

1000.3/6



McKinsey Incorporated
88 Stella Street
Sandown Mews East
Sandton
2196

Annexure B

30 November 2012
Reference: LOI/GSM/12/05/0447

Dear Mr Michael Kloss

RE: LETTER OF INTENT for the provision of Advisory Services Related to the Acquisition of the 1064 Locomotives Tender over a period of 9 months. LOI/Proposal Reference No: GSM/12/05/0447 ("the Mandate")

Pursuant to our Request for Proposal (RFP Number 12/05/0447), we wish to inform you that your offer has been accepted and that your consortium has been awarded the contract for the provision of **Advisory Services related to the Acquisition of the 1064 Locomotives Tender (the Services)** to Transnet, subject to the conditions precedent set out in section 1 below.

The Parties to this agreement are:

- (1) **Transnet SOC Ltd (Transnet)**, a State Owned Company and the procurer of the services. (Registration Number 1990/000900/30); together with
- (2) **McKinsey Incorporated (the Supplier)**, (Registration Number 1995/002398/10) and the other members of the consortium, namely, **Regiments Capital (refer to 1.5), Advanced Rail Technologies, Nedbank Capital and Utho Capital.**

Transnet wishes to contract with the Supplier for the provision of **the Services** as outlined in clause 3.3 below, which, if mutually agreed by the Parties, will be documented and effected in accordance with a 9 (nine) month Agreement between the Parties. It is agreed that the Supplier will play the lead role and take overall responsibility for the entire Mandate. This condition also applies to services specified in 1.5 and 1.6 herein.

The Parties are desirous of successfully concluding negotiations and thereafter executing a contract **(the Agreement)** to enable the Supplier to provide the Services detailed in section 3.3 below in a timely manner.

The Parties have identified the Services which Transnet would wish the Supplier to provide in the interim while execution of an Agreement between the Parties is being finalised. Conditions of this requirement are specified in sections 2 and 3 below.

The purpose of this Letter of Intent (LOI) is to document the intention of the Parties in respect of the required Services for **the provision of Advisory Services related to the Acquisition of the 1064**
LOI Reference No: GSM 12/05/0447

2. Interim Service Requirement

- 2.1. The Supplier agrees to promptly commence with the provision of the Services as detailed in section 3.3 below, after this LOI's confirmation date, and in compliance with Transnet's interim purchase order.
- 2.2. Should negotiations between the Parties break down for any reason, the Supplier may immediately invoice **Transnet Group Finance** for all reasonable, actual costs incurred up until that date and such amount shall become due and payable by Transnet against presentation to Transnet of an undisputed Tax Invoice.

3. Contract Fees and Deliverables (Inclusive of 2.1 above)

The proposed fees for the Services to be rendered, which the Parties in the Interim accept, are understood by both Parties (subject to signing of the Agreement) and are as tabled in Annexure A hereto.

- 3.1. **Fees** and related costs are quoted in South African currency and are exclusive of Value-Added Tax (VAT). Expenses will be capped at 10% of the value of the engagement for the Supplier and its sub-contractors and billed on an actual basis capped at R35,2 million excluding disbursements.
- 3.2. **Payment** will be effected by Transnet, against presentation by the Supplier of undisputed Tax Invoices, within 30 (thirty) days from date of month-end statement for deliverables effected during that month.
- 3.3. **Key deliverables and project timescales.**

The key project deliverables for a period of 9 (nine) months are for the provision of **Advisory Services related to the Acquisition of the 1064 Locomotives Tender**. Please note that contract timeline maybe for a longer period, at no extra cost to Transnet if the deliverables are not executed for whatever reason as this engagement is output based, as opposed to time based.

The objective is to award the loco tender by the end of the third quarter of the calendar year 2013 on the back of

- a robust and de-risked business case that is fully supported and approved by the Board and the Shareholder
- a fully capacitated and flawless transaction process
- a commercial negotiation that maximises the value delivered to Transnet and South Africa.

The deliverables are covered in detail in annexure B, and include:

- **Developing and augmenting the business case for the approval of the locomotives by the Transnet Board of Directors and Department of Public Enterprises;**



- **Financial:**

- Developing finance and funding options
- Develop deal structure (financing, hedging and de-risking options);

- **Project Management Office:**

- Proactive stakeholder engagement throughout process to ensure all are granted on time (e.g. PFMA)
- Manage overall process to ensure all parts come together
- Provide oversight of legal aspects from a project management perspective.

4. Miscellaneous

- 4.1. Neither Party shall reveal the content of this LOI or anything disclosed to the other Party in pursuance hereof to any third party, except with the prior express written consent of the other Party, and then only to the extent required to facilitate progression of the startup procedures.
- 4.2. This LOI may only be amended or modified in writing by the authorised signatories of the LOI.

Thus duly signed at Johannesburg, South Africa on this 04 day of

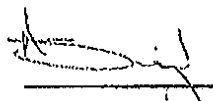
December 2017 on behalf of:

Transnet SOC Ltd

WITNESSES

1

2



NAME: Anoj Singh

Designation: Group Chief Financial Officer



Letter of Intent between Transnet and McKinsey Incorporated for the provision of Advisory Services related to the Acquisition of 1064 Locomotives Tender

ANNEXURE A –FEES/COSTS

Deliverables must be executed for a fee of R35.2m as per the fee note below. Any overrun in terms of time will not be for the account of Transnet as the engagement is output based and not time based. McKinsey will take overall responsibility for the deliverables and quality of the end products. Expenses will be capped at 10% of the value of the engagement for the Supplier and its sub-contractors and billed on an actual basis:



Contracting strategy
Business case validation
Technical evaluation and execution
PMO, integration and stakeholder management
Total Loco

HU/J&S
Regensburg/Burlington
MOX
McK + ART
Regensburg/Burlington + MOX

R1.4m
R6.8m
R6.6m
R13.5m
R7.4m
R35.2m → 35.2m

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Business case integration and re-write	<p>Led by McK</p> <ul style="list-style-type: none"> • Re-write of the business case, approved by Board and DPE • Integrated end-to-end business case across commodities to validate loco quantities with recommendations to adjust ranges in the fleet plan and get ranges for the contracting • Scenario based modeling to inform contracting based on macro-economic scenarios and links to export coal and export iron ore business cases, and different capex outcomes • Adequately address DPE queries. 	Rewritten business case that is approved of by the Transnet Board and DPE
PMO	<p>Led by Regiments/Burlington with McK leadership oversight</p> <ul style="list-style-type: none"> • Monitor overall process timelines against milestones • Setting up and preparing documentation for steering committees and formal reviews • Escalate issues through regular project steering • Prepare external stakeholder communications 	<p>Detailed project plan with milestones</p> <p>Clear governance structure that creates an integrated view of the entire process across all advisors</p> <p>Effective steering committee meetings- clear agenda with decisions to be made, all information required for decisions circulated beforehand, issues logged and resolved</p> <p>Aligned external stakeholders</p>