amend the split between the fixed and contingency fee was approved by the Acquisition and Disposal Committee on 5 November 2015.
 10. Transnet had a contract for Provision of Capital Optimisation and Implementation Support Services. The contract value was R225 million and only R136.7 million of the contract was utilized. The majority of the work was provided Regiments as a subcontractor on the contract. The work was delivered on an "as and when" basis for capital optimization, R88.3 million was not spent when the contract came to a close. These services are still required by Transnet.

DISCUSSION:

11. On 15th March 2016 Regiments sent a letter to Transnet, Annexure A, whereby they stated the following:
 - The Shareholders of Regiments, being Messrs. L Nyhonyha, M Pillay and E Wood are in Process of completing the restructuring of their relationship and shareholding in Regiments
 - In terms of the restructuring, Mr. Wood will be exiting his shareholding and will acquire a shareholding in Trillian Capital (Pty) Ltd. This would result in assignment of an agreed portion of the business and a specific set of contracts, including the GFB contract, to Mr. Wood, who would then assign the same to Trillian.
 - The effective date is 1 March 2016.
 - Trillian is authorized by Regiments to execute the work and services relating to any of the contracts Regiments has directly and indirectly with Transnet.
12. On 13th April 2016 Mr. E Wood sent a letter to Transnet, Annexure B, indicating that he is ceding his rights received from Regiments to Trillian Capital Partners (Pty) Ltd (Trillian) effective 1 March 2016.
13. Transnet then initiated its vendor approval process to ensure that there is no reason why Trillian cannot be a vendor to Transnet.

Request for approval of material amendment to the GFB contract – Cession of the contract from Regiments to Trillian.



19. Trillian will continue to complete the outstanding services on the GFB contract for the remaining unbilled portion of the contract and the increased scope and value of R88.3 million. Mckinsey will not be the subcontractor based on their request and Trillian would have to identify new subcontractors.

DELEGATION

20. The Transnet PPM states that where material amendments to contracts that were confined the amendment must be approved by the person or body who approved the confinement.
21. The ADC approved the confinement and thus must approve the material amendment to contract.

FINANCIAL IMPLICATIONS

22. The initial contract was approved at R375 million.
23. The increased scope of the capital optimization will require a further 88.3 million which was the unspent portion of the Provision of Capital Optimisation and Implementation Support Services contract.
24. The revised contract that is requested for approval is R463.3 million.
25. There is budget available for this contract.