In March last year we announced the awarding of a R50 billion contract for the building of a thousand and sixty four diesel and electric locomotives. This is a majority portion of the locomotive acquisition programme we have undertaken as part of the Market Demand Strategy.

This acquisition program will form the biggest rail recapitalisation programme in South Africa’s history with more than of 1300 locomotives being acquired.

The award was to four global original equipment manufacturers – two North American manufacturers and two Chinese manufacturers.

We awarded:

- Bombardier Transportation and China South Rail Zhuzhou Electric Locomotive contracts to build 599 electric locomotives and;
• General Electric Technologies and China North Rail Rolling Stock to build 465 diesel locomotives.

Progress made to date is that;

- GE is 100% complete with the technical design and their first locomotives will be rolled out in July. The locomotives will be built at our facilities in Koedoespoort, Pretoria.

- Bombardier is 100% complete with the technical design of the locomotive. These locomotives will be built at our facilities in Durban.

- China South Railways completed the technical design of the locomotives. The first prototype will roll off the production line at the end of March. The locomotives will be built in Koedoespoort, Pretoria.

- CNR is 90% complete with the technical design on the locomotives. These locomotives will be built at our facilities in Durban.

The locomotive build programme is critical for the implementation of our Market Demand Strategy and, as can be seen, is proceeding according to plan. It is intended to modernise our fleet in a decisive drive to improve the reliability
of our service. More importantly, this programme is critical in our pursuit of the crucial goal of migrating rail-friendly cargo off our roads.

It will mean fewer trucks on our roads.

All the bidders have committed to stringent local content. Even though the threshold for supplier development in the tender documents was 40%, we are proud to announce that all of the winning bidders have so far exceeded 60%, and we are still pushing for a little more!

The goal of our supplier development programme is to localise the production of imported machinery and equipment. Amongst others, this includes;

- Investment in plants
- Technology transfer
- Downstream supplier benefit
- Skills development
- Job creation and;
- Small business promotion
Transnet’s Market Demand Strategy is a programme to invest in excess of R300bn in capital expenditure over a seven year period. Two thirds of this capex investment will be funded from revenue generated from operations while a third will be borrowed from both the domestic and international capital markets. The capital expenditure will not be funded from the fiscus and none of the borrowings will be guaranteed by the state.

Since 2012 when the Market Demand Strategy was announced, we have spent in excess of R90bn in Capex.

During the 2013/14 financial year we raised our target borrowings of R22.4 billion from the capital markets –including the issuance of a Rand denominated international bond listed in London and subscribed to by investors from the United States and Europe.

In the current financial year, we are on track to meet our target of R23.8bn borrowing target.

It gives us great pleasure therefore, to announce that we have achieved a spectacular milestone in our funding objectives.
Today, we are concluding a combined R13 billion funding raised in two agreements with various funders and financial institutions from Canada, the United States of America and South Africa.

The funding is specifically for the Bombardier and GE portions of the 1064 locomotive acquisition programme.

The first agreement is a R6bn US-Exim Bank funding guarantee for 293 locomotives to be built by General Electric. The funds, in terms of the guarantee were raised from the following institutions;

- R2.25bn from Barclays/ Absa
- R2.25bn from Standard Bank
- R1.5bn from Old Mutual

The second agreement is a R6.99 billion loan facility for the funding of locomotives from Bombardier. The funds will be raised from the following institutions:

- R5.24bn from Export Development Canada
- R1.75bn from Investec Bank Limited
The US Exim–backed loan is a fourteen year facility and will be drawn over a three-year period in line with the delivery schedule for the locomotives. The Export Development Canada and Investec facility is 13 years.

These agreements are in line with our funding strategy as it relates to our focus on diversifying sources of funding and raising debt cost effectively. They will also enable us to match our assets and liabilities profile that make it possible for us to maintain our investment grade credit rating.

We are encouraged by the vote of confidence that the institutions are showing in Transnet and the Republic of South Africa.

These agreements are proof of the attractiveness, commercial viability and bankability of Transnet capital programmes. They confirm that we are on the right track, so to Speak!

Equally importantly, they are a massive thumbs-up for South Africa’s infrastructure build programme and the National Development Plan.
On a final note, we would like to bid a fond farewell to Mr. Tim Schweikert, the former President and CEO of GE Southern Africa, who has served his company with a commendable sense of purpose over the last few years.

It has been a fantastic working relationship and we will miss your thoughtfulness and willingness to go the extra mile for Transnet. Tselo Tshweu!!!

To his successor, Mr Thomas Konditi, we say; O amogelesegile. Masego ke ao!!! Welcome and good luck!

You can be assured of a memorable, eventful and thrilling ride ahead.

Thank you.

Brian MOLEFE

02 March 2015