

Appendix B2 PROJECT MOTIVATION AND BUSINESS CASE

1. Project Motivation and Business Case

As a parastatal, Transnet's mandate is to reduce the cost of doing business in South Africa, whilst remaining profitable by reducing costs, improving efficiencies and investing in infrastructure, as well as upgrading ageing rolling stock (State of the Nation Address, 2005). To this end therefore, Transnet has committed R65 billion for capital investment over the next 5 years.

In 2002, Transnet, through its operating divisions, namely National Ports Authority (NPA), South African Port Operations (SAPO), and Spoornet embarked on an expansion programme for the iron ore export corridor from Sishen to Saldanha Bay, known as the Orex (Ore Export) Line.

Global commodity demand forecasts suggest a significant increase in demand for iron ore in the medium to long-term. This increase in iron ore demand is focussed especially in China and India, which has led to a significant growth in exports of iron ore by all major producers, notably Australia and Brazil. A portion of this global demand could be satisfied by an accessible supply of good quality ore available in the Northern Cape Province. Transnet, along with a few large mining companies, has identified an opportunity to increase their capacity to supply larger volumes of ore to satisfy increased demand in the future.

The iron ore market is expected to remain attractive in the next two decades, based on positive underlying fundamentals. These include steady growth of iron ore demand at least up to 2020 (about 30% increase from today's levels), particularly in the seaborne market (growth of more than 45%). China will represent close to 50% of total iron ore demand in 2025 (up from 31% in 2004). Eventually, the market becomes predominantly Chinese, representing close to 80% of total seaborne demand of 880 Mtpa.

One of the key factors boosting the iron ore market is a developing scrap shortage. The ratio of scrap to finished steel has reduced over the last years to a low of 46% versus historical levels of 50% - 55%. These lower levels should prevail until 2015 – 2020, when more scrap is expected to become available again which will limit further iron ore growth.

Transnet is therefore increasing the throughput on the Sishen - Saldanha Bay iron ore export line, including both rail and port handling facilities, in order to provide transportation for increased production and export of iron ore from the Northern Cape Province of South Africa. The majority of the ore production from the Northern Cape is destined for the export markets, predominantly in the Far East; however 6-7 Mtpa is railed directly to the Gauteng region for use at the Mittal steelworks, while a further 2 Mtpa is delivered at the Saldanha Bay port facilities to the local Mittal Saldanha Steel Plant (SSP).

Transnet's existing iron ore handling facility was established in 1977 at the Port of Saldanha, located approximately 120 kilometres north of Cape Town in the Western Cape Province. The facility is presently able to handle approximately 32 million tons per annum (MTPA) of iron ore, but is authorised under its existing permit to handle 45 MTPA and is currently undertaking Phase 1A and 1B expansion projects to deliver this capacity. The iron ore is transported to the facility by rail from Sishen in the Northern Cape, where it is stockpiled prior to loading onto bulk iron ore carrier ships for export.

Transnet is already committed to and undertaking the expansion of the current capacity of the bulk iron ore handling facility at the port of Saldanha and the railway from Sishen to Saldanha to 45 Mtpa (Phase 1). The proposed Phase 2 expansion will increase the export capacity from approximately 45 MTPA to 93 MTPA (Phase 2A: 45 to 67 MTPA and Phase 2B 67 Mtpa to 93 Mtpa)

Transnet now intends to implement the next phase of the proposed expansion to 90 MTPA. Transnet views the upgrade as part of the development of an internationally competitive iron ore export facility. This is of strategic importance for the country as a whole and the economic growth it will provide is desirable and will have a positive impact on the national economy and in the Saldanha and Western Cape regions in particular.

Therefore, the objective of the Transnet Business Case is to implement and maintain as economically and as safely as is practically possible an effective world class transport service to benefit and enhance both the Northern Cape Iron Ore Clients and the South African Economy in general.

The Phase 2 Expansion Project through its engineered solutions will satisfy the following Ore line specific criteria:

- Achieve 67 Mtpa in Phase 2A, but must be expandable to cater for 93 Mtpa in Phase 2B;
- In so far as possible meet the timetable for expansion projects at the northern Cape mines so as to match the demand for transportation and export of products;
- Minimize environmental damage by developing and implementing an approved Environmental Management Plan;
- Practically achievable (operational, layout, infrastructure, safety & reliability);
- Easily integrate with current operations and infrastructure to minimize stoppages both during construction and subsequent operations;
- Minimize life cycle cost (infrastructure vs. operational plus maintenance costs);
- Adhere to statutory (legal) requirements.
- Maintain reasonable tariff levels

The Phase 2 project is intended to be constructed in two stages as above, that have been matched specifically to the project ramp up of the respective mining companies:

Phase 2A **47 Mtpa to 67 Mtpa**

Phase 2B **67 Mtpa to 93 Mtpa**