



EXHIBIT BB8(c)

THE “RELOCATION” OF TWO OEMS TO DURBAN



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

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MNCEDISI NDLOVU & SEDUMEDI
ATTORNEYS

THE “RELOCATION” OF TWO OEMS TO DURBAN

30 MAY 2019

Legal Expertise In Your Corner¹

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BACKGROUND

- During July 2015, Transnet approved the “relocation” costs of BT and CNR amounting to R618, 457 125.00, and R647,181 494.00, respectively.
- “Relocation” has been the subject of intense debate, riddled with allegations of corruption.
- The questions that arose:
 - what is “relocation” and whether there was indeed “relocation”?;
 - whether “relocation” was envisaged in the business case?;
 - when and by whom was the decision on “relocation” taken?;

BACKGROUND (cont.)

- Whether or not there was any commercial rationale provided for the “relocation” of the two OEMs?; and
- Whether or not the total costs of “relocation” were justifiable?

WHAT IS “RELOCATION”?

- A definition provided by the Oxford dictionary states:
“The action of moving to a new place and establishing one's home or business there.”
- “Relocation” therefore proceeds from the premise that there is a move from one place to another.
- MNS was advised during an interview with the 1064 locomotives Project Engineer, Mr Frikkie Harris (“Mr Harris”)* that:
 - no OEM moved from one place to Durban;
 - BT and CNR had not set up any jigs nor had they established site at Koedespoort. Thus, the request from Transnet, for the two OEMs to be based in Durban, was not a “relocation” per se.

***Transcript to be provided.**

WHAT IS “RELOCATION”? (cont.)

- Our view is that the use of the word “relocation” is a misnomer in the context of the 1064 locomotives transaction.
- Put differently, we have found that there was no “relocation” of either BT or CNR.
- NB: Whilst there was no relocation, there was a change in the manufacturing location in respect of BT and CNR.

What was the commercial rationale communicated for the decision to “relocate” BT and CNR?

- During February 2014 *(**Appendix 6 - VOL 12 P8927**) PWC was instructed by Transnet to conduct a review of TE’s operational readiness to deliver on, *inter alia*, the assembly requirements of locomotives at Koedespoort and Durban.
- Koedespoort only had two production lines. As soon as there was the decision to split the award, there had to be a contingency plan in relation to the manufacturing facilities of the OEMs.
- PWC noted a risk to the IP and trade secrets of each OEM.
- In order to mitigate the risk to production, PWC recommended that two of the four production lines be set up at TE’s facility in Durban. PWC presented this advice after considered pros and cons were put up.

What was the commercial rationale communicated for the decision to “relocate” BT and CNR? (cont.)

- PWC advised Transnet to:
 - request OEMs to justify costs incurred as a result of the “relocation”; and
 - seek alternative assembly locations where additional costs would not be incurred.
- NB: This was not carried through in either the negotiations and proposals by the OEMs for the relocation costs.
- Neither the concept of “relocation” nor costs associated therewith were contemplated in the Locomotive Supply Agreements concluded during March 2014.
- Communication from Ms Lindiwe Mdletshe to BT on 06 March 2014 indicating BT would be based in Durban. (“**TTM1**”).
- **Appendix 2 - Vol 12 P8830**
- **Appendix 4 - Vol 12 P 8837**

10 March 2014 quotation from CNR Consortium

*Appendix 6A (TTM 2)

	Savings	Extra Cost	Comment
Engine		R8 000.00	Engine imported but testing done in JHB.
Propulsion System		R16 000.00	ABB is located in JHB. 40% is imported portion assembly in JHB.
Brakes		R8 000.00	Knorr Bramse located in JHB.
Chinese components supplier	R8 000.00		Imported components from Dalian.
Locomotive Gears		R4 000.00	Based in JHB.
Air Conditioner		R4 000.00	Based in JHB.
Wheels + Axles	R8 000.00		Imported components.
Refrigerator		R500.00	Based in JHB.
U-tubes and gear case	R4 000.00		Rotacon based in Durban.
Communications equipment		R200.00	Located in JHB
Total	R20 000.00	R40 700.00	
Difference per locomotive		R20 700.00	
Extra Cost on Locomotives		R4 077 900.00	

IMPORTED LOCOMOTIVE

Savings on Imported Locomotives (20)	R1 000 000.00	Fully built locomotives
Savings on Kits (15)	R 285 000.00	Bogie, under frame and body panels imported from Dalian
Total	R1 285 000.00	
Total Extra Transport Costs	R2 792 900.00	

Total Cost is calculated based on 32ton at R19 000.00 and 28T at R16 000.00 per trip.

FLIGHTS AND ACCOMMODATION

Minimum of 4 people to fly (F) to Durban every week from JHB	R1 320 000.00
Accommodation (A)	R 960 000.00
Extra F & A cost	R2 280 000.00
Office Costs	
New Office set up for 60 personnel	R604 800.00
Total Extra Costs of locating in Durban	R9 755 600.00

THE APPROVAL PROCESS FOR THE COSTS OF “RELOCATION”

CNR

- There were no meaningful engagements on the issue of “relocation” until February 2015.
- During February 2015, CNR submitted a proposal which estimated that the costs would be approximately R100 million. The same document also reflected an estimate of R318 million* (**Appendix 7- Vol 12 P9013**).
- We have no records of the quotation having been accepted by Transnet.
- This culminated in CNR concluding an agreement with BEX, (two months after its initial proposal) on 25 April 2015 in terms of which BEX conducted detailed research and an analysis on the costs associated with the project and assist CNR conclude the project at the minimum benchmark cost of R580 million excl. vat in the analysis and computation of its costs. (**Appendix 8 - Vol 12 P9022**) - the agreement has been dealt with by Gonsalves, no need to unpack it further. Copy was obtained from Transnet as part of our investigation.

THE APPROVAL PROCESS FOR THE COSTS OF “RELOCATION” (cont.)

- BEX therefore were entitled to earn the difference between R580 million and R647million: R67million.
- We cannot confirm payment but we can confirm an invoice from BEX*. **(Appendix 9 - Vol 12 P9035)**
- The agreement was based on a risk sharing model which we note to be very suspicious.
- The agreement is suspicious based on the level of competence of the relevant OEM.
- Further, based on the significant increases in price.

19 MAY 2015 MEMORANDUM

- On 19 May 2015, Ms Mdletshe compiled a memorandum in which approval was sought from the then AGCE, for the negotiation of the commercial terms of the “relocation” with CNR. ***(Appendix 10 - Vol 13 P9110)**
- We have not been provided with a similar memorandum for BT but we are aware that BT attended the meeting that resulted from this memorandum.
- The purpose of the memo was to seek approval for the following:
 - the team to negotiate the relocation to Durban with CNR; and
 - variation order in order to finalise the relocation programme for the construction of 233 Class 45D locomotives to Durban to a maximum value of R669 784 286.00.
- We have discovered the existence of further proposal from CNR motivating for approval of a R669 784 286.00 fee for relocation costs **(“TTM3”)**.
- The memorandum records that a separate submission has been prepared for BT.

19 MAY 2015 MEMORANDUM (cont.)

- The team composition and mandate:
 - GCFO - Anoj Singh;
 - CE: TE - Mr Thamsanqa Jiyane;
 - Group Head: ISCM- Mr Gary Pita; and
 - Group Executive Legal and compliance - Mr Ndiphiwe Silinga.
- The team was going to determine the approach that would yield benefits for Transnet and the OEMs by:
 - Quantifying different negotiation levers and the reasons for a revised pricing; and
 - Review the accuracy and assumptions in the models to inform the negotiations.

19 MAY 2015 MEMORANDUM (cont.)

MOTIVATION

- The memo highlighted that in order to move to Durban the following considerations would drive costs:
 - Labour costs;
 - Material costs;
 - Operational and logistical effects;
 - Technical support;

19 MAY 2015 MEMORANDUM (cont.)

- Physical transportation of materials and resources;
- Incremental warehousing costs;
- Financing and risk costs due to time constraints and delays;
- The memo also illustrated that there would be ancillary benefits and savings associated with manufacturing from Durban; and
- There is nothing in the memorandum which justifies the increase in costs.

19 MAY 2015 MEMORANDUM (cont.)

APPROVAL OF THE MEMORANDUM

- The AGCE approved the memorandum on 19 May 2015.
- The following personnel made up the negotiation team:
 - Mr Anoj Singh;
 - Mr Gary Pita;
 - Mr Ndiphiwe Silinga;
 - Ms E Molotsane (TIA);
 - Mr Thamsanqa Jiyane; and
 - Ms Lindiwe Mdletshe.

BT's PROPOSALS FOR RELOCATION

- BT presented three (3) proposals to Transnet.
- The proposals progressed in the following manner:

September 2014 (TTM4)	April 2015 (TTM5)	July 2015 (TTM6)	Accepted offer
R634 316 000.00	R634 315 000.00	R618 457 125.00	R618 457 125.00

- Our report did not contain a copy of the final proposal/letter from BT but the report highlights that the relocation costs are made up of:
 - Transportation costs;
 - Logistics costs; and
 - Loss of industrial footprint synergies.
- There is however, no breakdown of the costs in support of the amounts.

INITIAL MEETINGS WITH OEMs - 19 JUNE 2015

- Only a single meeting was held (19 June 2015) between Transnet and the respective OEMs at OR Tambo International Airport and the relocation negotiation team, which included: Ms Mdletshe; Mr Pita; Ms Molotsane (TIA); and Mr Jiyane.
- Personnel present in the meeting:
 - The negotiation team;
 - Two OEMs' representatives; and
 - Transnet Internal Audit (TIA).
- The MNS report is dated March 2019. As at the conclusion of the report the transcript of the meeting was not available but it has since come to hand (**TTM7**).

INITIAL MEETINGS WITH OEMs - 19 JUNE 2015 (cont.)

A SUMMARY OF THE MEETING

- Transnet held separate discussions with CNR and BT. The first discussion was with representatives of CNR, including a Mr Shaw, a director of Business Expansion Structured Products Pty Ltd (BEX).
- The transcript does not identify the speakers recorded.
- In both instances, Transnet's representatives referred to the proposals that had been received from the OEMs, without referring to any dates and/or versions.
- Notably, the Transnet personnel address each OEM on the negative economic downturn in South Africa.
- In respect of the proposals of both OEMs, the Transnet personnel emphasised the request for the OEMs to demonstrate the savings for Transnet occasioned by Durban being the location.

INITIAL MEETINGS WITH OEMs - 19 JUNE 2015 (cont.)

A SUMMARY OF THE MEETING

- The OEMs were also requested to clarify assumptions made and contingencies built into the proposals so that Transnet could assist.
- Both OEMs were requested by Transnet for a price reduction and a revised offer in the range of 15% to 25%.
- It was agreed that once the negotiations were finalised, there would be a variation order to the main contract concluded.
- It was further agreed that CNR would revise its proposal document to incorporate what was deliberated on at the meeting, i.e milestone payments, scheduled delays, SD, etc.
- The revised proposal(s) would then form part of the variation order that would be signed off.
- Transnet indicated that it would seek approval from the its Board Sub-committee on 30 June 2015.

CRITICAL COMMUNICATIONS AMONGST THE NEGOTIATION TEAM MEMBERS

- On 20 June 2015 , Mr Gary Pita sent an e-mail to the negotiation team.*
(Appendix 11 Vol 13 P9119)
- The subject of the e-mail reads “CNR comments” .
- The e-mail critiques various numbers in the proposals submitted by CNR.
These include:
 - Transport costs;
 - Warehousing costs;
 - Cost of engineers;

CRITICAL COMMUNICATIONS AMONGST THE NEGOTIATION TEAM MEMBERS (cont.)

- Fencing and security costs;
- The significant material costs;
- Inflation; and
- CPI costs.
- Mr Gary Pita then requested Mr Yusuf Laher to check the assumptions made in relation to the following:
 - Financing costs; and
 - Hedging numbers,

CRITICAL COMMUNICATIONS BETWEEN THE NEGOTIATION TEAM (cont.)

CNR

- On 21 June 2015, Mr Yusuf Laher sent an e-mail detailing his 18 areas of concern regarding the proposal from CNR (**Appendix 12- V13 P9119**).
- The concerns included questions in relation to:
 - material costs;
 - Travel and relocation costs;
 - Excessive costs for shelving;
 - Labour inflation;
 - The cost for additional forklifts; and
 - Insurance costs.

CRITICAL COMMUNICATIONS BETWEEN THE NEGOTIATION TEAM (cont.)

- On 23 June 2015*, Ms Lindiwe Mdlletshe sent an e-mail attaching a revised CNR proposal. (**Appendix 13-Vol 13 P9122**)
- Mr Yusuf Laher responded to Ms Mdlletshe on 25 June 2015 stating that CNR's proposal had not changed from the previous proposal except for their new offer on payment terms.

THE APPROVAL OF RELOCATION COSTS

- On 10 July 2015, Mr Gary Pita addresses an e-mail to the negotiation team. **(Appendix 14 - Vol 13 P9125)**
- In the e-mail Mr Gary Pita recorded that BT would be submitting another letter to clarify its offer.
- Mr G Pita then requested Ms Lindiwe Mdletshe to update all necessary documents to request approval of the relocation costs from Mr Siyabonga Gama.
- Notably, Mr Yusuf Laher was not included in the email sent by Mr Gary Pita.
- Ms Lindiwe Mdletshe responded to Mr Gary Pita and advised that she would prepare the documents as requested and circulate for comments. **(Appendix 14 - Vol 13 P9125).**

THE APPROVAL OF THE RELOCATION COSTS (cont.)

CNR

- On 22 July 2015, Ms Lindiwe Mdletshe compiled a separate memorandum for the approval of the relocation costs for CNR at an amount of R647 181 494.00.* (**Appendix 16 - Vol 13 P9134**)
- The memorandum highlights that CNR offered a 10% discount to Transnet.
- The memorandum was recommended by the negotiation team members as well as Mr Ravi Nair (the then ACE at TFR).
- The memorandum was approved by the then ACGE on 23 July 2015.

*Appendix 16

THE APPROVAL OF THE RELOCATION COSTS (cont.)

BT

- On 22 July 2015, Ms Lindiwe Mdlletshe compiled a memorandum for the approval of the relocation costs for BT at an amount of R618 457 125.00.*
(Appendix 15 - Vol 13 P9129)
- The memorandum highlights that BT offered a 2,5% discount to Transnet.
- The memorandum was recommended by the negotiation team members as well as Mr Ravi Nair (the then ACE at TFR).
- The memorandum was approved by the then ACGE on 23 July 2015.

*Appendix 15

THE INVOLVEMENT OF TIA: REPORT DATED 7 JUNE 2017 (Appendix 18 - Vol 13 P9147)

SALIENT PARTS OF THE REPORT

- The meeting was held at OR Tambo International Airport. In attendance were BT & CNR.
- It records that the Transnet Group Chief Financial Officer (GCFO) requested both bidders to submit their proposals for the cost implications of manufacturing out of Durban. A follow up meeting was then scheduled for 23 June 2015 for further negotiations.

THE INVOLVEMENT OF TIA: REPORT DATED 7 JUNE 2017 (cont.)

- TIA was not invited for a subsequent negotiation meeting scheduled for 23 June 2015 where negotiations on relocation costs were to be discussed with the bidders in attendance, as required per the HVT methodology.
- Despite Mr Gary Pita's request (on 10 July 2015) for TIA to sign off on the memo that was to be sent to the AGCE for approval, TIA was not provided with the memo of the outcome of the negotiations of the letters of acceptance of the proposals to the AGCE.
- Based on TIA's limited involvement in the process indicated above, a formal report to indicate adequacy and/or effectiveness of the processes undertaken in the Durban Relocation negotiations could not be produced.

AN INDEPENDENT ASSESSMENT OF THE APPROVED RELOCATION COSTS

Assessment conducted by Loliwe Rail Solutions (Pty) Ltd

- Loliwe has concluded*(**Appendix 25 - Vol 13 P9446**) that:
 - there was no relocation of either OEM;
 - the variation orders were inflated intentionally by the OEMs and inadequately evaluated by Transnet prior to concluding the approval and amendment of the contracts;
 - there is no justification for either the direct or indirect costs presented by BT and CNR;
 - it was improper for Transnet to have agreed to lump sums for the relocation;
 - the approval of the direct and indirect costs was done without the presentation of valid and substantiated documentation; and
 - the process followed in the approval of the relocation costs was not in accordance with the standard contract management protocol.

MNS FINDINGS

Excessiveness of costs

- The relocation costs were excessive.

Breach of s76(3) of the Companies Act

- Mr Siyabonga Gama failed to take reasonably diligent steps to become informed about the costs of “relocation” .
- This would have been reasonably expected of a person in his position and knowledge and experience. Instead, he authorized the expenditure of R1,2 billion without satisfying himself as to the cost benefit analysis that had been conducted.

Fruitless and wasteful expenditure

- The failure to take reasonable care led to Transnet incurring fruitless and wasteful expenditure as contemplated in the Public Finance Management Act 1 of 1999.

MNS FINDINGS (cont.)

The advice of PWC

- Transnet's failure to implement the strategy that was advised by PWC in relation to the management and negotiation of the financial aspects of "relocation" led to the incurrence of fruitless and wasteful expenditure.

Breach of the PPM

- Ms Lindiwe Mdletshe ignored the pertinent issues raised by her colleagues.
- Negotiations for the "relocation" of the two OEMs were not handled with the transparency and care required by the HVTP methodology: clause 15.3.2 of the PPM, version 3 June, 2015.

BEX and CNR agreement

- We have found the agreement to be very suspicious in that the Parties worked on the basis of a minimum amount (R580 million) that would have to be justified and presented to Transnet.

MNS FINDINGS (cont.)

- As a SCS official and the lead interface for the negotiations, Ms Lindiwe Mdletshe failed to adequately involve TIA, who were critical for assurance and gateway reviews.
- This failure was aggravated by Ms Lindiwe Mdletshe having disregarded the requirement for TIA to sign off the recommendations as per the memoranda dated 22 July 2015, notwithstanding the clear request for her to do so, from Mr G Pita.
- The conduct of both Messrs Nair and Silinga falls short of what is expected of senior officials in their respective positions.

RECOMMENDATIONS (cont.)

- We recommend that BT and CNR be directed to provide a statement and debatement of the funds paid in relation to “relocation” .
- We also recommend that when the judicial review application (in relation to the 1064 locomotives award) is instituted, Transnet seek a just and equitable order that includes a recovery of the relocation costs paid to date.
- As a measure to limit its further exposure, we recommend that Transnet should immediately cease all payments related to “relocation” .
- We also recommend that Transnet consider approaching South African law enforcement agencies for further investigations to be conducted on the suspicions of fraud and corruption.

Thank you.

Vuyolwethu Qandashe

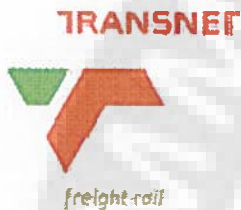
From: Lindiwe Mdletshe Transnet Freight Rail JHB <Lindiwe.Mdletshe@transnet.net>
Sent: Thursday, 06 March 2014 21:37
To: Aubrey Lekwane
Cc: david.anglin@de.transport.bombardier.com
Subject: Revised proposal

Dear Tenderer,

You are requested to submit your revised proposal which include the latest TE scope of work by no later 14h00 tomorrow, 07 March 2014. Price impact for Durban must be submitted on Monday at 10h00.

TFR also requested that you share your subcontractors prices as per our discussion yesterday. Kindly be on standby for tomorrow, time will be communicated in the morning.

Kind Regards



Lindiwe Mdletshe
Commodity Manager
Supply Chain Services
Transnet Freight Rail

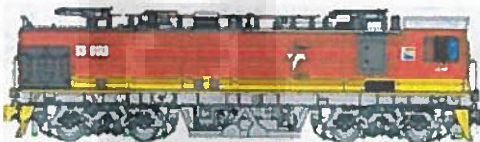
☎ 011 584 0620

011 773 0832

www.transnet.net

☎ 083 2683365

✉ Lindiwe.Mdletshe@transnet.net



CNR CONSORTIUM/UNINCORPORATED JOINT VENTURE

Ms Lindiwe Mdletswe
Commodity Manager
Supply Chain
Transnet Freight Rail
Johannesburg

10 March 2014

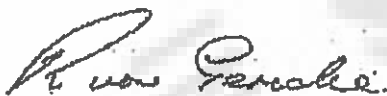
Dear Lindiwe

465 new Diesel Locomotives for General Freight -- Cost Impact of Manufacturing in Durban

With reference to the TFR request relating to the CNR response for the cost impact of building the locomotives in Durban, we would like to point out that our original quotation is based upon building the locomotives in Kooxdespoort or Germiston. We understand from TE that the Kooxdespoort facility has already been allocated but CNR would like to request that before a final decision is made regarding this matter that we are granted site visits for both Durban and Germiston.

As regards the request for the cost impact of this decision, CNR would like to point out that our preliminary studies show that the cost of building the locomotive in Durban will be higher than the cost of building the locomotive in Germiston.

Yours sincerely



Rowlen von Gericke
On Behalf of CNR Consortium

One of: Global House, 80 Tullagh Road, Kempton Park 1630
P.O. Box 10285, Aston Manor, Kempton Park, 1619

Tel: +27 11 230 1500

Fax: +27 11 236 1594

Email: Rowlen@globalgroups.org



CNR CONSORTIUM

Attention: Lindiwe Mdletshe
Transnet Freight Rail
Acquisition Council

11 March 2014

465 New Diesel Locomotives for General Freight – Impact of Locating in Durban

Dear Lindiwe and Garry

Further to our previous email in this regard. Following the request from TFR for CNR Consortium to consider the Durban facilities for manufacture of locomotives, the following calculations were made:

IMPACT OF MANUFACTURING IN DURBAN VS JOHANNESBURG

TRANSPORT COSTS

	Saving	Extra Cost	Comment
Engine		R 8 000.00	Engine Imported but testing done in JHB
Propulsion System		R 16 000.00	ABB is located in JHB. 40% is imported portion, assembly in JHB
Brakes		R 8 000.00	Knorr Bremse located in JHB.
Chinese components supplier	R 8 000.00		Imported components from Dalian
Locomotive Gears		R 4 000.00	Based in JHB
Air Conditioner		R 4 000.00	Based in JHB
Wheels + Axles	R 8 000.00		Imported components
Refrigerator		R 500.00	Based in JHB
U-tubes and gear case	R 4 000.00		Rotacon based in Durban
Communications equipment		R 200.00	Located in JHB
Total	R 20 000.00	R 40 700.00	
Difference per locomotive		R 20 700.00	
Extra Cost on Locomotives		R 4 077 900.00	

Care of: Global House, 60 Tulbagh Road, Kempton Park 1630
P.O. Box 10285, Aston Manor, Kempton Park, 1619

Tel: +27 11 230 1900
Fax: +27 11 396 1594
Email: Rowlen@globalgroups.org

Imported Locomotive

Saving on Imported Locomotives (20)	R 1 000 000.00		Fully built locomotives
			Bogie, under-frame and body panels imported from Dalian
Saving on Kits (15)	R 285 000.00		
Total	R 1 285 000.00		
Total Extra Transport Costs		R 2 792 900.00	

Transport Cost is calculated based on 32ton at R19 000 and 28T at R16 000 per trip.

FLIGHTS AND ACCOMMODATION

Minimum of 4 people to fly (F) to Durban every week from JHB	R 1 320 000.00
Accommodation (A)	R 960 000.00
Extra F & A cost	R 2 280 000.00

Office Costs

New Office set up for 60 personnel

R 604 800.00

Total Extra Costs of locating in Durban

R

9 755 600.00

The above costs only relates to the measurable financial implications. Please bear in mind that there is always be a considerable amount of immeasurable financial losses that will be incurred due to relocating to Durban.

Furthermore, it will be very inconvenient and counterproductive to split our resources between Johannesburg and Durban.

For these reasons we request that the manufacturing should be done at Koedoespoort. Knowing the Koedoespoort facility well, I was wondering whether it will be possible to utilise the old Koedoespoort East Foundry facility.

The CNR Consortium is of the opinion that the project can be better managed and executed in the Koedoespoort facility given its proximity to the existing offices.

Kind regards

Rowlen von Gerlcke

On behalf of CNR Consortium / Unincorporated Joint Venture

Analysis of Cost Increase

for

Locomotive Delivery

and

Locomotive Factory Relocation

from

Pretoria, Gauteng to Durban, Kwa-Zulu Natal

in terms of

**Manufacturing Facility Relocation for Class 45D Locomotives
Supply Project**

June 2015

Executive Summary

We have been requested to analyse the Cost Increase for the Locomotive Delivery and Locomotive Factory relocation in terms of Manufacturing Facility Relocation for Class 45D Locomotives Supply Project. The decision to relocate from Pretoria, Gauteng to Durban, Kwa-Zulu Natal will cost an estimated R670m.

Description	Cost (R)	% of total
Labour costs	54 367 333	8%
Material costs	178 822 793	27%
Logistical costs	6 420 941	1%
Technical support	70 000 000	10%
Transportation	94 194 785	14%
Delta to Warehouse costs	75 650 745	11%
Other costs	190 327 688	28%
Total	669 784 286	100%

Introduction

In order to be able to relocate the entire operation of manufacturing, production, assembly and servicing from Pretoria to Durban, there are several incremental costs, risks and material changes that will need to be considered.

During the execution of this project, in order to complete the technology transferring, manufacturing, training, testing and maintenance tasks for this locomotive project successfully, as well as the empowerment of the black economy, the manufacturing facilities are relocated from Pretoria to Durban. Thus this proposal is submitted. This proposal is seen as the project document as per the contract.

These considerations can be broken down into:

- Labour costs
- Material costs
- Operational and logistical effects
- Technical support
- Physical transportation of materials and resources
- Incremental warehousing costs
- Financing and risk costs due to time constraints and delays.

Each of these areas carry a substantial weight on the total cost of relocation, considering the move from a skilled factory with high-end technology in a nationally-central location to an environment where locomotive manufacturing skills are limited and supply of manufacturing engineers is limited. Added to that, being the largest industrial port in South Africa, industrial property is highly sought after, especially in and around railway areas due to the high traffic on the railway lines between Durban and Johannesburg.

The largest non-operational and logistical cost faced is also the 4-month delay in production, which is placing substantial currency-hedging risk, import and inflationary risk, insurance, and training costs.

All-in-all, there will also be ancillary benefits in using the same team to relocate as will be running the day-to-day operations in Durban. This will minimise team friction, hand-over wastage and delays, lack of accountability and a host of expertise-related risks.

Below is a breakdown of each of the above-mentioned sections, justifying the detailed cost analysis of the relocation project.



CNR Rolling Stock South Africa
 China Construction Bank Building
 95 Grayston Drive
 2196 Sandton Johannesburg
 cnrssapm@163.com

Cost Breakdown

The total cost implications of the relocation and the inherent costs of relocating manufacture to Durban from Pretoria amount to an estimated R670m. Importantly, this amounts to less than 10% of the total Class 45D locomotive manufacturing project. The attached outline details and explains the R670m.

Labour Costs

Total cost R54.4m: 8% of relocation costs

The amount is broken down below. This is ~8% of total relocation cost.

- **Manufacturing costs**, amounting to R38.3m, relate to the added size of each team that will be required in order to complete each locomotive build. Due to the lack of skills and experience in Durban, the average team size per locomotive (of 25) will need to be increased to 31 (i.e. 6 additional mentorships from CNR) in order to maintain production levels of 12 locomotives per month, which is imperative for the success of the project. The increase in team size accounting for the R38.3m over the period of production is available on request.
- **Quality assurance** relates to the increase in supervision labour required to inspect and monitor production of locomotives due to the lack of experience in the new Durban factory. An additional 6 specialists from CNR will be required to mentor and supervise the production of 12 locomotives per month, with each supervisor monitoring the production of up to 2 locomotives at a time. This additional cost amounts to R4.6m over the period.
- **Customer Service Team ("CST")** will need to increase marginally to account for the increase in pressure derived from dealing with more supplier and client issues from a remote location. This will require an additional 8 agents and the setting up of a CST infrastructure sufficient to manage the CST requirements, total R8.1m over the period.
- **Program management** for the relocation and new operation will require an additional 3 senior managers due the substantial increase in team size, logistical complexity and supervision. This will amount to an additional R3.4m over move and the initial production phase.

Labour Costs	Manufacturing related costs	(Avg Cost per Emp * NumDurbanEmp Required) - (Avg Cost per Emp * NumPretoriaEmp Required)	38 280 000
	QA	Num Supervisors * Cost per Supervisor	4 640 000

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Customer service	Additional Emp * Cost	8 064 000
Program mgt	Senior Managers Req * Cost Per Manager	3 383 333
Total		54 367 333

Material Costs

Total cost R178.8m: 27% of relocation costs

Additional material costs amount to R178.8m as a result of the relocation. This has the largest impact on relocation, amounting to ~27% of relocation cost.

- **Inflationary cost**sequating to R162.1m will be incurred, based on a 4-month delay. This is calculated using the South African inflation rate of 5.5%pa, decomposed to 1.8% over the 4 months.
- **Incremental estimated procurement cost**sof R16.8m. Considering than certain materials will not be available in South African warehouses at the outset of the project, and considering the target of 12 locomotives per month, we estimate 3 months' storage to various warehouse suppliers will cost approximately 9% per annum over the 4-month delay.

Material Cost	Inflation due to schedule shift	4-month Inflation * Total Project Cost	162 064 173
	Additional procurement costs	Component * 4 months Financing Cost * % of Stock on Hand for 3 Months	16 758 621
Total			178 822 793

Operational & Logistics Costs

Total cost R6.4m: 1% of relocation costs

Impact of changes to logistics and operations will amount to R6.4m. This is ~1% of total relocation cost.

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- **Administrative costs to**

re-work logistics will be required, as the roll-out and execution of the relocation and final manufacturing project will need to be altered. This amounts to R1.7m.

- **A new environment** will require to be thoroughly tested in order to maintain the required level of quality and delivery. This will amount to R475k.
- **Additional staff travel costs** due to the move will amount to an estimated R2m.
- **Higher inventory requirements** will be required due to the distance from Gauteng. This will result in a cost of R2.2m.

Logistics Costs	Admin costs to re-work logistics		1 731 158
	Dry run in new environment	As per Fixed	474 576
	Additional travel costs	Quotation	2 024 410
	Higher inventory - cost of capital		2 190 797
Total			6 420 941

Technical Support

Total cost R70m: 10% of relocation costs

Additional technical support will be required, amounting to R70m. This is 10% of total relocation cost.

- The additional **technical support** comprises the additional technical and engineering teams that will need to be available on the ground beyond the initial ~19month production phase. These specialised teams will be in addition to the requirement from the Pretoria plant due to the lack of expertise in maintenance and post-production servicing currently available in Durban. This will amount to R38.5m.
- There will also be an increased **cost of on-site service** by suppliers due to the increase in travel and relocation of Gauteng-based suppliers. This is estimated at R31.5m over the pre- and post-production periods.

Technical	Increased cost of tech support	As per Fixed	28 000 000
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Support	Engineering	Quotation	10 500 000
	Increased cost of on-site service by local small business supplier		31500 000
Total			70 000 000

Transportation

Total cost R94.2m: 14% of relocation costs

Physical transportation from Pretoria to Durban will amount to R94.2m. This is ~14% of total relocation cost.

- There will be a R567k cost saving to being based in Durban due to **proximity to an industrial port**.
- **Physical transportation of assembly parts of locomotives** is estimated at R64.8m, explained as follows: the cost of road logistics in South Africa is estimated at (average) 5% of pre-transport costs. Assuming the project is transporting ~R1.3b worth of raw materials. The total is thus estimated at R64.8m.
- **Short-term insurance** on the value of transported goods will amount to R22.5m, based on industry-level Goods In Transit insurance premiums of between 0.2% and 0.8% of value.
- **Transport protection, express shipments**(for time-sensitive delivery), Trucks for handover and Testing goods when received are directly inherited costs of the relocation, amounting to incremental costs of R7.5m.

Transportation	International shipments	As per Fixed Quotation	-567 104
	Engine - Durban		
	Brake System - Durban		
	Traction Chain - Durban	% Cost of Road Logistics * Cost of Raw Local Materials	64 800 000
	Delta supply chain - Durban		
	Insurance	Insurance Premium % * Total Insurable Value	22 500 000
	Transport protection	As per Fixed Quotation	3 283 231



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Express shipments	895 427
Truck for handover	1 492 378
Locos testing	1 790 853
Total	94 194 785

Incremental Warehousing Costs

Total cost R75.7m: 11% of relocation costs

Additional warehousing costs will amount to R75.7m, which is ~11% of total relocation cost.

- As a result of the scarcity of prime industrial factories in Durban, the cost per square metre is substantially higher than Pretoria by between R35/sqm-R55/sqm. This will result in an increase in lease cost of R16.8m over the long-term period.
- Fencing, security and office furniture of R300k.
- Office construction and civil works upgrades will amount to R3.9m, based on estimated office space of ~850sqm.
- The project necessitates that ~5-15% of total factory space is used for shelving and storage. This will result in an additional cost of R12m. This is based on a calculated build cost of R11,200/sqm.
- Additional forklifts and stacking trucks will be required that would not have been as necessary or as costly in Pretoria. This will amount to 20 forklifts and trucks in total, at a cost of R5.3m.
- Additional delivery vehicles and (new) systems to be implemented in the new factory will amount to R7m.
- Additional staff & personnel will be required, incurring a substantial relocation cost to bring in skilled labour from Gauteng(~90 personnel). With incentive salaries and a relocation incentive, this amounts to R24.5m.
- Due to the lack of experience of the new teams, external labour and professional consulting/supervisory teams will need to be brought in. Four of these engineering consultants will be needed during the primary production phase, costing R5.8m.

Delta to warehouse costs	Additional Lease costs	Incremental Cost Per Sqm * Total Sqm	16 800 000
	Fencing/Security	As per Fixed Quotation	110 395
	Civil works	Office Sqm * Rate per Sqm	3 927 000

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upgrades/office construction

Office & warehouse furniture	As per Fixed Quotation	188 899
Racks & Shelving	% of Sqm * Cost per Sqm	11 962 500
Local forklifts/stacker trucks	(Cost per Truck * Num Trucks) + (Cost per Forklift * Num Forklifts)	5 300 000
Additional delivery vehicles	As per Fixed Quotation	3 924 552
Technology & inventory systems	As per Fixed Quotation	3 133 999
Additional staff & personnel	(Team To Be Relocated * Salary Increase) + Once-off Relocation Incentive	24 503 400
Extra outside labour & services	Engineer Consulting Fees * Num Engineers	5 800 000
Total		75 650 745

Financing & Risk Costs

Total cost R190.3m: 28% of relocation costs

Financing costs are the second biggest cost to the relocation, amounting to R190.3m, or ~28% of total relocation cost.

- **Labour inflation** due to the 4-month delay and the additional required resources will amount to R4.4m, based on 5.5%pa CPI.
- **Finance cost as a result of rolling over forward currency (USD)** contracts are estimated at R81m. The buy and sell spread on forward contracts equals 2 x ZAR 0.12.
- **Bond /debt instrument costs** increase will amount to R18m based on cash flow risk and upfront payments.
- **Contingency risk** of 4% on assumptions, amounting to R25.9m.
- There will be **increased insurance costs** amounting to R2.8m due to the relocation and new teams involved.
- **Training costs of additional teams** and new staff will be required, amounting to R3.6m, based on industry standard of 6% training costs.

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- There is a risk provision

of 9%, amounting to R54.7m. This risk is primarily focused around the pressure the relocation will put on the final locomotive production project. The overall effect on a large-scale relocation, with new teams, staff, specialists, expertise and a less-known environment will create substantial risk in meeting deliverables and timelines.

Finance Costs	Labour inflation original contract	Additional Staff Costs * CPI	4 413 790
	Finance costs on forward contracts	% Premium * 2 * ZAR0.12 Spread on USD	81 000 000
	Bond costs increase	Duties * Total Value Added	18 000 000
	Contingency	4% on Cost	25 867 599
	Increased insurance costs	As per Fixed Quotation	2 750 000
	Increased training costs	Std % Training Cost * Value of Additional Staff	3 587 623
	Risk provision increase project	9% on Cost	54 708 676
Total			190 327 688

Costing Summary

The above-mentioned breakdown, detailed in the attached costs spreadsheet, outlines the need for the further investment of R670m for the relocation of operations and manufacture to Durban. Although this is a marginal cost in terms of the total project, it should be treated as material to the final project production. In order to not impact on the quality of service, manufacture and delivery of this crucial element of the total locomotive project, it makes sound business sense to maintain the same teams throughout the relocation and manufacture, allowing the seamless handover between the two phases, and maintaining the level of skill and experience throughout.

The above breakdown should address any issues pertaining to the costs of the relocation. If not, please do not hesitate to contact us for further details, relating to any or all of the summarised figures.

Definition

1. **TRANSNET SOC LTD**(acting through its Transnet Freight Rail division), a public company incorporated in South Africa (registration number 1990/000900/30) and referred to in Section 2 of the Legal Succession to the South African Transport Services Act, No 9 of 1989 (the Company);
2. **CNR RS SA** , a company registered under the laws of South Africa(registration number 2014/016892/07) and, subject to a name change, to be known and registered as CNR ROLLING STOCK SOUTH AFRICA PROPRIETARY LIMITED (the Contractor);
3. **TE**, means Transnet SOC Limited acting through its TRANSNET ENGINEERING Division (registration number 1990/000900/30) (the "Subcontractor");
4. **Local Supplier**, means the suppliers in South Africa other than TE;
5. **Locomotive**, means collectively or individually, the locomotives to be manufactured and supplied to the Company by the Contractor in accordance with this Agreement, with each individual locomotive being identified by its vehicle number;
6. **Training**, means the training to be provided by the Contractor to the Company personnel in accordance with Par! 12 (Training) of Schedule 3 (Agreement Management);

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References & Sources

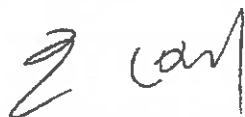
Reference Type	Description	Site	Notes
Key References			
	South African Reserve Bank	www.resbank.co.za	Macro-economic analysis on trends, growth in manufacture, currency risk, inflation and interest movements and general market speculation on risk.
	Stats SA	www.statssa.gov.za	
	Fin24	www.fin24.com	
	JSE News	www.jse.co.za	
Transportation References			
	Department of Transport	www.transport.gov.za	
	Durban Clearing	www.durbanclearing.co.za	
	Road Freight Logistics	www.rflogistics.co.za	
	South African Railways	www.southafricanrailways.co.za	
Finance Costs			
	South African Reserve Bank	www.resbank.co.za	consulting
	Consulting with various finance experts		
	Standard Bank		
	SASFin		
	Bidvest Bank		
Labour Related Research			
	SA Board for People Practices		
	EVA Solutions	www.evasolutions.co.za	
	Exceed HR Consulting	www.exceed.co.za	
Property Research			
	Seeff Property Agency	www.seeff.co.za	agency
	Property24	www.property24.com	non-agency
	Standard Bank Property		banking portfolio assistance
	Nedbank Preferred Property Guide		banking portfolio assistance
	FNB Property		banking portfolio assistance
	Industrial Listings	www.industrial listings.co.za	
	SA Commercial Property News	www.sacommercialpropnews.co.za	
Factory & Materials Costs			
	Industry experts in manufacture		consulting
	Industry experts in mining & efficiencies		consulting
	Industry experts in cost-optimisation		consulting
	Trading Economics	www.tradingeconomics.co.za	
	Manufacturing Circle	www.manufacturingcircle.co.za	

CNR Rolling Stock South Africa (Pty) Ltd (reg 2014 /016892/07) t/a

CNR Rolling Stock

South Africa

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Mr. Jeff Wang

Chief Executive Officer

CNR Rolling Stock (Pty) South Africa

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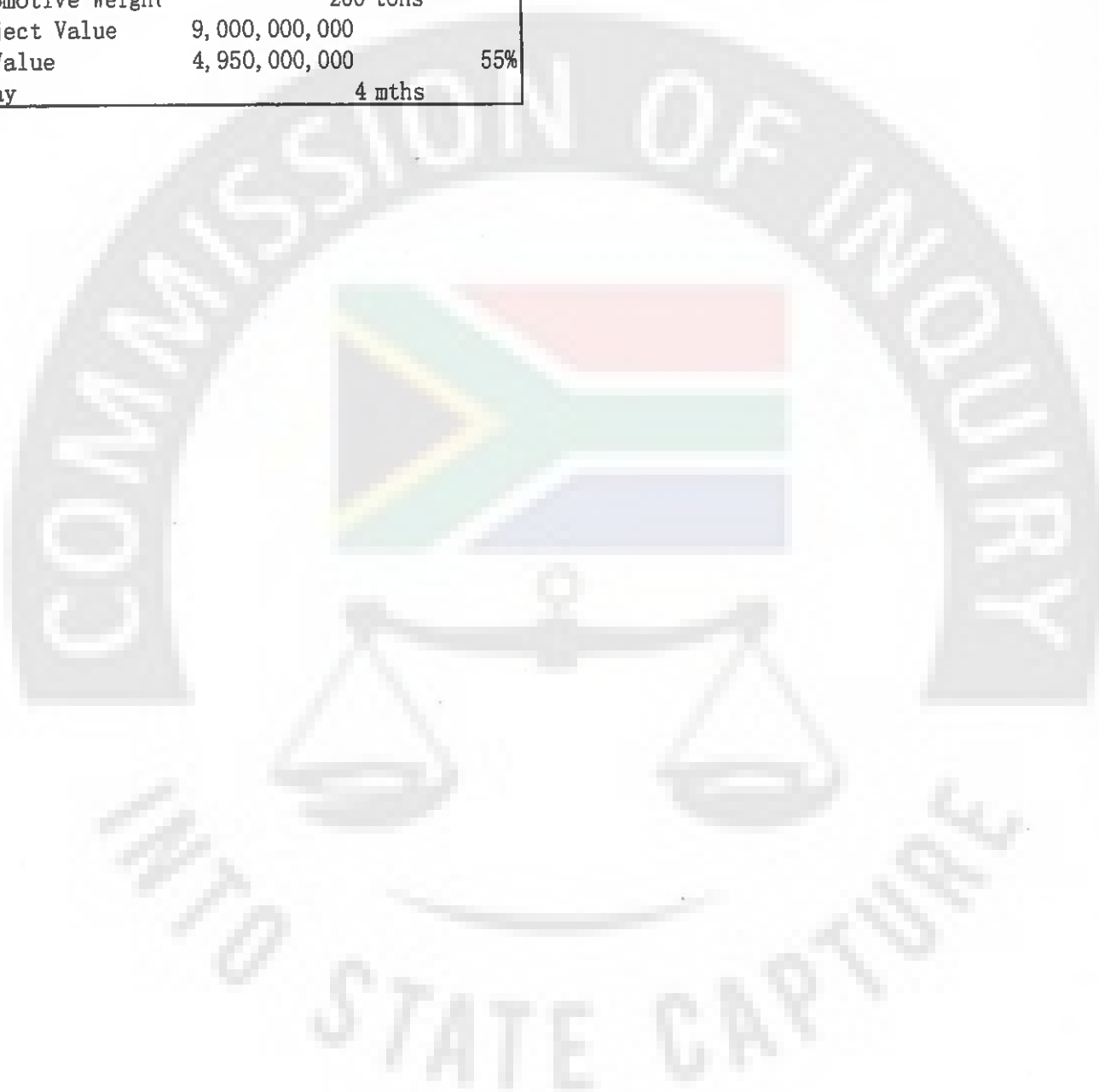
0086 15941169206 (CHINA)

Mail Add: boke_qiao@163.com

	Costs	% of Total Relocation	Notes
Labour Costs	R 54,367,333	8%	
Manufacturing cost increase	R 38,280,000	6%	3
Increase quality assurance	R 4,640,000	1%	3
Customer service	R 8,064,000	1%	3
Program management	R 3,383,333	1%	3
Material Cost	R 178,822,793		
Inflation due to schedule shift	R 162,064,173		2
Additional procurement costs	R 16,758,621	3%	2
Logistics Costs	R 6,420,941	1%	
Admin costs to re-work logistics	R 1,731,158	0%	Fixed Quotation
Dry run in new environment	R 474,576	0%	Fixed Quotation
Additional travel costs	R 2,024,410	0%	Fixed Quotation
0	R 2,190,797	0%	Fixed Quotation
Technical Support	R 70,000,000	10%	
Increased cost of tech support	R 28,000,000	4%	3
Engineering	R 10,500,000	2%	3
Increased cost of on-site service by supp	R 31,500,000	5%	3
Transportation	R 94,194,785	14%	
International shipments	-R 567,104	0%	Fixed Quotation
Parts Transportation to Durban	R 64,800,000	10%	6
Insurance	R 22,500,000	3%	4
Transport protection	R 3,283,231	0%	Fixed Quotation
Express shipments	R 895,427	0%	Fixed Quotation
Truck for handover	R 1,492,378	0%	Fixed Quotation
Locos testing	R 1,790,853	0%	Fixed Quotation
Delta to warehouse costs	R 75,650,745	11%	
Additional Lease costs	R 16,800,000	3%	5
Fencing/Security	R 110,395	0%	Fixed Quotation
Civil works upgrades/office construction	R 3,927,000	1%	5
Office & warehouse furniture	R 188,899	0%	Fixed Quotation
Racks & Shelving	R 11,962,500	2%	5
Local forklifts/stacker trucks	R 5,300,000	1%	5
Additional delivery vehicles	R 3,924,552	1%	Fixed Quotation
Technology & inventory systems	R 3,133,999	0%	Fixed Quotation
Additional staff & personnel	R 24,503,400	4%	3
Extra outside labour & services	R 5,800,000	1%	3
Other Costs	R 190,327,688	28%	
Labour inflation original contract	R 4,413,790	1%	3
Finance costs on forward contracts	R 81,000,000	12%	4
Bond costs increase	R 18,000,000	3%	4
Contingency	R 25,867,599	4%	Contingency Risk - Fixed %
Increased insurance costs	R 2,750,000	0%	Fixed Quotation
Increased training costs	R 3,587,623	1%	3
Risk provision increase project	R 54,708,676	8%	Standard Risk - Fixed %
Total	R 669,784,286		

Global Variables

Diesel Locomotive	232 locomotives	
Locomotive Weight	200 tons	
Project Value	9,000,000,000	
SA Value	4,950,000,000	55%
Delay	4 mths	



Inflation		
Annual Inflation	5.5% SARB CPI	
4months Inflation	1.8%	
Total Cost	9,000,000,000	(CNR imported cost & Local supplier cost)
Inflation	162,064,173	

Additional Cost		
Materials	3,600,000,000	
interest	9% pa	
Cost	108,000,000	
% on hand	16%	
	16,758,621	

Assumptions & Variables		
Team per Loco	25	
Total Locos	232	
Locos per Month	12	
Working on Locos pm	300	
Number of Months	19	
Per Loco		
Unskilled	5	
Skilled	17	
Managers	3	
Avg Cost per Employee	17,500	
Unskilled	10,000	
Skilled	20,000	
Manager	35,000	
Calculated Avg	19,800	
Total Cost per Team	495,000	
Total Cost pm	5,940,000	
Increased Training Costs		
Additional Staff	24,503,400	
Manufacturing Related co	38,280,000	
	62,783,400	
Additional Training	6%	
Training Total	3,587,623	
Annual Employee Cost	700,000	
1 year MBA	40,000	
%	6%	
QA due to inexperience support		
Number of Locos pm	12	
Locos per Supervisor	2	
support from CNR	6	
Number of Supervisors	40,000	
Cost per Supervisor pm	4,640,000	

35% Portion of Total costs for Labour	
9,000,000,000 Total Value	
30% Margin	
6,300,000,000 Costs	
2,205,000,000 Labour	
39,705,722 Labour Inflation	
5,051,503 Calculated Inflation	
280,527,931 Total Original Labour Cost	
14,168 Total FTE (over period)	
Extra outside labour & services	
Engineering Consulting	900,000
pm	75,000
Period	1,450,000
Number of Experts	4
Total	5,800,000
Labour inflation original contract	
Additional Payments fc	80,250,733
Inflation	5.5%
Total Cost	4,413,790
Long Term Maintenance Consulting	
Years	4
Avg Salary	1,000,000
Number of Engineers,	
Tech, Suppliers	20
Weighting	70,000,000
CNR Tech Support	8
CNR Engineers	3
Local Small Business	9
Supplier	
Customer Service (increase in #)	
Additional team	8
Cost	12,000
	8,064,000

Mix Change Due To Inexperience		CNR Additional skill training/mentorship	
	Old	New	
Unskilled	5	5	
Skilled	17	20	
Managers	3	6	
Per Loco	25	31	
Direct Labour per Loco	495,000	660,000	
Total Cost	114,840,000	153,120,000	
Diff	38,280,000		
Additional staff & personnel			
Relocation %	30%		
Total CNR Team	300		
Relocated Team	90		
Salary Growth	25%		
Relocation Cost	100,000		
Total Cost	17,613,000		
Additional CNR Staff			
Incremental Salary	72		
Total Cost	6,890,400		
Grand Total	24,503,400		
Program management			
Senior Manage support for Relocation	700,000	pa	
Total	58,333	pm	
Number	1,127,778		
Total Cost	3		
	3,383,333		

Bond cost increase		
Total Value	9,000,000,000	
Value Added (margin)		20%
Total Value Added	1,800,000,000	
Duty		1%
Duty Amount	18,000,000	

Forward Contract Cost		
Imported Value	4,050,000,000	
12c Spread on Fwd		0.12
Paying Double for Buy-		0.24 Rand to the USD
R/USD		12 ZAR/USD
Additional Cost %		2%
Total Cost	81,000,000	

Insurance on Transportation		
Standard Insurance	20,000,000	
Insurance	50,000	
		0.25%
Value	9,000,000,000	
Insurance	22,500,000	

Additional Lease costs

	600,000	R pa	
Industrial Rent Pta	150,000	5,000 sqm	30
Industrial Rent Durban	350,000	5,000 sqm	70
Diff	200,000		
	16,800,000		

Racks & Shelving

17% of sqm
 5,000 sqm
 14,500 cost per sqm
 11,962,500

Small Office

850 sqm
 55 R/sqm
 3,927,000

Local forklifts/stacker trucks

#	R	
15	120,000	lifts
5	700,000	trucks
	5,300,000	

Parts Transportation to Durban

Cost of Road Logistics	5% of Total Costs
Total Imported Materials	40% of Costs
Total Imported Value	4,050,000,000 <i>original cost</i>
Margin	20%
Total Costs	3,240,000,000
Materials from Costs	1,296,000,000
Logistics on Materials	64,800,000

Reference	Description	Site	Notes
Key References			
	South African Reserve Bank	www.resbank.co.za	Macro-economic analysis on trends, growth in manufacture, currency risk, inflation and interest
	Stats SA	www.statssa.gov.za	
	Fin24	www.fin24.com	
	JSE News	www.jse.co.za	

Transportation References			
	Department of Transport	www.transport.gov.za	
	Durban Clearing	www.durbanclearing.co.za	
	Road Freight Logistics	www.rflogistics.co.za	
	South African Railways	www.southafricanrailways.co.za	

Finance Costs			
	South African Reserve Bank	www.resbank.co.za	
	Consulting with various finance experts		<i>consulting</i>
	Standard Bank		
	SASFin		
	Bidvest Bank		

Labour Related Research			
	SA Board for People Practices		
	EVA Solutions	www.evasolutions.co.za	
	Exceed HR Consulting	www.exceed.co.za	

Property Research			
	Seeff Property Agency	www.seeff.co.za	<i>agency</i>
	Property24	www.property24.com	<i>non-agency</i>
	Standard Bank Property		<i>banking portfolio assistance</i>
	Nedbank Preferred Property Guide		<i>banking portfolio assistance</i>
	FNB Property		<i>banking portfolio assistance</i>
	Industrial Listings	www.industriallistings.co.za	
	SA Commercial Property News	www.sacommercialpropnews.co.za	

Factory & Materials Costs			
	Industry experts in manufacture		<i>consulting</i>
	Industry experts in mining & efficiencies		<i>consulting</i>
	Industry experts in cost-optimisation		<i>consulting</i>
	Trading Economics	www.tradingeconomics.co.za	
	Manufacturing Circle	www.manufacturingcircle.co.za	

From: Lindiwe Mdletshe Transnet Freight Rail JHB <Lindiwe.Mdletshe@transnet.net>

Sent: 20 June 2015 12:54

To: Garry Pita Transnet Corporate JHB <Garry.Pita@transnet.net>; Thamsanqa Jiyane Transnet Engineering PTA <Thamsanqa.Jiyane@transnet.net>; Anoj Singh Corporate JHB <Anoj.Singh@transnet.net>; Yousuf Laher Transnet Freight Rail JHB <Yousuf.Laher@transnet.net>

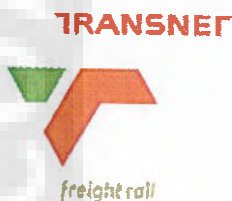
Subject: Bombardier Proposals

Good day,

Please find attached Bombardier proposal as requested.

1. Initial proposal - dated 26 September 2014
 - Additional information – dated 2 October 2014
 - Further Clarification – dated 10 October 2014
 - Detailed explanation – dated 03 November 2014
2. Revised proposal dated 10 April 2015

Kind Regards



Lindiwe Mdletshe
Snr Manager: Strategic Sourcing (Locomotives)
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26, September 2014

2

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Company Registration No. 1995/011403/07
VAT Registration No. 4280158546

Att: Mr Thamsanqa Jiyane
Att: Mr Frikkie Harris

Chief Country Representative: Aubrey Lekwane
Non Executive Directors: Violetia Dias, Dumisa
Dlamulo, Armstrong Ngcobo, Paul Sampson
Executive Directors: Sajeeth Dayanand, Christo Els,
Calvin Feher, Aubrey Lekwane, Johann van Bijl

RE: PRO FORMA 8 - DELAY EVENT: PARTICULARS OF CLAIM

IN RELATION TO THE COMPANY'S PROPOSED MOVE OF TE FACILITY FROM KOEDOESPOORT TO DURBAN.

Dear Mr Jiyane and Mr Harris,

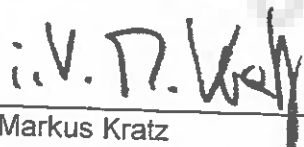
We refer to the Contractor's Notice of Delay Event issued to the Company on 13 August 2014 in relation to the proposed move of TE Facility to Durban.

1. Pursuant to Clause 914.1 "as soon as practicable, but, in any event (subject to Clause 9.14.2), within 30 Business Days after the date by which notice is required to be given under Clause 9.12 (Timing of Claims), the Contractor shall submit further written notice to the Engineer (substantially in the form of Pro Forma 8 of Schedule 8 (Pro Formas))."

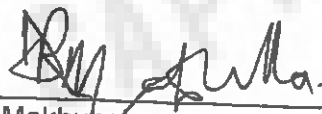
2. We herewith submit the required Particulars of Claim as required contractually.

We avail ourselves within reasonable times to provide any clarification that you may require.

Kind regards



Markus Kratz
Director Project Management
Bombardier Transportation South Africa



Dobri Makhubela
Project Contracts Manager
Bombardier Transportation South Africa

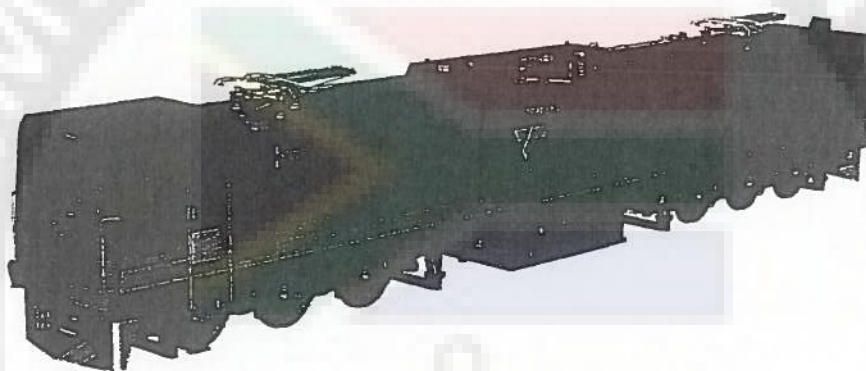
Attachments:

1. Pro-Forma 8 – Delay Event Particulars of Claim

BOMBARDIERDurban V.O.

**Final Notice of Contractor Proposed Variation
with respect to Transnet's request to
move TE's Facility location from Koedoespoort
to Durban**

(hereinafter Durban Variation Order)



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BOMBARDIER**Durban V.O.****1 Introduction**

Following the request from Transnet to Bombardier Transportation, we are pleased to provide our proposal to move the locomotives assembly site of Transnet Engineering from Koedoespoort to Durban.

This proposal refers to the following correspondence and specific meetings stated below:

- Initial letter dated 26 May 2014 from Transnet's Group Chief Executive, Mr Brian Molefe, requesting the Contractor to move TE Facility from Koedoespoort to Durban.
- The Contractor's response to Transnet's Group Chief Executive on 05 June 2014 and the additional response to TFR on 06 June 2014.
- Contractor's email correspondences, e.g. dated 25 June, 18, 23 and 30 July 2014 requesting the Company to formalize Notice of Company Proposed Variation.
- Company's email correspondence dated 21 July 2014 notifying the Contractor that the Company will prepare and send the necessary confirmation in relation to the Notice of Company Proposed Variation.
- Meeting held at the Company's offices on 07 August 2014.
- Contractor's letter dated 13 August 2014 confirming the date that the Notice of Company Proposed Variation shall be deemed to have been received on 07 August 2014.
- Notice of Delay Event and Notice of Contractor Proposed Variation sent on 13 August 2014
- Contractor's email notification of additional delay from Transnet Engineering dated 11 September ref.BT/TFR/00148
- 23 September offer received from TE to move the assembly facility to Durban.

Moreover, this proposal will briefly mention some provisions of the Locomotive Supply Agreement executed on 17 March 2014 (hereinafter the LSA) that would need to be modified, and then present the extension of time impacts and the cost or cost saving impacts related to the TE Facility change of location. With respect to the above impacts, Bombardier also details its pricing assumptions and conditions, as well as the validity of its proposal.

1.1 Provisions of the Contract

The following provisions, amongst others, of the Locomotive Supply Agreement dated 17 March, 2014 entered into between TRANSNET SOC LTD and BOMBARDIER TRANSPORTATION SOUTH AFRICA (PYD) LTD relate to the requested change of TE facility from Koedoespoort in Gauteng to Durban, KZN province, and would have to be modified once the Variation Order (hereinafter V.O.) is approved.

Clause 1.1 [Definitions] which defines TE Facility as Koedoespoort, Gauteng.

Clause 13.3.2 which states that the Technical Materials will be kept at the Contractor Facility in South Africa (and if TE is a Key-Subcontractor, at TE Facility) in either case, in a secure facility under the supervision of the Contractor.

BOMBARDIER**Durban V.O.**

In addition, the assumptions and the terms described in this offer apply to this proposal and would also necessitate adjustments to the LSA, including but not limited to Appendixes.

2 Impacts of the TE's Facility move of location to Durban

2.1 Scope of TE

The prices indicated in this Notice of Variation Order are based on the following scope of supply of TE completed at their Durban facility:

- Final Assembly from the first to the last Locomotive,
- Testing & Commissioning from the 7th to the last Locomotive,
- Bogie frame manufacturing and
- Bogie assembly.

2.2 Category of Impacts of the Variation Order

This Notice of Contractor Proposed Variation provides and outlines all the related impacts and opportunities resulting from the requested move of the TE Facility by the Company, considering two different types of costs or cost savings:

- The costs due to the **extension of time of the project schedule** (Inflation, resources needed for an extended project duration, etc)
- The costs due to the **change of location** from Johannesburg to Durban (Logistics concept, additional transportation, etc)

3 Pricing Assumptions

The following assumptions apply to all the prices of this proposal, unless stated otherwise:

3.1 Extension of time assumptions

3.1.1 Agreement between TE and Bombardier Transportation

The Company requested that Contractor aligns with its Key Subcontractor TE to provide a harmonized position with respect to the impacts on the project's schedule. Bombardier together with Transnet Engineering (TE) made the assessment of TE's facility in Durban and reached the following agreements:

BOMBARDIER**Durban V.O.**

- 3 (three) months delay (as shown in "Appendix 1" where the specific time impact for each locomotive is clearly visible) in the execution of the project during the validity of this offer.
- The proposal is based on the TE proposal received on 23 September 2014, and any modification to that proposal of TE would require a further adjustment of Bombardier's proposal.
- A set of milestones have been identified and defined between Bombardier and TE to execute the Variation Order and ramp-up of TE's facility in Durban. These milestones are attached to this offer in "Appendix 2".
- Bombardier specifically reserves the right to claim for additional delays and incurred costs derived from a delay in achieving the milestones agreed with Transnet Engineering, proven that Bombardier Transportation has not caused such delays.

3.1.2 Locomotives Delivery

- The 2 (two) months delay announced in our Notice of Delay Letters of 13 August and 26 September 2014 due to the elaboration of this Variation Order offer is incorporated in the above mentioned delay of this Variation Order.
- The new detailed Handover Dates and Acceptance Dates for all 240 Locomotives are shown in "Appendix 1".

3.1.3 Additional assumptions with respect to extension of time

- These above mentioned impacts may increase should the Company delay to make a decision to issue the Contractor with a Variation Order after the defined validity period of 20 business days, and in that instance the Contractor will request further additional time impacts that may be suffered.
- The Variation Order price would also increase for any additional delay should the Company delay to make a decision to issue the Contractor with a Variation Order after the defined validity period of 20 business days.

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Durban V.O.

3.2 Financial assumptions**3.2.1 Currency**

All the prices provided are in ZAR.

3.2.2 Bonds

No additional bonds or PCGs to the ones included in the LSA are considered in this offer.

3.2.3 Milestone Payments

Prices offered above are based on milestone payments as shown below (same as in LSA):

- 18.0% of the total offered price at the acceptance of this offer
- 9.0% of the total offered price 17 months after Effective Date of the LSA
- 68% pro-rata at the date of issue of an Acceptance Certificate for a Locomotive subject to retention for Mission Reliability and Fleet Availability
- 71% pro-rata at the date of issue of an Acceptance Certificate for a Locomotive not subject to retention for Mission Reliability and Fleet Availability
- 1.5% pro-rata at achievement of Mission Reliability targets
- 1.5% pro-rata at achievement of Fleet Availability targets
- 2.0% pro-rata at completion of Warranty Period

3.2.4 Payment Terms

Following payment terms apply (same as in LSA):

Payment after 10 (ten) business days with tax invoice.

3.2.5 Supplier Development Plan (SD Plan)

The SD Plan which is currently being negotiated between the parties may be impacted by the outcome of the parties' negotiations of this Variation Order. Bombardier reserves the right to adjust its SD Plan commitments accordingly once the Variation Order is concluded.

BOMBARDIERDurban V.O.**3.2.6 General**

All the prices included in this proposal do not include anything not explicitly mentioned in this offer.

3.3 Fixed price

Price is provided in following format:

- *Fixed Price*

Payment Milestones	Price the move to TE's Durban facility considering a delay of 3 (three) months according "Appendix 1"
As described above	R 634'316'000

BOMBARDIERDurban V.O.

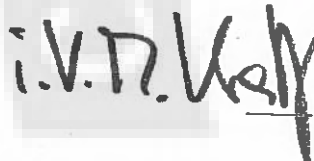
4 Validity of this offer

The Price is conditional and subject to the mutual agreement by the parties of the Durban Variation Order within the offer validity which is limited to 24 October 2014 (20 Business Days from submission).

5 Appendixes

Appendix 1 -> Handover and Acceptance Dates of the locomotives considering the move to Durban.

Appendix 2 -> Milestones defined with Transnet Engineering to materialize the move to Durban according to the terms defined in this offer.

26th September 201426th September 2014

Markus Kratz

Director Project Management



Ramon Perez

Project Manager

BOMBARDIER

Durban V.O.

Appendix 1 - Handover and Acceptance Dates of the locomotives considering the move to Durban (considering 3 months delay).

Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
1	Thursday, March 31, 2016	Monday, August 01, 2016
2	Thursday, April 14, 2016	Monday, August 01, 2016
3	Tuesday, April 19, 2016	Monday, August 01, 2016
4	Friday, April 22, 2016	Monday, August 01, 2016
5	Friday, April 22, 2016	Monday, August 01, 2016
6	Friday, May 06, 2016	Monday, August 01, 2016
7	Monday, July 18, 2016	Wednesday, August 03, 2016
8	Tuesday, July 19, 2016	Friday, August 05, 2016
9	Wednesday, July 20, 2016	Monday, August 08, 2016
10	Tuesday, July 19, 2016	Wednesday, August 10, 2016
11	Friday, July 22, 2016	Friday, August 12, 2016
12	Tuesday, July 19, 2016	Monday, August 15, 2016
13	Friday, July 29, 2016	Monday, August 15, 2016
14	Tuesday, July 26, 2016	Tuesday, August 16, 2016
15	Tuesday, August 02, 2016	Wednesday, August 17, 2016
16	Thursday, August 04, 2016	Friday, August 19, 2016
17	Friday, August 05, 2016	Tuesday, August 23, 2016
18	Monday, August 08, 2016	Friday, August 26, 2016
19	Thursday, August 18, 2016	Thursday, September 01, 2016
20	Friday, August 19, 2016	Friday, September 02, 2016
21	Thursday, August 18, 2016	Monday, September 05, 2016
22	Thursday, August 18, 2016	Tuesday, September 06, 2016
23	Monday, August 22, 2016	Tuesday, September 06, 2016
24	Wednesday, August 24, 2016	Wednesday, September 07, 2016
25	Thursday, August 25, 2016	Thursday, September 08, 2016
26	Monday, August 29, 2016	Monday, September 12, 2016
27	Monday, September 05, 2016	Monday, September 19, 2016
28	Tuesday, September 06, 2016	Tuesday, September 20, 2016
29	Thursday, September 08, 2016	Thursday, September 22, 2016
30	Monday, September 12, 2016	Monday, September 26, 2016
31	Tuesday, September 13, 2016	Tuesday, September 27, 2016
32	Thursday, September 15, 2016	Thursday, September 29, 2016
33	Monday, September 19, 2016	Monday, October 03, 2016
34	Tuesday, September 20, 2016	Tuesday, October 04, 2016
35	Thursday, September 22, 2016	Thursday, October 06, 2016
36	Monday, September 26, 2016	Monday, October 10, 2016
37	Tuesday, September 27, 2016	Tuesday, October 11, 2016
38	Monday, October 03, 2016	Monday, October 17, 2016
39	Wednesday, October 05, 2016	Wednesday, October 19, 2016

BOMBARDIER

Durban V.O.

Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
40	Friday, October 07, 2016	Friday, October 21, 2016
41	Tuesday, October 11, 2016	Tuesday, October 25, 2016
42	Wednesday, October 12, 2016	Wednesday, October 26, 2016
43	Friday, October 14, 2016	Friday, October 28, 2016
44	Monday, October 17, 2016	Monday, October 31, 2016
45	Wednesday, October 19, 2016	Wednesday, November 02, 2016
46	Friday, October 21, 2016	Friday, November 04, 2016
47	Tuesday, October 25, 2016	Tuesday, November 08, 2016
48	Wednesday, October 26, 2016	Wednesday, November 09, 2016
49	Friday, October 28, 2016	Friday, November 11, 2016
50	Tuesday, November 01, 2016	Tuesday, November 15, 2016
51	Wednesday, November 02, 2016	Wednesday, November 16, 2016
52	Friday, November 04, 2016	Friday, November 18, 2016
53	Tuesday, November 08, 2016	Tuesday, November 22, 2016
54	Wednesday, November 09, 2016	Wednesday, November 23, 2016
55	Friday, November 11, 2016	Friday, November 25, 2016
56	Wednesday, November 16, 2016	Wednesday, November 30, 2016
57	Friday, November 18, 2016	Friday, December 02, 2016
58	Tuesday, November 22, 2016	Tuesday, December 06, 2016
59	Thursday, November 24, 2016	Thursday, December 08, 2016
60	Monday, November 28, 2016	Monday, December 12, 2016
61	Tuesday, November 29, 2016	Tuesday, December 13, 2016
62	Thursday, December 01, 2016	Thursday, December 15, 2016
63	Thursday, December 01, 2016	Thursday, December 15, 2016
64	Thursday, December 01, 2016	Thursday, December 15, 2016
65	Tuesday, December 06, 2016	Monday, January 16, 2017
66	Monday, December 05, 2016	Tuesday, January 17, 2017
67	Friday, December 02, 2016	Wednesday, January 18, 2017
68	Wednesday, December 07, 2016	Thursday, January 19, 2017
69	Friday, December 09, 2016	Monday, January 23, 2017
70	Tuesday, December 13, 2016	Wednesday, January 25, 2017
71	Wednesday, December 14, 2016	Thursday, January 26, 2017
72	Thursday, December 15, 2016	Friday, January 27, 2017
73	Wednesday, January 18, 2017	Wednesday, February 01, 2017
74	Thursday, January 19, 2017	Thursday, February 02, 2017
75	Friday, January 20, 2017	Friday, February 03, 2017
76	Tuesday, January 24, 2017	Tuesday, February 07, 2017
77	Thursday, January 26, 2017	Thursday, February 09, 2017
78	Friday, January 27, 2017	Friday, February 10, 2017
79	Tuesday, January 31, 2017	Tuesday, February 14, 2017
80	Friday, February 03, 2017	Friday, February 17, 2017

BOMBARDIER**Durban V.O.**

Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
81	Tuesday, February 07, 2017	Tuesday, February 21, 2017
82	Thursday, February 09, 2017	Thursday, February 23, 2017
83	Friday, February 10, 2017	Friday, February 24, 2017
84	Tuesday, February 14, 2017	Tuesday, February 28, 2017
85	Thursday, February 16, 2017	Thursday, March 02, 2017
86	Friday, February 17, 2017	Friday, March 03, 2017
87	Tuesday, February 21, 2017	Tuesday, March 07, 2017
88	Thursday, February 23, 2017	Thursday, March 09, 2017
89	Friday, February 24, 2017	Friday, March 10, 2017
90	Tuesday, February 28, 2017	Tuesday, March 14, 2017
91	Thursday, March 02, 2017	Thursday, March 16, 2017
92	Monday, March 06, 2017	Monday, March 20, 2017
93	Wednesday, March 08, 2017	Thursday, March 23, 2017
94	Friday, March 10, 2017	Monday, March 27, 2017
95	Tuesday, March 14, 2017	Wednesday, March 29, 2017
96	Thursday, March 16, 2017	Friday, March 31, 2017
97	Friday, March 17, 2017	Monday, April 03, 2017
98	Friday, March 24, 2017	Friday, April 07, 2017
99	Tuesday, March 28, 2017	Tuesday, April 11, 2017
100	Tuesday, March 28, 2017	Wednesday, April 12, 2017
101	Thursday, March 30, 2017	Thursday, April 13, 2017
102	Monday, April 03, 2017	Wednesday, April 19, 2017
103	Tuesday, April 04, 2017	Thursday, April 20, 2017
104	Friday, April 07, 2017	Tuesday, April 25, 2017
105	Monday, April 10, 2017	Wednesday, April 26, 2017
106	Tuesday, April 11, 2017	Friday, April 28, 2017
107	Tuesday, April 11, 2017	Friday, April 28, 2017
108	Tuesday, April 11, 2017	Friday, April 28, 2017
109	Wednesday, April 19, 2017	Friday, May 05, 2017
110	Friday, April 21, 2017	Tuesday, May 09, 2017
111	Monday, April 24, 2017	Wednesday, May 10, 2017
112	Tuesday, April 25, 2017	Thursday, May 11, 2017
113	Friday, April 28, 2017	Monday, May 15, 2017
114	Wednesday, May 03, 2017	Wednesday, May 17, 2017
115	Thursday, May 04, 2017	Thursday, May 18, 2017
116	Monday, May 08, 2017	Monday, May 22, 2017
117	Tuesday, May 09, 2017	Tuesday, May 23, 2017
118	Friday, May 12, 2017	Friday, May 26, 2017
119	Thursday, May 11, 2017	Friday, May 26, 2017
120	Monday, May 15, 2017	Monday, May 29, 2017
121	Tuesday, May 16, 2017	Tuesday, May 30, 2017

BOMBARDIER**Durban V.O.**

Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
122	Wednesday, May 17, 2017	Wednesday, May 31, 2017
123	Friday, May 19, 2017	Friday, June 02, 2017
124	Tuesday, May 23, 2017	Tuesday, June 06, 2017
125	Wednesday, May 24, 2017	Wednesday, June 07, 2017
126	Friday, May 26, 2017	Friday, June 09, 2017
127	Tuesday, May 30, 2017	Tuesday, June 13, 2017
128	Wednesday, May 31, 2017	Wednesday, June 14, 2017
129	Friday, June 02, 2017	Monday, June 19, 2017
130	Tuesday, June 06, 2017	Wednesday, June 21, 2017
131	Wednesday, June 07, 2017	Thursday, June 22, 2017
132	Friday, June 09, 2017	Monday, June 26, 2017
133	Tuesday, June 13, 2017	Wednesday, June 28, 2017
134	Wednesday, June 14, 2017	Thursday, June 29, 2017
135	Monday, June 19, 2017	Monday, July 03, 2017
136	Wednesday, June 21, 2017	Wednesday, July 05, 2017
137	Thursday, June 22, 2017	Thursday, July 06, 2017
138	Thursday, June 29, 2017	Thursday, July 13, 2017
139	Monday, July 03, 2017	Monday, July 17, 2017
140	Wednesday, July 05, 2017	Wednesday, July 19, 2017
141	Friday, July 07, 2017	Friday, July 21, 2017
142	Monday, July 10, 2017	Monday, July 24, 2017
143	Wednesday, July 12, 2017	Wednesday, July 26, 2017
144	Monday, July 17, 2017	Monday, July 31, 2017
145	Tuesday, July 18, 2017	Tuesday, August 01, 2017
146	Wednesday, July 19, 2017	Wednesday, August 02, 2017
147	Friday, July 21, 2017	Friday, August 04, 2017
148	Monday, July 24, 2017	Monday, August 07, 2017
149	Tuesday, July 25, 2017	Tuesday, August 08, 2017
150	Wednesday, July 26, 2017	Thursday, August 10, 2017
151	Friday, July 28, 2017	Monday, August 14, 2017
152	Monday, July 31, 2017	Tuesday, August 15, 2017
153	Wednesday, August 02, 2017	Thursday, August 17, 2017
154	Thursday, August 03, 2017	Friday, August 18, 2017
155	Monday, August 07, 2017	Tuesday, August 22, 2017
156	Thursday, August 10, 2017	Thursday, August 24, 2017
157	Monday, August 14, 2017	Monday, August 28, 2017
158	Wednesday, August 16, 2017	Wednesday, August 30, 2017
159	Friday, August 18, 2017	Friday, September 01, 2017
160	Tuesday, August 22, 2017	Tuesday, September 05, 2017
161	Wednesday, August 23, 2017	Wednesday, September 06, 2017
162	Friday, August 25, 2017	Friday, September 08, 2017

BOMBARDIER**Durban V.O.**

Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
163	Tuesday, August 29, 2017	Tuesday, September 12, 2017
164	Wednesday, August 30, 2017	Wednesday, September 13, 2017
165	Friday, September 01, 2017	Friday, September 15, 2017
166	Tuesday, September 05, 2017	Tuesday, September 19, 2017
167	Wednesday, September 06, 2017	Wednesday, September 20, 2017
168	Monday, September 11, 2017	Tuesday, September 26, 2017
169	Wednesday, September 13, 2017	Thursday, September 28, 2017
170	Friday, September 15, 2017	Monday, October 02, 2017
171	Tuesday, September 19, 2017	Wednesday, October 04, 2017
172	Wednesday, September 20, 2017	Thursday, October 05, 2017
173	Friday, September 22, 2017	Monday, October 09, 2017
174	Wednesday, September 27, 2017	Wednesday, October 11, 2017
175	Friday, September 29, 2017	Friday, October 13, 2017
176	Tuesday, October 03, 2017	Tuesday, October 17, 2017
177	Wednesday, October 04, 2017	Wednesday, October 18, 2017
178	Friday, October 06, 2017	Friday, October 20, 2017
179	Tuesday, October 10, 2017	Tuesday, October 24, 2017
180	Wednesday, October 11, 2017	Wednesday, October 25, 2017
181	Friday, October 13, 2017	Friday, October 27, 2017
182	Tuesday, October 17, 2017	Tuesday, October 31, 2017
183	Wednesday, October 18, 2017	Wednesday, November 01, 2017
184	Friday, October 20, 2017	Friday, November 03, 2017
185	Tuesday, October 24, 2017	Tuesday, November 07, 2017
186	Wednesday, October 25, 2017	Wednesday, November 08, 2017
187	Friday, October 27, 2017	Friday, November 10, 2017
188	Tuesday, October 31, 2017	Tuesday, November 14, 2017
189	Wednesday, November 01, 2017	Wednesday, November 15, 2017
190	Friday, November 03, 2017	Friday, November 17, 2017
191	Tuesday, November 07, 2017	Tuesday, November 21, 2017
192	Thursday, November 09, 2017	Thursday, November 23, 2017
193	Monday, November 13, 2017	Monday, November 27, 2017
194	Wednesday, November 15, 2017	Wednesday, November 29, 2017
195	Friday, November 17, 2017	Friday, December 01, 2017
196	Tuesday, November 21, 2017	Tuesday, December 05, 2017
197	Thursday, November 23, 2017	Thursday, December 07, 2017
198	Monday, November 27, 2017	Monday, December 11, 2017
199	Tuesday, November 28, 2017	Tuesday, December 12, 2017
200	Thursday, November 30, 2017	Thursday, December 14, 2017
201	Monday, December 04, 2017	Tuesday, January 16, 2018
202	Tuesday, December 05, 2017	Wednesday, January 17, 2018
203	Thursday, December 07, 2017	Friday, January 19, 2018

BOMBARDIER**Durban V.O.**

Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
204	Monday, December 11, 2017	Tuesday, January 23, 2018
205	Tuesday, December 12, 2017	Wednesday, January 24, 2018
206	Thursday, December 14, 2017	Friday, January 26, 2018
207	Tuesday, January 16, 2018	Tuesday, January 30, 2018
208	Thursday, January 18, 2018	Thursday, February 01, 2018
209	Friday, January 19, 2018	Friday, February 02, 2018
210	Tuesday, January 23, 2018	Tuesday, February 06, 2018
211	Wednesday, January 24, 2018	Wednesday, February 07, 2018
212	Friday, January 26, 2018	Friday, February 09, 2018
213	Tuesday, January 30, 2018	Tuesday, February 13, 2018
214	Wednesday, January 31, 2018	Wednesday, February 14, 2018
215	Friday, February 02, 2018	Friday, February 16, 2018
216	Tuesday, February 06, 2018	Tuesday, February 20, 2018
217	Thursday, February 08, 2018	Thursday, February 22, 2018
218	Monday, February 12, 2018	Monday, February 26, 2018
219	Wednesday, February 14, 2018	Wednesday, February 28, 2018
220	Friday, February 16, 2018	Friday, March 02, 2018
221	Tuesday, February 20, 2018	Tuesday, March 06, 2018
222	Thursday, February 22, 2018	Thursday, March 08, 2018
223	Monday, February 26, 2018	Monday, March 12, 2018
224	Tuesday, February 27, 2018	Tuesday, March 13, 2018
225	Thursday, March 01, 2018	Thursday, March 15, 2018
226	Monday, March 05, 2018	Monday, March 19, 2018
227	Tuesday, March 06, 2018	Tuesday, March 20, 2018
228	Thursday, March 08, 2018	Thursday, March 22, 2018
229	Monday, March 12, 2018	Monday, March 26, 2018
230	Tuesday, March 13, 2018	Tuesday, March 27, 2018
231	Thursday, March 15, 2018	Thursday, March 29, 2018
232	Monday, March 19, 2018	Monday, April 02, 2018
233	Wednesday, March 21, 2018	Wednesday, April 04, 2018
234	Friday, March 23, 2018	Friday, April 06, 2018
235	Tuesday, March 27, 2018	Tuesday, April 10, 2018
236	Thursday, March 29, 2018	Thursday, April 12, 2018
237	Monday, April 02, 2018	Monday, April 16, 2018
238	Tuesday, April 03, 2018	Tuesday, April 17, 2018
239	Thursday, April 05, 2018	Thursday, April 19, 2018
240	Monday, April 09, 2018	Monday, April 23, 2018

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Appendix 2 - Milestones defined with Transnet Engineering to materialize the move to Durban according to the terms defined in this offer (3 months delay).

Line of BT- TE project schedule	Milestone	Milestone	Date
8	Appointment Dates RSE - 1st Appointments (23 people)	Finish	18/11/2014
295	Master Production Schedule on Workstation Level	Finish	28/11/2014
296	3D Step-Files (Bogie)	Finish	30/11/2014
314	Jigs Concept Ready (Bogie frame)	Finish	17/12/2014
297	2D pdf&Catia files (Bogie) & EBOM	Finish	13/02/2015
93	Delivery Bogie Press	Finish	19/02/2015
358	Jigs Design Finalized (Bogie frame)	Finish	25/02/2015
280	Facility Upgrade (Bay 41/42)- Construction Work	Finish	17/03/2015
27	Appointment Dates Loco - 1st Appointments (40 people)	Finish	23/03/2015
102	Delivery 3D Measuring Equipment	Finish	08/04/2015
363	Jigs Priority #1 - Installation	Finish	17/04/2015
75	Delivery of Bridge Type Milling Machine	Finish	08/05/2015
443	Bogie Production (RSE) : Welded-sub-assemblies	Start	11/05/2015
298	Bogie Final Assembly Drawings & EBOM	Finish	05/06/2015
299	Locomotive Pre-Assembly Drawings & EBOM	Finish	05/06/2015
300	Locomotive Final-Assembly Drawings & EBOM	Finish	30/06/2015
245	Test Booth Installation	Finish	01/07/2015
534	Pre-Assembly Loco #1	Start	14/07/2015
392	Locomotive Pre-Assembly Routing	Finish	23/07/2015
459	Bogie Mock-up Straightening and measuring	Finish	29/07/2015
463	Lab Report Mock-up	Finish	24/08/2015
545	Final Assembly Loco #1	Start	26/08/2015
476	Bogie A: Machine	Start	21/09/2015
284	Layout Review (RSE: Bogie)	Finish	03/10/2015
479	FAI Frame Bogie A	Finish	13/10/2015
507	Bogie A: Assembly of piping and brakes	Start	26/10/2015
288	Layout Review (Production Line Set-up Locos- Preassembly)	Finish	31/10/2015
292	Layout Review (Production Line Set-up Final Assembly)	Finish	31/10/2015
514	FAI Bogie A	Finish	17/11/2015
553	TE Handover Loco #1 to BT	Finish	30/11/2015

— Milestones under BT responsibility

— Milestones under TE responsibility

6

10 April, 2015

BOMBARDIER
the evolution of mobility

Our Ref.: BT/TFR/C/15/0034

Transnet Freight Rail
Inyanda House 2
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Dlamulo, Armstrong Ngcobo, Paul Sampson
Executive Directors: Sejoeth Dayanand, Christo E
Calvin Feher, Aubrey Lekwane, Johann van Bijl

Att. Ms. Lindiwe Mdletshe / Mr. Thamsanqa Jiyane

RE: Durban V.O. Revision

Dear Ms. Mdletshe

Please find enclosed our revised quotation for the implications of the Company Proposed Variation which required the geographical change of TE Facility in Koedoespoort, Gauteng to Durban, in Kwa-Zulu Natal for the execution of the 23E Locomotive Contract.

As already communicated to you, we have been engaging strongly with TE to finalise, in particular, the schedule impacts from this proposed change by TFR. After much discussion and consolidation, we have concluded that there will be an average impact of four months delay to the handover dates for the locomotive, based on the time required for TE to prepare the Durban site and personnel for this complex Scope of Work. This time extension is one month more than was previously discussed between Bombardier and TFR; however to show our commitment to the process and in the interests of concluding this matter without delay, Bombardier is willing to absorb these significant additional costs of one month.

Bombardier is still concerned that TE has not been able to provide detailed explanations of their mitigation strategies to recover from initial delays that could further impact the schedule. For this reason, and in return for our absorption of the extra one month of costs, we request that TFR provide an additional two month exemption from Liquidated Damages for handover delays caused by TE, beyond what was originally agreed in the original Locomotive Supply Agreement.

Please do not hesitate to contact us if you have any comment or require any clarification.

Kind regards,

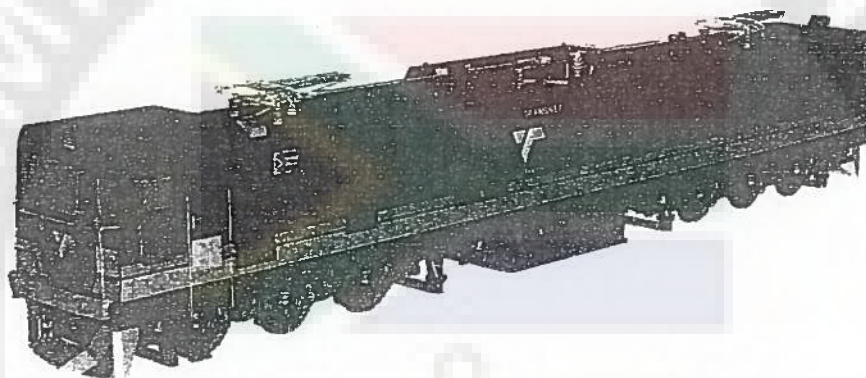
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Head of Sales, Sub-Saharan Africa
Locomotives & Systems
Bombardier Transportation

Dobri Makhubela
Project Contracts Manager
Locomotives
Bombardier Transportation South Africa

BOMBARDIER**Durban V.O.**

**Notice of Company Proposed Variation
with respect to Transnet's request to
change TE's Facility location from Koedoespoort
to Durban**

(hereinafter Durban Variation Order)



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1 Introduction

Following the request from Transnet (TFR or the Company) to Bombardier Transportation (BT or the Contractor), we are pleased to provide our revised proposal to move the locomotives assembly site of Transnet Engineering (TE) from Koedoespoort to Durban.

This proposal refers to the following correspondence and specific meetings stated below:

- Initial letter dated 26 May 2014 from Transnet's Group Chief Executive, Mr Brian Molefe, requesting the Contractor to move TE Facility from Koedoespoort to Durban.
- The Contractor's response to Transnet's Group Chief Executive on 05 June 2014 and the additional response to TFR on 06 June 2014.
- Contractor's email correspondences, e.g. dated 25 June, 18, 23 and 30 July 2014 requesting the Company to formalize Notice of Company Proposed Variation.
- Company's email correspondence dated 21 July 2014 notifying the Contractor that the Company will prepare and send the necessary confirmation in relation to the Notice of Company Proposed Variation.
- Meeting held at the Company's offices on 07 August 2014.
- Contractor's letter dated 13 August 2014 confirming the date that the Notice of Company Proposed Variation shall be deemed to have been received on 07 August 2014.
- Notice of Delay Event and Notice of Contractor Proposed Variation sent on 13 August 2014
- Contractor's email notification of additional delay from Transnet Engineering dated 11 September ref.BT/TFR/00148
- 23 September offer received from TE to move the assembly facility to Durban.
- Durban Variation Order offer from BT handed over to TFR on 26 September 2014.
- E-mail from TFR to BT dated 12 December 2014 requiring a revision of BT's Durban Variation Order offer and requesting that BT must conduct its business and further actions based on the TE Durban facility as the only option it has to avoid further delays on the project.
- Subsequent e-mail answer from BT on 19 December 2014.
- Letter ref BT/TFR/C/14/21 dated 02 February 2015 from BT to TFR announcing the delay on the review and finalization of Durban VO offer due to the missing inputs from Transnet Engineering.
- SteCo BT-TFR on 26 February 2015.
- Offer received from Transnet Engineering on 16 March 2015.

Moreover, this revised proposal will briefly mention some provisions of the Locomotive Supply Agreement executed on 17 March 2014 (hereinafter the LSA) that would need to be modified, and then present the extension of time impacts and the cost or cost saving impacts related to the TE Facility change of location. With respect to the above impacts, Bombardier also details its pricing assumptions and conditions, as well as the validity of its proposal.

1.1 Provisions of the Contract

The following provisions, amongst others, of the Locomotive Supply Agreement dated 17 March, 2014 entered into between TRANSNET SOC LTD and BOMBARDIER

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TRANSPORTATION SOUTH AFRICA (PYD) LTD relate to the requested change of TE facility from Koedoespoort in Gauteng to Durban, KZN province, and would have to be modified once the Variation Order (hereinafter V.O.) is approved by TFR.

Clause 1.1 [Definitions] which defines TE Facility and Delivery Point as Koedoespoort, Gauteng, which will be changed to Durban. ??

Clause 9.1.1 which provides for the consequences of delayed deliveries.

Clause 13.3.2 which states that the Technical Materials will be kept at the Contractor Facility in South Africa (and if TE is a Key-Subcontractor, at TE Facility) in either case, in a secure facility under the supervision of the Contractor.

In addition, the assumptions and the terms described in this offer apply to this proposal and would also necessitate adjustments to the LSA, including but not limited to Appendixes.

2 Impacts of the TE's Facility move of location to Durban

2.1 Scope of TE

The prices indicated in this Notice of Variation Order are based on the following scope of supply of TE completed at their Durban facility:

- Final Assembly from the first to the last Locomotive,
- Testing & Commissioning from the 7th to the last Locomotive, Bogie frame manufacturing and
- Bogie assembly.

2.2. Category of Impacts of the Variation Order

This Notice of Contractor Proposed Variation provides and outlines all the related impacts and opportunities resulting from the requested move of the TE Facility by the Company, considering two different types of costs or cost savings:

- The costs due to the **change of location** from Johannesburg to Durban (Logistics concept, additional transportation, etc)
- The costs due to the **extension of time of the project schedule** (Inflation, resources needed for an extended project duration, etc)

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3 Pricing Assumptions

The following assumptions apply to all the prices of this proposal, unless stated otherwise:

3.1 Change of location assumptions

A change of location of the final assembly facility has significant impact on most suppliers that would need to deliver to the Durban facility instead of Koedoespoort, including but not limited to additional costs for the transportation of their supplies as well as expert support at the facility. After the receipt of TFR's email of December 12, 2014, we have indicated to our suppliers to already start to take action for a move to Durban, however, we cannot confirm that change contractually with our suppliers until we receive an executed Variation Order from TFR.

Moreover, any extension of production time of the project – as will be further explained below – has a cost impact for all parties that have to maintain resources in place for additional months, including BT's suppliers and subcontractors.

3.2 Extension of time assumptions

The Company requested that Contractor aligns with its Key Subcontractor TE to provide a harmonized position with respect to the impacts on the project's schedule. Bombardier together with Transnet Engineering (TE) have aligned on a master schedule sequence for the production on the 240 locomotives.

Unfortunately, as of March 31, 2015 and following two (2) Steering Committees of BT and TE to address the subject, BT has not yet received the requested level of detail from TE on the project plan covering especially the time period until handover of the first vehicles and has no milestone confirmation to support the feasibility of the production schedule committed by TE.

In addition, the delay caused by not having signed Durban Variation Order offer dated 26 September 2014 in due time, has led to a delay in production by many of our suppliers due to the uncertainty of the future schedule.

Hence the extension of production time due to the move to Durban is as follows:

- 4 (four) months average delay (as shown in "Appendix 1" where the specific time impact for each locomotive is clearly visible) in the execution of the project during the validity of this offer.
- The proposal is based on the TE proposal received on 13 March 2015, and any modification to that proposal of TE would require a further adjustment of Bombardier's proposal.
- BT provides the dates detailed in "Appendix 1" derived from TE's general commitment. However, as TE has still not been able to provide detailed information to demonstrate their ability to meet these new milestones, BT specifically reserves the right to claim TFR for additional delays and incurred costs due to further delays created by TE, provided that BT has not caused such delays.

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3.2.1 Locomotives Delivery

We kindly remind TFR that BT provided Notice of Delay Letters of 13 August and 26 September 2014 where we announced 2 (two) months of delay due to the elaboration of the Variation Order offer of September.

In case this Variation order is not exercised by TFR and TE's facility remains in Koedoespoort, BT reserves the right to reassess the delay impact on the project, also based on the instruction from TFR in December 2014 that Durban is the only option.

The new detailed Handover Dates and Acceptance Dates for all 240 Locomotives are shown in "Appendix 1".

3.2.2 Additional assumptions with respect to extension of time

- The above mentioned impacts may increase should the Company further delay to confirm its decision to issue the Contractor with a Variation Order after the defined validity period of 20 business days, and in that instance the Contractor will request further additional time impacts that may be suffered. The Variation Order price would also increase for any additional delay should the Company delay to make a decision to issue the Contractor with a Variation Order after the defined validity period of 20 business days.
- Due to the demonstrated lower level of capability at TE's Durban facility (as evidenced by the missing project plan with updated milestones), it is clear that the use of Durban for bogie production and final assembly provides significant additional risks to the project execution than Koedoespoort. For this reason, the Delay Penalty grace period described in clause 9.1.1 of the LSA should be extended to include the first 35 locomotives, and also allow an additional two-(2) month's grace period for the remainder of the fleet to enable catching up of any such additional delays caused by TE.

3.3 Financial assumptions**3.3.1 Currency**

All the prices provided are in ZAR.

3.3.2 Bonds

No additional bonds or PCGs to the ones included in the LSA are considered in this offer.

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Prices offered above are based on milestone payments as shown below. Due to the significant additional costs already experienced by Bombardier, and the ongoing increased cost structure being similar to the base contract cost structure, these milestones are the same as in the LSA:

- 18.0% of the total offered price at the acceptance of this offer
- 9.0% of the total offered price 17 months after Effective Date of the LSA
- 68% pro-rata at the date of issue of an Acceptance Certificate for a Locomotive subject to retention for Mission Reliability and Fleet Availability
- 71% pro-rata at the date of issue of an Acceptance Certificate for a Locomotive not subject to retention for Mission Reliability and Fleet Availability
- 1.5% pro-rata at achievement of Mission Reliability targets
- 1.5% pro-rata at achievement of Fleet Availability targets
- 2.0% pro-rata at completion of Warranty Period

3.3.4 Payment Terms

Following payment terms apply (the same as in LSA):

Payment after 10 (ten) business days, with tax invoice.

3.3.5 Supplier Development Plan (SD Plan)

The SD Plan which is currently being negotiated between the parties may be impacted by the outcome of the parties' negotiations of this Variation Order. Bombardier reserves the right to adjust its SD Plan commitments accordingly once the Variation Order is concluded.

3.3.6 General

All the prices included in this proposal do not include anything not explicitly mentioned in this offer.

3.4 Fixed price with hedging costs

Price is provided as a Fixed Price:

Payment Milestones	Price the move to TE's Durban facility considering an average delay of 4 (four) months according "Appendix 1"
As described above	R 634.315.000 (Six hundred and thirty four million three hundred and fifteen thousand ZAR)

BOMBARDIERDurban V.O.**4 Validity of this offer**

The Price is conditional and subject to the mutual agreement by the parties of the Durban Variation Order within the offer validity which is limited to (20 Business Days from submission).

5 Appendixes

Appendix 1 -> Handover and Acceptance Dates of the locomotives considering the move to Durban.

Considering the importance of the change of TE location for both Parties and for the prompt execution of the project, BT recommends that the Variation Order be finally resolved within the above stated validity period.

We remain available for a meeting with the TFR's executives authorized to conclude promptly with BT, and express our wish to hold a Steering Committee at the earliest convenience.

10/04/2015
Ramón Pérez
Project Manager

10/04/2015
Dobri Makhubela
Project Contract Manager

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Appendix 1 - Handover and Acceptance Dates of the locomotives considering the move to Durban.

Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
1	Wednesday, May 11, 2016	Friday, September 09, 2016
2	Tuesday, June 07, 2016	Friday, September 09, 2016
3	Tuesday, June 07, 2016	Friday, September 09, 2016
4	Tuesday, June 07, 2016	Friday, September 09, 2016
5	Tuesday, June 07, 2016	Friday, September 09, 2016
6	Tuesday, June 07, 2016	Friday, September 09, 2016
7	Wednesday, July 06, 2016	Friday, September 09, 2016
8	Thursday, July 07, 2016	Friday, September 09, 2016
9	Wednesday, July 06, 2016	Friday, September 09, 2016
10	Friday, July 08, 2016	Friday, September 09, 2016
11	Monday, July 11, 2016	Friday, September 09, 2016
12	Thursday, July 14, 2016	Friday, September 09, 2016
13	Friday, July 15, 2016	Friday, September 09, 2016
14	Thursday, July 21, 2016	Friday, September 09, 2016
15	Thursday, July 28, 2016	Friday, September 09, 2016
16	Wednesday, August 03, 2016	Friday, September 09, 2016
17	Monday, August 08, 2016	Friday, September 09, 2016
18	Tuesday, August 09, 2016	Friday, September 09, 2016
19	Wednesday, August 10, 2016	Friday, September 09, 2016
20	Thursday, August 11, 2016	Friday, September 09, 2016
21	Friday, August 12, 2016	Friday, September 09, 2016
22	Monday, August 15, 2016	Monday, September 12, 2016
23	Wednesday, August 17, 2016	Wednesday, September 14, 2016
24	Monday, August 22, 2016	Monday, September 19, 2016
25	Wednesday, August 24, 2016	Wednesday, September 21, 2016
26	Thursday, August 25, 2016	Thursday, September 22, 2016
27	Monday, August 29, 2016	Monday, September 26, 2016
28	Wednesday, August 31, 2016	Wednesday, September 28, 2016
29	Monday, September 05, 2016	Monday, October 03, 2016
30	Thursday, September 08, 2016	Thursday, October 06, 2016
31	Tuesday, September 13, 2016	Tuesday, October 11, 2016
32	Friday, September 16, 2016	Friday, October 14, 2016
33	Wednesday, September 21, 2016	Wednesday, October 19, 2016
34	Monday, September 26, 2016	Monday, October 24, 2016
35	Wednesday, September 28, 2016	Wednesday, October 26, 2016
36	Friday, September 30, 2016	Friday, October 28, 2016
37	Tuesday, October 04, 2016	Tuesday, November 01, 2016
38	Thursday, October 06, 2016	Thursday, November 03, 2016
39	Monday, October 10, 2016	Monday, November 07, 2016

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Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
40	Tuesday, October 11, 2016	Tuesday, November 08, 2016
41	Thursday, October 13, 2016	Thursday, November 10, 2016
42	Friday, October 14, 2016	Friday, November 11, 2016
43	Tuesday, October 18, 2016	Tuesday, November 15, 2016
44	Thursday, October 20, 2016	Thursday, November 17, 2016
45	Tuesday, October 25, 2016	Tuesday, November 22, 2016
46	Thursday, October 27, 2016	Thursday, November 24, 2016
47	Monday, October 31, 2016	Monday, November 28, 2016
48	Wednesday, November 02, 2016	Wednesday, November 30, 2016
49	Friday, November 04, 2016	Friday, December 02, 2016
50	Tuesday, November 08, 2016	Tuesday, December 06, 2016
51	Wednesday, November 09, 2016	Wednesday, December 07, 2016
52	Friday, November 11, 2016	Friday, December 09, 2016
53	Tuesday, November 15, 2016	Tuesday, December 13, 2016
54	Thursday, November 17, 2016	Thursday, December 15, 2016
55	Tuesday, November 22, 2016	Tuesday, December 20, 2016
56	Thursday, November 24, 2016	Thursday, December 22, 2016
57	Monday, November 28, 2016	Monday, December 26, 2016
58	Tuesday, November 29, 2016	Tuesday, December 27, 2016
59	Thursday, December 01, 2016	Thursday, December 29, 2016
60	Monday, December 05, 2016	Monday, January 02, 2017
61	Wednesday, December 07, 2016	Wednesday, January 04, 2017
62	Thursday, December 08, 2016	Thursday, January 05, 2017
63	Friday, December 09, 2016	Friday, January 06, 2017
64	Tuesday, December 13, 2016	Tuesday, January 10, 2017
65	Thursday, December 15, 2016	Thursday, January 12, 2017
66	Tuesday, January 10, 2017	Tuesday, February 07, 2017
67	Thursday, January 12, 2017	Thursday, February 09, 2017
68	Friday, January 13, 2017	Friday, February 10, 2017
69	Tuesday, January 17, 2017	Tuesday, February 14, 2017
70	Thursday, January 19, 2017	Thursday, February 16, 2017
71	Tuesday, January 24, 2017	Tuesday, February 21, 2017
72	Wednesday, January 25, 2017	Wednesday, February 22, 2017
73	Friday, January 27, 2017	Friday, February 24, 2017
74	Tuesday, January 31, 2017	Tuesday, February 28, 2017
75	Thursday, February 02, 2017	Thursday, March 02, 2017
76	Friday, February 03, 2017	Friday, March 03, 2017
77	Tuesday, February 07, 2017	Tuesday, March 07, 2017
78	Thursday, February 09, 2017	Thursday, March 09, 2017
79	Monday, February 13, 2017	Monday, March 13, 2017

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Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
80	Tuesday, February 14, 2017	Tuesday, March 14, 2017
81	Thursday, February 16, 2017	Thursday, March 16, 2017
82	Tuesday, February 21, 2017	Tuesday, March 21, 2017
83	Thursday, February 23, 2017	Thursday, March 23, 2017
84	Friday, February 24, 2017	Friday, March 24, 2017
85	Tuesday, February 28, 2017	Tuesday, March 28, 2017
86	Thursday, March 02, 2017	Thursday, March 30, 2017
87	Friday, March 03, 2017	Friday, March 31, 2017
88	Tuesday, March 07, 2017	Tuesday, April 04, 2017
89	Thursday, March 09, 2017	Thursday, April 06, 2017
90	Friday, March 10, 2017	Friday, April 07, 2017
91	Wednesday, March 15, 2017	Wednesday, April 12, 2017
92	Friday, March 17, 2017	Friday, April 14, 2017
93	Tuesday, March 21, 2017	Tuesday, April 18, 2017
94	Wednesday, March 22, 2017	Wednesday, April 19, 2017
95	Monday, March 27, 2017	Monday, April 24, 2017
96	Wednesday, March 29, 2017	Wednesday, April 26, 2017
97	Thursday, March 30, 2017	Thursday, April 27, 2017
98	Monday, April 03, 2017	Monday, May 01, 2017
99	Wednesday, April 05, 2017	Wednesday, May 03, 2017
100	Thursday, April 06, 2017	Thursday, May 04, 2017
101	Wednesday, April 12, 2017	Wednesday, May 10, 2017
102	Friday, April 14, 2017	Friday, May 12, 2017
103	Monday, April 17, 2017	Monday, May 15, 2017
104	Wednesday, April 19, 2017	Wednesday, May 17, 2017
105	Thursday, April 27, 2017	Thursday, May 25, 2017
106	Friday, April 28, 2017	Friday, May 26, 2017
107	Tuesday, May 02, 2017	Tuesday, May 30, 2017
108	Thursday, May 04, 2017	Thursday, June 01, 2017
109	Friday, May 05, 2017	Friday, June 02, 2017
110	Tuesday, May 09, 2017	Tuesday, June 06, 2017
111	Thursday, May 11, 2017	Thursday, June 08, 2017
112	Friday, May 12, 2017	Friday, June 09, 2017
113	Tuesday, May 16, 2017	Tuesday, June 13, 2017
114	Thursday, May 18, 2017	Thursday, June 15, 2017
115	Monday, May 22, 2017	Monday, June 19, 2017
116	Wednesday, May 24, 2017	Wednesday, June 21, 2017
117	Friday, May 26, 2017	Friday, June 23, 2017
118	Monday, May 29, 2017	Monday, June 26, 2017
119	Wednesday, May 31, 2017	Wednesday, June 28, 2017

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Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
120	Friday, June 02, 2017	Friday, June 30, 2017
121	Monday, June 05, 2017	Monday, July 03, 2017
122	Wednesday, June 07, 2017	Wednesday, July 05, 2017
123	Monday, June 12, 2017	Monday, July 10, 2017
124	Tuesday, June 13, 2017	Tuesday, July 11, 2017
125	Thursday, June 15, 2017	Thursday, July 13, 2017
126	Monday, June 19, 2017	Monday, July 17, 2017
127	Tuesday, June 20, 2017	Tuesday, July 18, 2017
128	Thursday, June 22, 2017	Thursday, July 20, 2017
129	Tuesday, June 27, 2017	Tuesday, July 25, 2017
130	Thursday, June 29, 2017	Thursday, July 27, 2017
131	Friday, June 30, 2017	Friday, July 28, 2017
132	Tuesday, July 04, 2017	Tuesday, August 01, 2017
133	Thursday, July 06, 2017	Thursday, August 03, 2017
134	Monday, July 10, 2017	Monday, August 07, 2017
135	Wednesday, July 12, 2017	Wednesday, August 09, 2017
136	Friday, July 14, 2017	Friday, August 11, 2017
137	Monday, July 17, 2017	Monday, August 14, 2017
138	Wednesday, July 19, 2017	Wednesday, August 16, 2017
139	Monday, July 24, 2017	Monday, August 21, 2017
140	Tuesday, July 25, 2017	Tuesday, August 22, 2017
141	Thursday, July 27, 2017	Thursday, August 24, 2017
142	Monday, July 31, 2017	Monday, August 28, 2017
143	Tuesday, August 01, 2017	Tuesday, August 29, 2017
144	Friday, August 04, 2017	Friday, September 01, 2017
145	Tuesday, August 08, 2017	Tuesday, September 05, 2017
146	Wednesday, August 09, 2017	Wednesday, September 06, 2017
147	Friday, August 11, 2017	Friday, September 08, 2017
148	Tuesday, August 15, 2017	Tuesday, September 12, 2017
149	Wednesday, August 16, 2017	Wednesday, September 13, 2017
150	Monday, August 21, 2017	Monday, September 18, 2017
151	Wednesday, August 23, 2017	Wednesday, September 20, 2017
152	Friday, August 25, 2017	Friday, September 22, 2017
153	Tuesday, August 29, 2017	Tuesday, September 26, 2017
154	Thursday, August 31, 2017	Thursday, September 28, 2017
155	Friday, September 01, 2017	Friday, September 29, 2017
156	Tuesday, September 05, 2017	Tuesday, October 03, 2017
157	Thursday, September 07, 2017	Thursday, October 05, 2017
158	Friday, September 08, 2017	Friday, October 06, 2017
159	Tuesday, September 12, 2017	Tuesday, October 10, 2017

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Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
160	Thursday, September 14, 2017	Thursday, October 12, 2017
161	Friday, September 15, 2017	Friday, October 13, 2017
162	Wednesday, September 20, 2017	Wednesday, October 18, 2017
163	Tuesday, September 26, 2017	Tuesday, October 24, 2017
164	Wednesday, September 27, 2017	Wednesday, October 25, 2017
165	Friday, September 29, 2017	Friday, October 27, 2017
166	Tuesday, October 03, 2017	Tuesday, October 31, 2017
167	Wednesday, October 04, 2017	Wednesday, November 01, 2017
168	Friday, October 06, 2017	Friday, November 03, 2017
169	Tuesday, October 10, 2017	Tuesday, November 07, 2017
170	Wednesday, October 11, 2017	Wednesday, November 08, 2017
171	Friday, October 13, 2017	Friday, November 10, 2017
172	Tuesday, October 17, 2017	Tuesday, November 14, 2017
173	Wednesday, October 18, 2017	Wednesday, November 15, 2017
174	Monday, October 23, 2017	Monday, November 20, 2017
175	Wednesday, October 25, 2017	Wednesday, November 22, 2017
176	Friday, October 27, 2017	Friday, November 24, 2017
177	Monday, October 30, 2017	Monday, November 27, 2017
178	Wednesday, November 01, 2017	Wednesday, November 29, 2017
179	Friday, November 03, 2017	Friday, December 01, 2017
180	Monday, November 06, 2017	Monday, December 04, 2017
181	Thursday, November 09, 2017	Thursday, December 07, 2017
182	Monday, November 13, 2017	Monday, December 11, 2017
183	Tuesday, November 14, 2017	Tuesday, December 12, 2017
184	Thursday, November 16, 2017	Thursday, December 14, 2017
185	Tuesday, November 21, 2017	Tuesday, December 19, 2017
186	Wednesday, November 22, 2017	Wednesday, December 20, 2017
187	Friday, November 24, 2017	Friday, December 22, 2017
188	Tuesday, November 28, 2017	Tuesday, December 26, 2017
189	Wednesday, November 29, 2017	Wednesday, December 27, 2017
190	Friday, December 01, 2017	Friday, December 29, 2017
191	Tuesday, December 05, 2017	Tuesday, January 02, 2018
192	Wednesday, December 06, 2017	Wednesday, January 03, 2018
193	Monday, December 11, 2017	Monday, January 08, 2018
194	Wednesday, December 13, 2017	Wednesday, January 10, 2018
195	Thursday, December 14, 2017	Thursday, January 11, 2018
196	Tuesday, January 09, 2018	Tuesday, February 06, 2018
197	Thursday, January 11, 2018	Thursday, February 08, 2018
198	Friday, January 12, 2018	Friday, February 09, 2018
199	Tuesday, January 16, 2018	Tuesday, February 13, 2018

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Loco	Scheduled Handover Dates	Scheduled Acceptance Dates
200	Thursday, January 18, 2018	Thursday, February 15, 2018
201	Monday, January 22, 2018	Monday, February 19, 2018
202	Wednesday, January 24, 2018	Wednesday, February 21, 2018
203	Friday, January 26, 2018	Friday, February 23, 2018
204	Monday, January 29, 2018	Monday, February 26, 2018
205	Thursday, February 01, 2018	Thursday, March 01, 2018
206	Monday, February 05, 2018	Monday, March 05, 2018
207	Tuesday, February 06, 2018	Tuesday, March 06, 2018
208	Thursday, February 08, 2018	Thursday, March 08, 2018
209	Monday, February 12, 2018	Monday, March 12, 2018
210	Tuesday, February 13, 2018	Tuesday, March 13, 2018
211	Thursday, February 15, 2018	Thursday, March 15, 2018
212	Tuesday, February 20, 2018	Tuesday, March 20, 2018
213	Wednesday, February 21, 2018	Wednesday, March 21, 2018
214	Friday, February 23, 2018	Friday, March 23, 2018
215	Tuesday, February 27, 2018	Tuesday, March 27, 2018
216	Wednesday, February 28, 2018	Wednesday, March 28, 2018
217	Friday, March 02, 2018	Friday, March 30, 2018
218	Tuesday, March 06, 2018	Tuesday, April 03, 2018
219	Wednesday, March 07, 2018	Wednesday, April 04, 2018
220	Friday, March 09, 2018	Friday, April 06, 2018
221	Tuesday, March 13, 2018	Tuesday, April 10, 2018
222	Thursday, March 15, 2018	Thursday, April 12, 2018
223	Monday, March 19, 2018	Monday, April 16, 2018
224	Wednesday, March 21, 2018	Wednesday, April 18, 2018
225	Tuesday, March 27, 2018	Tuesday, April 24, 2018
226	Wednesday, March 28, 2018	Wednesday, April 25, 2018
227	Monday, April 02, 2018	Monday, April 30, 2018
228	Wednesday, April 04, 2018	Wednesday, May 02, 2018
229	Thursday, April 05, 2018	Thursday, May 03, 2018
230	Monday, April 09, 2018	Monday, May 07, 2018
231	Wednesday, April 11, 2018	Wednesday, May 09, 2018
232	Thursday, April 12, 2018	Thursday, May 10, 2018
233	Monday, April 16, 2018	Monday, May 14, 2018
234	Wednesday, April 18, 2018	Wednesday, May 16, 2018
235	Thursday, April 19, 2018	Thursday, May 17, 2018
236	Wednesday, April 25, 2018	Wednesday, May 23, 2018
237	Monday, April 30, 2018	Monday, May 28, 2018
238	Tuesday, May 01, 2018	Tuesday, May 29, 2018
239	Thursday, May 03, 2018	Thursday, May 31, 2018
240	Monday, May 07, 2018	Monday, June 04, 2018

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Johannesburg, 07 July 2015

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the evolution of mobility

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VAT Registration No. 4260158546

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Managing Director: Aubrey Lekwane
Non Executive Directors: Violeta Dias, Dumisa
Dlambo, Armstrong Ngcobo, Paul Sampson
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Transnet Freight Rail
Inyanda House 4, Parktown
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Att. Ms. Lindiwe Mdletshe
Att. Mr. Frikkie Harris

Copy. Mr. Anoj Singh
Copy. Mr. Thami Jiyane
Copy. Mr. Gary Pita

BT/TFR/C/15/0053

Re: Price reduction on the Notice of Company Proposed Variation - Durban VO

Dear Lindiwe/Frikkie,

We refer to our latest Notice of Company Proposed Variation submitted to Transnet Freight Rail (TFR) as per our correspondence ref. BT/TFR/C/15/0034 dated 10 April 2015.

1. As described in to our ongoing discussions, Bombardier Transportation (BT) has endeavoured to minimise project impact from the change of TE Facility from Koedoespoort to Durban. As a further show of good faith, BT is willing to offer an additional discount of 2.5%. In evaluating the discount, please take into consideration that this reduction, in reality, is much higher due to the fact that since our first offer (Notice of Company Proposed Variation) in 2014 we have already absorbed the following costs:

- Further price escalation;
- Financing costs of our own additional efforts, our supplier's and already accumulated stock; and
- Claims from the suppliers that we have already rescheduled and delayed.

The revised amount after the 2.5% (two and half percent) discount will be R618 457,125 (Six hundred and eighteen million four hundred and fifty seven thousand one hundred and twenty five rands) and section 3.4 [*Fixed price with hedging cost*] will be amended accordingly to reflect the revised amount. All the remaining sections and the terms and conditions incorporated in our Notice of Company Proposed Variation remains as stated in our original assessment submitted 10 April 2015.

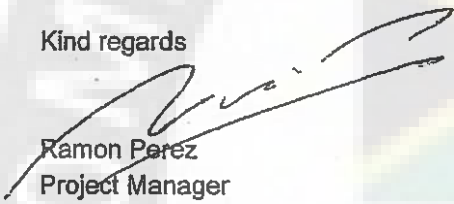
Although most of these costs were anticipated, BT undertook to absorb the additional cost impacts. If these costs had to be considered in detail, they would have led to a price increase of at least 10% in the Notice of Company Proposed Variation dated 10 April


2015. With this new reduction of 2.5%, BT is effectively offering to absorb more than 12.5% of the costs.

2. For additional consideration, it should be understood that the latest project assessment shows a likely increased delay in Durban due to unavailability of Capital Equipment, TE's readiness and delayed training programmes. This would most likely extend the delivery schedule by approximately 6 months average (instead of 4 months) and result in an increased price of the VO by approximately 20%. BT's other suppliers have been required to continually adjust their schedules to match the expected assembly readiness in Durban, which creates significant additional risk in the project.
3. We further increase the period of the validity of the above-mentioned Notice of Company Proposed Variation Order up until 20 July 2015.

Please do not hesitate to contact us as we are available at all times to provide any clarification that the Company may require.

Kind regards


Ramon Perez
Project Manager


Dobri Makubela
Project Contract Manager

[illegible]

[illegible]

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Speaker: That was because of me, in Cape Town, and the mediator was kicked out of this process.

Speaker: I think everyone is relatively familiar with the [INAUDIBLE] around the table here. We've got Mr. Thami Jiyane, who is [INAUDIBLE] of Transnet Rail engineering, and he was the head negotiator for [INAUDIBLE] of the main contract at the time. Gary Pita, who is the goods ship supply chain officer, myself, Anoj Singh, we've got Lindiwe, we've got Emma from TIA, Transnet Internal Audit. I know we have Jeff.

Speaker: Okay. For me i thin Mr...I know and the CEO ofand Jin is our communication manager, so project manager and Mr...is our acting COO. Our COO is presently sick. This is Mark from PES company our consultant for this location.

Speaker: okay. Are you going to give them the register to sign?

Speaker: Next.

Speaker: Okay.

Speaker: Mark.

Speaker: You going to give him a [INAUDIBLE]?

Female speaker: Yes, I have.

Speaker: Thank you. So now that we've got the introductions out of the way, I think, as we would of known this would probably be following up from the main contract negotiations, where we as Transnet and actually the board of Transnet endorsed the recommendation that two suppliers actually manufacture the locomotives or fulfill the

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obligations under the [INAUDIBLE] of the facilities in Durban, and that is yourself, MBT. And, as a result of that, we obviously requested you to come up with a proposal in terms of what that cost would entail, given the fact that the main contract was signed with delivery out of [INAUDIBLE] and [INAUDIBLE] particularly. So, we have obviously gone through the proposal. There are certain questions and comments and clarifications and so on and so forth that we would like to undertake and, and it will take, I would think, the same format as we have done in the past where any concerns or comments that we will have, we'll document that in writing, we'll forward that to you and we'll expect you to basically respond to us in writing.

Speaker: I think we, notwithstanding but that we have been a little bit slow in terms of time to complete this process. We are under a bit of pressure to actually take this thing to a finality. There is a board sub-committee that's still [INAUDIBLE] where we would then need to basically take the outcomes of our discussions and effectively that's in another 11 to 12 days, and so we would like to be in a position where we try and accelerate as much as possible, the process to actually reach a conclusion. And the individuals that will be involved in the, let's call it, number crunching and review of the documents, will be pretty much the same people you have seen previously in the main negotiations. Mr. Yusaf, the head on the finance side, and we will then also, if necessary get some key involvement, if necessary. And I think you will then find the main negotiations around the table here. And, at this stage, we haven't engaged in external consultants to view our proposal. we do however, would like to inform you that we do reserve the right to do that, if we deem it necessary at that point in time, and at this stage we do have, as you would know from the main negotiation time, I don't know if you [INAUDIBLE], but we do have the choice of

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PWC, or [INAUDIBLE], depending on what type of area we are looking at in terms of being able to access. So from that perspective, I think that's where we are in terms of the process that we've been busy taking. Certainly from our side, we, as I said, we have certain pressures that we need to be in a position to address. Certainly from the time that we have signed the main contract to where we sit today, the economy and the oil has changed rather significantly, in terms of the macro-economic conditions, even our own outlook in terms of what we had envisaged in the years, the market demand strategy to be delivering, is quite significantly different. And, so from that perspective, I think, you know, the backdrop, the backdrop into which we should be undertaking these negotiations is of the hospices of the fact that that there is significant financial constraints of Transnet at this stage, given the commitments that we have made out of the main contract as well as the high level of committed capital that we have in the organizations for other projects and you were present at the signing ceremony for the Locomotive CBD, of the locomotives, so from that perspective, I think, you know, all the building blocks associated with Transnet being able to fulfill its obligations under the main contract is [INAUDIBLE] in place, however, the financial constraints that we currently are experiencing, is quite significant, as a result of the macro economic impact on the economy. So, from that perspective, I think, when we, when we look at your proposal, I think you must be understanding why we're looking at it from that perspective. So, I think, you know, just have that in the back of your mind in terms of where we're going with this thing, and, you know, the next step that we are currently in the negotiations of this move to Durban, if you look at the overall macro picture, it must, it probably won't come as a suprise to, as a surprise to you guys that really in the next six months, we actually come to you and say

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listen, we [INAUDIBLE], to delay the local [INAUDIBLE], because this is not [INAUDIBLE] at this stage. So, from that perspective, just have that at the back of your mind, in terms of the significant, severe financial constraints that we currently have. I think, you know, we do, we did negotiate a get-out-of-jail-free card, in the contract, in terms of saying that we would have one opportunity to be able to come and say we have financial distress and [INAUDIBLE], but we're quickly reaching that stage, in terms of being able to say that. Hopefully we will not reach the stage where we say, listen, we don't need the locomotive at all. Obviously that would be a crisis situation in that we're certainly not there yet. But it's not a situation that's inconceivable. Taking where the economy lays and where the global economy lays as of this stage. So, I think that's where, that's where we'd like to start. I think, certainly, some of the high-level things that we've seen in your document relates to escalation rates used, the working capital required that's in terms of stock, work-in-progress and things like that. You don't cover much in terms of the supply development impacts of the move to Durban, [INAUDIBLE], because you have supplied with the agreement, commitments that you've agreed on, and we don't see any stuff in your documents that appear to be related to how that may be impacted, negatively or positively. And I think that would be something that you need to look at. Certainly the amount that you, that you have specified, is, we'll discuss the amount just now, but I think the payment terms and schedules, associated with the amount that you have specified, hasn't been linked to any milestones so we don't know whether you want the amount that you specified in your proposal on day 1, do you want 10 percent on day one, do you want, because we have to have it linked to milestones

Speaker: Yeah.

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Speaker: Like we've got on the main contract. So some thinking around that would be appreciated because I think we'd like to have an indication of how you would see the milestones playing out, so that we can test your working capital assumptions associated with the payment schedule. Because I think in our case, we would like, we would, I think we would be able to fund much cheaper than you guys. So we would be in a position to want to pay more upfront. So that we actually have the benefit of the place. Because if you have built in quite a significant amount of interest costs on working capital, we'd like to alleviate that for you and actually fund it for you, and therefore be in a positions to, but we will obviously [INAUDIBLE] want a decrease in price, associated with that. So I think for us, the payment profile is something that's actually quite an important level for us to explore. Particularly as it relates to a price, and the impact of the price.

Other than that, is there anything else that [INAUDIBLE] cover [INAUDIBLE]. You know, the detail we'll obviously send a lot of questions around....

Speaker: The detail we'll send you a whole lot of questions around. And firstly, thank you for the proposal and the way that you've set it out. It's easy to understand in [INAUDIBLE]. And there are some questions that we will be giving around the various components, but one or two larger questions will be around things like your inflation rate [INAUDIBLE], which is already highlighted, we'll put that in my questions. What I don't see, besides [INAUDIBLE] development, is any savings, as a result of the material, or equipment, or anything that would have to come directly to port, and then still have to be shipped to Kuduspoort. So there's a lot of discussion in here about what you have to do from Kuduspoort, Pretoria, to Durban. But there isn't anything about all the goods that you might have to bring from, let's say, China, 'cause you're only localizing it, let's say, 50

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percent. So those are coming from other areas and they would have to come import, through Durban anyway, and get transported up to Pretoria, so, yes, I can understand that you're going to incur additional costs, but you're also going to have some saving, so we need to see both, so that it's fair to both parties. [INAUDIBLE] Keith, because I think that he's missing as well. And then also, in terms of that rates used, for example, the shelving and storage, 11 200 rand a square meter seems quite exorbitant. We going to add those kinds of questions around how you got to certain rates in the proposal. In some of the aspects of your proposal, you also talk about you wanting to get the same people that would have been in Kuduspoort, to be doing the work in Durban. That's the same staff, you always talk about the same staff, but there are constantly additional amounts for additional quality assurance, additional engineering and additional staff under the warehousing and transportation, and various aspects, and I almost see that as duplication, and I just need to understand that a bit more. If you're taking the same people that you would of taken in your initial price, why is there so much additional charge for people in Durban, cause you mentioned there's a risk of people being inexperienced, etc. So that's some of the key things that I just wanted to highlight, that you would get an opportunity to provide us with feedback on, cause that could be an important part of our questions. The others are very, very specific, [INAUDIBLE].

Speaker: Okay, that's fine. I think, just [INAUDIBLE], I think, you know, from our perspective we would like some sort of confirmation of [INAUDIBLE] that, you know, we have Mr. January here, that you guys have, you know, discussed this with TE and this is, let's call it has some sort of alignment and agreement with TE's views on the world, and pricing and so on and so forth. Because the last thing we would want to do is accept this

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thing, and then have an issue around the TE, pricing is not agreed, or is not included, or there's a dispute on pricing as well, so, I just want to make sure that the proposal that you guys have submitted, is completely aligned and accepted and approved by TE, in terms of the assessment. And I think also that something Gary probably didn't mention but it's in his notes there, is that you are assuming a four-month delay in terms of the program, and a big portion of your 600 million relates to costs and so on and so forth associated with that delay, so again, we'd like to have some sort of confirmation and justification that, you know, the schedule is four months delayed, from yourselves as well as TE. And I think that would be quite easy to do [INAUDIBLE], and also I think, given that fact that you guys did submit a second proposal, given the fact that there was a, let's call it an error in the first one, and I think that you guys have explained to Indie where the error has occurred and she's relatively comfortable with that, and so, I just also want to just make sure that you guys are comfortable that, you know, the document that we've now got is the final document that we're looking at and hence we can go forward with that. So I think those are just the high-level stuff that we're looking at here. [INAUDIBLE] that you'd like to add.

Speaker: No, I think the [INAUDIBLE] that they submitted is quite clear, in terms of [INAUDIBLE].

Speaker: Are you happy with it [INAUDIBLE], so that's cool.

Speaker: There isn't much for me, except that, there is lots of questions [INAUDIBLE]. But you can make this process easier, because as [INAUDIBLE], we are under financial strain [INAUDIBLE], and maybe some reduction of the price in the range of 15 to 20

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percent is something that we would want you to consider. And as he said, if we are [INAUDIBLE], using some consultants to assist us to try and get as close as possible to that, that you can make our jobs easier, and then we come back on Monday and give us 20 percent reduction then we will much quicker speed [INAUDIBLE].

Speaker: I think it's like, like we did in the main negotiation, you know we always have budgets and we always have approvals that we got from the board, associated with these things. I think we can always go and, you know, cross every T and dot every I, but at the end of the day it's still costing you [INAUDIBLE] and working capital, every day that we're sitting in negotiations. So, to the extent that, you know, we can get to a point where we meet the board-approved budget for the move to Durban, I think the better for everybody.

Speaker: That gives you certainty, and it gives us certainty.

Speaker: So, to the extent that you guys, that we, well, we can prepare, maybe get you by the end of, close of business on Monday probably, not too sure if we can get it sooner, but we'll try and get it as soon as possible to you guys. The questions that, the concerns that we have for the detail explanations that we require, we'll undertake to get that to you guys as soon as possible, which then, you guys can respond to. That certainly is something that we would request, as Mr. [NAME] said, he's [INAUDIBLE] position to close up the negotiations as quickly as possible. He's to be in a position to, for you guys to consider quite seriously, the request that Mr. [NAME] has made. And let us understand, and let's look at possible alternatives in terms of how we can actually get there.

Speaker: Then again, I think on the main contract work schedules that we've done; we never want to see any of the OEM's to be in a position where there'd be significant losses

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or [INAUDIBLE] transaction to make losses. I just think it's [INAUDIBLE] position to be fully transparent, fully open, and understand the make-up of the pricing, and be in a position to go back to the board and says we've got [INAUDIBLE] of this thing within the mandate that you have given us. And currently we're sitting a little outside of that mandate, and hence we ask you for the review of the pricing, to get within that mandate and also be in a position to demonstrate that notwithstanding the fact that, you know, we've concluded the main contract 12 months ago, but the world has changed significantly and therefore we're now under financial stress that we also been able to squeeze all our suppliers in terms of being able to come to the party to [INAUDIBLE] the Transnet financial position.

Speaker: Can I just, just add one more thing as well? I think it's important that [NAME] understand that we never had an existing facility in South Africa, and part of the decision of coming to Durban was also the fact that there would be huge export potential, because we'd be close to port. And that would be very advantageous to yourselves as opposed to possibly a competitor who's building in Johannesburg. And that would make you first to the market in terms of reduced logistics costs, etc, etc, and due to the fact that Transnet owns the port, it obviously assists you greater. So, I think the bigger picture needs to be taken into account, we have done some analysis internally, and we do believe that a reduction is required. But as Mr. Joney has said, if you want to shorten the process, instead of going backward and forward, us getting all our consultants involved in every single inflation rate, CPI embassy etc, we can do that but, if you're coming back on Monday, even after we've sent the questions and said listen, we're comfortable with a 20 percent reduction, then we leave it at that and move on.

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Speaker: I think another concern that we have is that, you know, we missed the date of the 30th, the next date is then sometime in September, October, which obviously then [INAUDIBLE] delays into the processing program, and I know we do say it's a stress in the system in terms of being able to meet these timelines and deadlines, but I think it then obviously focuses the mind, and I think from our side we are available and ready to be in a positions where we can meet you guys and respond to you guys and, you know, do whatever we need to do to take the process forward, and I think just as when we negotiated the main contract, [INAUDIBLE] would be very grateful if you guys could show the same dedication and the same agility to be able to respond to the queries and questions that are raised, so that we can actually be in a position to meet the timeline [INAUDIBLE] to go to our government structure in terms of the, the board. As I said, you know that we have certain mandates that they have given us but we obviously need, before we execute on those mandates, to be able to go them and say yes, we can make these mandates and therefore now give us the go-ahead to execute those mandates.

Speaker: So just to clarify, we are going to be sending questions to you, but we also requesting you to send a revised offer, based on what we've discussed now. [INAUDIBLE].

Speaker: Maybe on, Tuesday. Tuesday.

Speaker: So on Monday we can conclude.

Speaker: Yeah.

Speaker: Hopeful [INAUDIBLE] Monday.

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Speaker: Maybe we can come back. Just arrive in China and just come back.

Speaker: Okay.

Speaker: So we, oh ja, because of your visa struggles.

Speaker: Yes.

Speaker: This time I got a 3 month visa, last time we go I got a working permit.

Speaker: Okay. No that's fine, I think between when we finish off here today we'll suddenly caucus among ourselves and then, and then give us some time in terms of being able to then answer the questions [INAUDIBLE] set up some time on Monday. I'll assume.

Speaker: Okay.

Speaker: What time are you leaving on Monday?

Speaker: Tuesday.

Speaker: Tuesday.

Speaker: Tuesday, about 1, about 2 o'clock in afternoon.

Speaker: Okay so maybe then we'll reconvene on Tuesday, Monday afternoon or maybe Tuesday, but Tuesday's [INAUDIBLE], Tuesday, so it'd be Tuesday afternoon.

Speaker: If you're going to, 'cause if I come back with the offer that's acceptable, then we can conclude on the Monday evening.

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Speaker: I think if you show us your list of questions, obviously in order of priority, the ones that are most pressing obviously the payment profile, some of the more significant issues, we can get our heads around how they impact the model quite quickly, and you know, try and use that to come back with a revised quotation. To the extent where we have to, you know, go into granular detail would take longer, but I think on a big picture basis, knowing what the top 5 drivers are that you're concerned about, can give us an idea as to where they in fact model and you know, what the bandwidth is to adjust the price accordingly.

Speaker: And in your view, what are the 5 drivers that effectively drive the model?

Speaker: Well, I think what we tried to put out, I think one thing you've mentioned which is very relevant, the payment profile.

Speaker: Yeah.

Speaker: The fact that Transnet can [INAUDIBLE] at a much more cost-effective rate, than, potentially, CNR. Very relevant, I think the point about the additional savings in not shipping to Pretoria is relevant. I know we did speak of the additional costs in transporting a greater foreign component to Durban, but I think that's something we need to look at. I will ask my guys to re-look into the shelving and storage rates, [INAUDIBLE] which I believe was based on getting a number of quotations but obviously we could re-asses that. And then I think one or two of the assumptions here were based on economic variables at the time we did this report, which was, well we're going on to one or two months ago.

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Speaker: I [INAUDIBLE] the inflation rate at 5.5, I mean, I have that as CPI being 4.5 at that point.

Speaker: Subsequent to that, some of those variables, the exchange rate, I'm not saying they will all change palpably but we can definitely flex around them and see what impact they have. And then obviously we've built a contingency into our model which gives us some flexibility. We were trying to provide Geoff a little bit of room in the event that there's, if things don't go according to plan. We're not working in a perfect science and we're in an economy where there are some challenges that crop up. But we can obviously look at that.

Speaker: And the key is the additional labour, as opposed to the many instances saying that the same team is going to be used. But then the additional labour 'cause the quality...

Speaker: I think one point on that, just to address that at a high level, I think given their, our understanding, given the more substantial foreign component of discussions with Geoff and his team there was an understanding that there may be a need for more C and R skilled personnel, coming to train up local personnel, as opposed to, where in Pretoria it would have been the 10 percent additional local component, would of meant more TE personnel, effectively working on stuff they are familiar with, as opposed to having to get TE personnel to work on products that's come directly from C and R. But I can look into that, I think there is a line out [INAUDIBLE].

Speaker: Okay, so that, so there's, okay. Okay.

Speaker: But I think if you address your top 5 drivers that, as I say, I think the payment profile runs [INAUDIBLE].

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Speaker: Is it possible to get a copy of the model?

Speaker: A copy of?

Speaker: The model.

Speaker: I, we passed on our model to Geoff, so I'm sure he, we will have the print-out.

Speaker: [INAUDIBLE].

Speaker: So I'm sure we can pass on to you. And we did a, and are happy to make available, the [INAUDIBLE] to put the model together.

Speaker: Yes.

Speaker: Unfortunately I'm not one of them. They can go into granular details on most of the assumptions used. Lindiwe, I think, did meet them at the meeting we had in Parktown.

Speaker: The one question I had was around the warehousing. I remember in the initial agreement, we did have an agreement where they would use [INAUDIBLE] housing, and yet I see [INAUDIBLE] cost for additional warehousing costs, in this one as well.

Speaker: [INAUDIBLE].

Speaker: Okay please give us the [INAUDIBLE].

Speaker: And Mr. Stenhouse, we have another [INAUDIBLE] question on this one. I just asked my mediator to create data. [FOREIGN].

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Speaker: Where things are, we would like to think, our say our side we think the relocation to Durban is a kind of project document. It's our normal operation, and in future, it's our team business.

Speaker: It's ordinary business for our company. [INAUDIBLE] sign the agreement, it should be [INAUDIBLE]. [FOREIGN].

Speaker: So [INAUDIBLE] say if the future is we get a payment for that and this payment can be not seen as a revised [INAUDIBLE].

Speaker: I just want to remind this one is fact, so if we sign agreement I [INAUDIBLE].

Speaker: I think...

Speaker: Is that it, or have you got more?

Speaker: [FORGEIGN].

Speaker: [INAUDIBLE] application should be separated from this payment. There is a difference, we want you to separate them.

Speaker: [FOREIGN].

Speaker: He thinks maybe we can [INAUDIBLE] funds on technical point of view, just [INAUDIBLE]. Just delay delivery applications, just separate payment.

Speaker: Okay, I think, and guys you can also just speak as I just spoke, I believe that it's appropriate you all have a different view.

Speaker: [INAUDIBLE]

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Speaker: Certainly, I think what we should aim to do, is any of the concerns you have raised, as you now just mentioned, can we make it part and parcel of your proposal? So, if for example, you are saying that the milestone payments of the main contract should be amended as [INAUDIBLE], so in the proposal, make that as one of the assumptions, okay? And I'll tell you why, 'because it comes back to the first point that you raised, about your project documentation, as to how you going to deal with this thing.

Speaker: So in our view, we just discussed this earlier, we are comfortable to actually deal with this as a variation order, in terms of the main contract. So we are not going to sign an addendum to the agreement. Okay.

Speaker: So it will go, it will follow the variation order process in terms of the main agreement and what we will do is, we will request once we've agreed on everything, for you to update your proposal document, with all the terms and conditions of what we've agreed. And then we attach that proposal to the variation order, and we say this variation order is for all the stuff that is contained in this proposal. And we then sign the variation order and we sign the proposal.

Speaker: So, all of the stuff that you speak about, the milestone payments, the scheduled delays, the SD that I've, that I've questioned originally, so all of those things, it can find its way somehow, into the proposal. So that we can then, if we agree on it, we then, it becomes part of the contract through the variation order. So, we shouldn't have, we shouldn't have the discussion where I say, okay, it's a project document, and I say yes, it doesn't affect the milestone payments but it's not recorded anywhere. It has to be recorded somewhere, and the only mechanism we can use to record it is actually your

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proposal. So, there will be, I would think, a revised proposal agreed to, that will then form part of the variation order that we will then sign off. So, all of these things that you, that you want to put in there, I would think that you should then put them, document them in the proposal that you...

Speaker: So that they become binding.

Speaker: So that they basically become binding, so that I know what I can expect from CSR, C and R, and what C and R can expect from Transnet. But certainly, the intention is not to actually go and create another addendum to the contract. We would think as it as a VO, as a variation order and we attach the proposal to it and that's it. And then, for [INAUDIBLE], as we hit the milestones, we will then pay you the portion of the milestone that's hit. On the main contract has its milestones and as we hit those milestones we pay you.

Speaker: As per normal?

Speaker: As per the normal agreement. So in our view, we don't see that there is ending between the two.

Speaker: Sure.

Speaker: I mean, once you've moved to Durban, that's it. It shouldn't impact the delivery of the locomotives in any way.

Speaker: Yes.

Speaker: So that should, the main contract should effectively be the main contract.

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Speaker: Yes.

Speaker: [INAUDIBLE].

Speaker: But I think when you're doing these milestones, I think you need to demonstrate, you know, what will you be using the money for, because I think the reason for us is we need to be able to justify it to auditors that money has been incurred, for some benefit to CSR, that we can claim the benefit and capitalize the cost to the asset, otherwise it becomes problematic for us to be able to capitalize that cost. If you can't justify the fact that you bought the bottle for 10 rand, and then I paid you 10 rand for buying the bottle, so it needs to be linked to some physical thing that's happened on the ground.

Speaker: [INAUDIBLE] I think that's [INAUDIBLE].

Speaker: [INAUDIBLE].

Speaker: Okay.

Speaker: I just want to explain, I think Geoff already understands [INAUDIBLE].

Speaker: [INAUDIBLE], I think you also play an important role in this, because I think sometimes the language thing, things get lost. So I think to the extent that you are here, I think plays an important role for us that needs to be in a position to be [INAUDIBLE]. You understand what we're asking, that we are actually [INAUDIBLE]. What we agreed, what the assumption is [INAUDIBLE] the model. 'Cause that's going to be the contract document as they, the project document as they call it to be. Because there is going to be nothing else. So whatever we, we try and agree over the next two weeks, has to find

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its way [INAUDIBLE]. In the wording and format that we, that we, that we, because we don't want to go find lawyers and stuff.

Speaker: It creates a separate view based on the proposal.

Speaker: Sure.

Speaker: So I think [INAUDIBLE] has given your time pressures. If once we've got your list, we'll apply to the numbers first and foremost, and that's most important. And then we'll sit with Geoff and just find out what, from a wordage point of view, needs to be in the document in order for it to be a fully inclusive agreement.

Speaker: And I think maybe it might also be what you want, if you guys have [INAUDIBLE] council here.

Speaker: To just understand what implications may or may not have on the main contract, and the sub contract. Just as a review even, you know, just spend a day, you don't have to spend hours and hours. Just say, we're moving, so does it impact any clause in the main contract, if so, which ones. So it needs to be then, you know, documented appropriately. The last thing we want to do is go through the entire process.

Speaker: Contradicts, exactly.

Speaker: Yes.

Speaker: We don't see anything [INAUDIBLE]. And we, we're not legal guards.

Speaker: Exactly.

Speaker: Speaker: [FOREIGN].

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Speaker: Geoff just want to say [INAUDIBLE] would like to agree on one legal person here, but [INAUDIBLE] to he just cancel...

Speaker: Well, you're more than welcome to bring, because I mean, our legal guy is sitting in [INAUDIBLE], and he is also not here. [INAUDIBLE].

Speaker: His responsibility is, how do you say, to make the project smooth, for him and [INAUDIBLE] and us.

Speaker: I think what you're saying is you want to make sure there is not conflict between this contract...

Speaker: And I think, to the extent that he is here, I think [INAUDIBLE].

Speaker: It's not legally going through the documents, more legally making sure the documents don't conflict at each other.

Speaker: Yes.

Speaker: And whatever we then agree, is it in the format that is legally acceptable to them and to us, and that's what our legal guy will be doing here.

Speaker: Okay.

Speaker: So, you know what, in a weeks' time, we'll be ready to put pen to paper [INAUDIBLE] issues [INAUDIBLE].

Speaker: And interpretation and wording and so on.

Speaker: The part his legal people [INAUDIBLE], the process as well.

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Speaker: [INAUDIBLE].

Speaker: And I think it's more around, you know, the fact that we meet the deadline, rather than actually get to the 30th and then we have legal [INAUDIBLE]. And they say, but you know, just closing that agreement, that clause and sub agreement then we try and find the mass of agreements that we signed.

Speaker: [INAUDIBLE, MANY PEOPLE SPEAKING ALL AT ONCE].

Speaker: Once more piece we want to clarify, so if by, if I understand correctly, if by next Monday, shall we meet at the [INAUDIBLE], and [INAUDIBLE] the signatures of the agreement.

Speaker: We trying, as I said, we need to go to the sub-committee of the board on the 30th.

Speaker: 30?

Speaker: 30 of June, yes. So if we are successful in our negotiations, we go for approval on 30th.

Speaker: Oh.

Speaker: If we get approval on the 30th of June, then we have you to sign the detail afterward. It may be a day or two after that.

Speaker: Okay.

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Speaker: But effectively, once [INAUDIBLE], then you have to sign, you've got the resolution. So I think our timing is really around the 30th of June. Between now and the 30th of June, and [INAUDIBLE].

Speaker: [INAUDIBLE MANY PEOPLE SPEAKING AT ONCE].

Speaker: As we've said, the list of [INAUDIBLE], we'll try and rank that.

Speaker: I think to the extent that you guys have, you know your model best, you know what has happened to the exchange rate, you know what happens to industry, you know where you can change the payment profile, or things like that. And if there is a possibility for you to give us revised pricing, try your best to give us revised pricing, let's see what that looks like. If it's something that we like, then we say listen, let's proceed. If not, we can then go through each of the questions and answers to understand whether we can extract something...

Speaker: That's obviously [INAUDIBLE].

Speaker: I think on the big picture stuff, we can get our heads around the main drivers, and that we can give you something back on Monday.

Speaker: And that's the primary purpose of that meeting on Monday, is to basically understand to where you have got to, in terms of being able to sharpen your pencils and then we'll be in a position to, if you guys require us to explain any of the [INAUDIBLE] that we have sent to you, in terms of the, in terms of that.

Speaker: And I think, what's important is, understanding that we are partners, so we're not here to [INAUDIBLE], we're in negotiation tactics and say well give us the deal, go

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down to 10 percent etc. We've done some work, we believe 20 percent is the right number, you need to go and assess that, based on your calculations, and come back with a fair new number on the number. And hopefully it's acceptable to all parties and we move forward.

Speaker: Will you forward your questions to Geoff and [INAUDIBLE].

Speaker: Because normally it comes from Lindiwe. So Lindiwe will send it to the normal people, and then you guys will respond normally like that.

Speaker: Yeah, so.

Speaker: Thank you for your time.

Speaker: Thank you.

Speaker: [INAUDIBLE].

Speaker: [INAUDIBLE] it's a mistake.

Speaker: [INAUDIBLE MANY PEOPLE SPEAKING AT ONCE].

Speaker: Are you at least going to go back to Cape Town today?

Speaker: [INAUDIBLE]. Until next week Friday.

Speaker: Yes, next week Friday then.

Speaker: [INAUDIBLE].

Speaker: Actually, for the last 5 weeks, I've been in Cape Town every Friday.

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Speaker: Yes, it's crazy.

Speaker: [INAUDIBLE MANY PEOPLE SPEAKING AT ONCE].

Speaker: Have a good weekend.

Speaker: It's going to be a weekend [INAUDIBLE].

Speaker: [INAUDIBLE]. [MANY PEOPLE MUTTERING AND SPEAKING AT ONCE].
[LAUGHING].

At this point the meeting seems to have adjourned and people are leaving and saying their goodbyes.

(Bombardier Transportation [BT])

Speaker: The warehousing, am I mistaken?

Speaker: [INAUDIBLE].

Speaker: I think it's a double edged sword in that you don't have much time to deal with these things. At the end of the day you then have at least, your mind is very focused in terms of being able to resolve issues very quickly. So, from that perspective, it think that you know [INAUDIBLE], from our side needs to be committed to be in a position to actually resolve the issue as quickly as possible. And ensure that all the t's are crossed and all the i's are dotted. Certainly from our side we would like confirmation that you know, I think it's there in the document that it's been agreed by [INAUDIBLE] about the pricing and so on and so forth, and, so that I think we're happy with. A big portion of the cost associated with the proposal obviously comes from the 4 month delay, that you've

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anticipated, so something, some confirmation of that is that it's still valid. I think you can accelerate [INAUDIBLE], I think it would be interesting to know from your side. We have noticed that you have you know, quite a few [INAUDIBLE] in terms of implications on the delay penalties and so on and so forth, so I think we would need to work on some mechanism to be able to water down those qualifications to be in a position where we actually get to a point where we have a [INAUDIBLE]. And I think that's something that we certainly would want to look at. And I think, something that's important as well is for us to be in a position to understand the context within we are actually negotiating now in particular, because we've signed the contract with some, some 16 months ago, the main contract, and the sub contract associated with it. For us certainly the world has changed quite significantly, in that financial performance perspective, so we certainly feeling the heat in terms of the, our financial targets, that we've promised to the shareholder as well as the investors. You are, well actually, everyone now, all of us are in the fortunate position in that we've secured the required funding for the main contract, so I think, you know, you guys will be funded by [INAUDIBLE] the banks, [INAUDIBLE]. So from that perspective I think it will be, the funding associated with the project will be secure. But in actually getting the funding, I think some the things that we needed to explain to the lenders, was the fact that we do have the ability to flex the contract, you know, move the [INAUDIBLE] around and so on and so forth, if there is ever a requirement for us to be in a position to declare financial hardship, and I think that the main contract does have one clause somewhere effectively that allows us to do that. And given the volumes that we see coming, the demand that we see coming through currently, I don't think you should be completely surprised if we do come to you and say listen, we're looking to delay the

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profiles somewhat, because of the economic [INAUDIBLE]. It is not as dire as saying lets cancel the contract, but if the economy continues to where it's continuing in the oil economy, continues to where it's continuing in commodity prices, [INAUDIBLE] it becomes due to a prolonged period of time, it does become problematic for us. So that's the context with which we negotiating. I think I've touched on some of the concerns that we have on the proposal, by and large from my perspective I think it's the [INAUDIBLE] of the qualifications of the implications that you guys have noted in this contract, this would be the main contract because I would certainly not want to be in a position where we agree this VO, and this VO then in itself creates variability in the price of the main contract. And I think to the extent that we've tried very hard to be in a position where we've got a rand contract which is fixed for escalation and hedging, I think we'd like to keep to those principles and by and large I think you have. Because you've come up with your separate milestone payments for this thing and so on and so forth, which I think is literally a good thing. So, I think to the extent that we can look at some [INAUDIBLE] to be able to reduce those [INAUDIBLE], or quantify them in price or whatever you want to do with them, but.

Speaker: I think the issue for this [INAUDIBLE] is largely saying that we don't want to have any financial impacts.

Speaker: Yes.

Speaker: It's not a case of us, if we have to price the [INAUDIBLE] it just becomes more expensive, and this is the problem, is that when we have [INAUDIBLE] the scope of this project is something that I think nobody in South Africa has done before. TE is sort of

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rising to the challenge, but it is also something they would be [INAUDIBLE] their experience as well, and this is the issue, is that sometimes there is not the full transparency on what status is there. So we, as you're aware, we're constantly having these discussions where we think we know where everything sits, and then we discover something has been, you know, wasn't recognized that there was going to be an effect, for example we have a group of people supposed to go from TE to Germany to work on the assembly books that explain how to do the assembly [INAUDIBLE], and this is something that was, that wasn't originally planned, you know it was something that just kind of came into recognition between us and TE that it needed to be done, but then we've got delays on the people actually going, and that's the kind of thing that we didn't anticipate that we needed to do this, neither us nor TE. We've discovered we do need to do it but there's a delay on the people actually going physically to Germany to sit down with our guys and go through the process. So that's one of the problems we have is that if you look at a year ago, there was a lot of uncertainty about did it mean to move to Durban. And, you know, over time you've got more and more and more precise about what are the actual problems, but we still face a problem where there's a potential in there that when we say we walk ourselves down now, and we say this is it, that's the impact of Durban, but there are still things we think are not being recognized as potential delays. We have people in TE that assure us they will meet the delivery schedule for certain things, we just look at it and say there's an awful amount of doubt in our minds. We don't want to just assume that we can [INAUDIBLE] those, because we know they are working very hard to try to meet these deadlines. Because we don't want to just assume that they're, they're going to fail. We don't want to [INAUDIBLE]. But on the other hand, we

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don't want to say, we accept with full confidence that you will meet these, and this is why we've said look, we would rather than pricing additional delay that is not yet certain, let's just say, give us a short grace period to say if they're late, we will resort for now the delay in payments. But we don't want to be hit with LD's. So it's, I think it should be very close to what you want, where we're not going to come back and say hey, now we're late by another month because of TE's delays, and we want compensation. We're not going to do that. Instead, we'll say okay, let's just try to agree that there's a little grace period in here where nobody gets too excited and we just move ahead and get the work done.

Speaker: Well, I think if, you know, as we say, through the process that we're going to undertake through the next two weeks I think if we can just sit down and get to some sort of sane, rational, you know, provisions around the list that you guys have identified, then I think, you know, we should be able to move forward quite quickly as well. But again, I think it will take some sort of sitting down across the table and basically just bashing out an approach in terms of how we are going to deal with it. So, that's it, I think from my perspective, is there anything else from your side, Gary, or Tom.

Speaker: I think just, [INAUDIBLE] for your benefit, and [INAUDIBLE], there's been substantial [INAUDIBLE] been done [INAUDIBLE]. [INAUDIBLE]. Obviously, the bigger picture is that we are excited about Durban because we're close to port in terms of export potential, because we end up being industrialized, and that's what this is about. There's a longer term relationship between I think, Transnet and BT, and especially through TE as a partner for potential export. And even if we look at parts and maintenance, going forward, there could be a huge amount of opportunity for both parties. I think Durban is situated in an area which is going to create a lot for benefit for both. Having said that, in

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terms of the bigger picture, the detailed analysis, we found, has shown that [INAUDIBLE] to be on our side. We've got our compilations and we've also, I don't think we've mentioned, we've got consultants that we can also utilize to go into the [INAUDIBLE] of detail. What I don't think we want to do, is get to that point. I think we need to be pragmatic, as partners. I don't think we are doing this whole [INAUDIBLE] thing here. We've negotiated, we've signed, we are partners now. Now we need to make sure we get the right things done. So that's about being fair, and I can tell you off the bat is that our numbers looked at about 20 percent to 25 percent lower than what you actually had in your number, your 634, I don't know if it built in contingencies, if it did, maybe you could tell us what those are and we could try and help with reducing some of the doubt or risk that's priced in. But what would be great, is if you could re-look at that and come back to us with a number that makes sense, before we even start getting into the well, this is what we think the number is for this specific [INAUDIBLE]. And we'd like that by Monday. If you are okay with that you can give us a formal offer in writing, that we can take as a mediation order of the agreement, and move forward. If you're not okay with that, we're obviously going to struggle to meet the deadlines and we're going to go through another process of to and fro. So I think that, just as a, I'm just wanting to bring in an element of pragmatism in understanding our partnership altogether, we need to both be fair about this.

Speaker: I think we can go back through and look again at what we have in there, what the flexibility is. But I can tell you that the price that we submitted in April, with the assessment, was exactly the same as what we submitted in September.

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Speaker: In that time, a lot has happened. We had a lot of suppliers who came to us and said, you know, this is the impact now, the change to Durban, we've finalized a lot of things, a lot of things that were guesses. Things that we had as risks and contingencies in the first price, that we might have to put more assistance in this, you know, duplication people between Durban and Johannesburg. Adding people in supporting the warehouse, adding people in supporting welding, machine work, all those things that we said were risks. In that time they stopped being risks and [INAUDIBLE] we did all of those things, we put more people on the ground, we've [INAUDIBLE] more resources and so on. And the problem is that things that were risks and contingencies in the first price, we've taken them out. The price is still there because it's actually happened that we're spending the money. So that's one of the problems. The other is that we are still [INAUDIBLE] we submitted is pricing that was calculated at the end of March. We've had some of our suppliers come back to us now and clarify further details, because of course we haven't closed any of the contracts with our suppliers. Until we have this closed with TFR we cannot actually close the contracts with our suppliers. So we hit the point where the validity of their pricing to us expires and they come back and say well, okay, and they want to raise the price 30 percent. Then we say okay, let's sit down and talk about what you're justifying that with and we have negotiations, but we see an increase. In the end they can justify increases, for the same reason that now they have more certainty and they can clearly point to additional costs that are identified. So the problem we have is that in, on April 10th, when we submitted this new assessment, at that time, we had already calculated that our price should be higher. That's based on what we were

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spending and on the delays, and what our suppliers were coming through to us with, it should be slightly [INAUDIBLE]. And since then it's crept up even more.

Speaker: So you're saying you're envisaging it's going to be a long arduous negotiation between us two.

Speaker: I'm just saying, you're asking us to go and come back on Monday with a reduced price or an identification of what these risk contingencies or something. I can tell you there is virtually no risk or contingency in there at all, and in fact what we're doing is absorbing a lot of costs, in order to try and reach a faster conclusion. That, that's the issue that we have, that if we have to sit down and go through a long slog, then we have to pull out all of our documentation to support the price, and at that point the price is actually hard.

Speaker: That might be a problem [INAUDIBLE], I haven't given a whole mandate in terms of what was acceptable and what was budgeted for, so, look, I'm still going to say it again, go back and look, [INAUDIBLE] at the assumptions etc, and see whether it's possible. Otherwise what you could also do is show me past that event, why you believe this 20 to 25 percent and [INAUDIBLE] that process. But I see you [INAUDIBLE] etc. But I would like, as partners, if you could please just have a look, look at the assumptions and the potential contingencies and risks that are either results that are high or low, and determine whether there is an opportunity for price reduction, which we believe there is. Otherwise, as I said, it will be a difficult, long process. [INAUDIBLE].

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Speaker: The finality to these things, we can reach finality on Monday [INAUDIBLE]. [INAUDIBLE], say give us 25 percent reduction [INAUDIBLE], some finality to [INAUDIBLE].

Speaker: I think we should [INAUDIBLE], interested in signing as quickly as possible and closing this [INAUDIBLE].

Speaker: I agree.

Speaker: But from, from, I mean I would really like to understand what it is [INAUDIBLE], because, when we look at our numbers we see a more passible way to get a reduction like that.

Speaker: Before we even get to that, my, my, before we even get to that, because we [INAUDIBLE], and I can show you why 10 rooms of experts say it should be X, and then I can show you another expert that says it should be Y. We not getting anywhere, so I think you know the [INAUDIBLE] in terms of what we're looking for, which is the board [INAUDIBLE], by the way. We've asked you to look into your numbers, and then determine whether there is something, we would appreciate and we would expect something to change, come Monday. If that's the case, then we're there! Signed, sealed, let's go. I don't know if there's anything else that, on your side, are you comfortable to leave it at that? [INAUDIBLE], I think the message is clear.

Speaker: Please don't make it as painful as it was [INAUDIBLE] negotiations. I've got, it's almost like *dejavu*, [INAUDIBLE].

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Speaker: I forgot the paper and my coffee in the bar area, because I also had flashbacks to [INAUDIBLE].

Speaker: Wait, wait, these gentlemen aren't paying for my coffee anymore.

Speaker: Please, please don't take us there.

Speaker: What we would like to understand is, is would the approval be dependent on the price reduction only, depending on... [INAUDIBLE].

Speaker: [INAUDIBLE]. All the [INAUDIBLE] of BT are going to be done in Durban. So, [INAUDIBLE], Durban, [INAUDIBLE]. What you are saying is, the impact to moving to Durban [INAUDIBLE] Transnet, [INAUDIBLE]. So the signing of, and obviously you guys have to give us a payment that [INAUDIBLE] depends on that because [INAUDIBLE] Transnet [INAUDIBLE]. And we are saying, it's like a process that's painful, check out the facts, come back on Monday and then let's sign [INAUDIBLE].

Speaker: I would think come back around Monday.

Speaker: Okay.

Speaker: [INAUDIBLE], thank you.

Speaker: We will also try between now and Monday get a list of, let's say our..

Speaker: I will type it tomorrow so that we can have it [INAUDIBLE] Monday.

Speaker: We'll try and get something to you guys in terms of the list of concerns that we have.

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Speaker: And again, at high-level, we are not going to strings or details with consultants, cause I really don't think that's going to be in the spirit of how we're going to get this done. [INAUDIBLE], we'll start off with a bit of animosity, and this is going to drag on for weeks and weeks, and then you start missing board meetings and potentially [INAUDIBLE] to look at the original decision that, it gets ugly.

Speaker: So, I think if you can [INAUDIBLE] some questions we're more than happy to have a dialogue [INAUDIBLE].

Speaker: [INAUDIBLE] must be a reduction on [INAUDIBLE].

Speaker: Somebody once taught me, sometimes a reduction is up. [INAUDIBLE].

Speaker: I guess, I guess we're saying come back with an answer, even if the one question we receive tomorrow is, we would like a 25 percent reduction.

Speaker: Absolutely, yes.

Speaker: Okay, one question that I have is, going forward, who shall we be [INAUDIBLE] with [INAUDIBLE]. [INAUDIBLE], and then we will in turn review where we stand.

Speaker: Dudley, [INAUDIBLE] questions.

Speaker: Nothing from my side.

Speaker: I noticed that your [INAUDIBLE] and the [INAUDIBLE] was quite aggressive as well. Was there any thinking around it?

Speaker: The issue is in fact that the costs for moving to Durban are mostly, they're split into either costs from the financing, which is a long [INAUDIBLE] process of the,

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[INAUDIBLE] and so on. And the other part is a lot of extra money that we're spending now on setting up internally, and that's the issues that we're spending that money already. So that's why, because for us in fact, I think the, what we asked for in milestone payments for this variation doesn't [INAUDIBLE] our cash-flow at all. We're spending faster than that. But, we didn't want to argue about it, we said we just matched what was in the supply agreement.

Speaker: So, is there any alternative milestone payments that you would maybe consider then suggesting?

Speaker: [INAUDIBLE], like what we have said the last time, I mean if it does [INAUDIBLE], let's talk about it.

Speaker: So we are having the situation where we are paying more now.

Speaker: Because I think as you know, we probably [INAUDIBLE], but then you guys can. So if there is working capital that you're tying up and that incurs interest and so on and so forth, if you don't need to incur that interest [INAUDIBLE].

Speaker: We also would like to come to the party.

Speaker: [INAUDIBLE], anyway. [INAUDIBLE], make a big difference for us. So. But I think any level that you guys can look at in terms of [INAUDIBLE], put a reasonable proposal on the table and we look at it.

Speaker: And also being quite clear as to pricing risk, whether you're worried about a certain event, I mean, we can control that event, and provide certainty of the risk being mitigated.

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Speaker: Carve it up, you know, and say, you know, the price is on the basis that this thing happens in 10 days, even if it's 15 day, then, you know, we come back to TE and use 15 days, yes, then we give you 5 days. It can also be on that practical basis, because if you try and control the uncontrollable, [INAUDIBLE], becomes a [INAUDIBLE].

Speaker: [INAUDIBLE].

Speaker: But, if you can be very specific on your assumptions, and if you can measure, monitor those assumptions, to the extent that you know, we do deviate from those things, then you know, at the end of the day, the principles associated with negotiation is no different. I mean, when you came to us on the main supply agreement, we said, you know, it's a competitive process, we not going to ask you to do this thing for nothing. Okay, that means we not going to ask you to move to Durban for nothing. So to the extent that you incur the costs, you prove the costs, we happy to verify the costs, we happy to reimburse your costs.

Speaker: True.

Speaker: So from that perspective, if you say it's 10 days, and you incur 15 days, that's [INAUDIBLE] to pick up the cost.

Speaker: For example, if you're saying a trip to the [INAUDIBLE] in Durban that's going to result in XYZ, [INAUDIBLE, EVERYONE SPEAKING AT ONCE], priced in [INAUDIBLE] the amount of sunny days to work, whatever, the last I checked the warehouse, your production line had roofs on, you know what I'm saying. I'm saying, if you have a risk, that you [INAUDIBLE] your price, if this should happen, what I hear them

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not saying, was rather then take out [INAUDIBLE] should this happen, because of AB and C reason, then this will be [INAUDIBLE].

Speaker: So, it's those type of things that we look at, how to cope. Certainly, what it does for us, it makes us put us in the [INAUDIBLE] to be able to control [INAUDIBLE]. We now know what's at risk, [INAUDIBLE]. So I think that you know, we'll probably try and get something in on Monday, but probably late afternoon, that type of thing, so [INAUDIBLE]. [INAUDIBLE].

Speaker: Okay, excellent.

Speaker: I think if we meet early next week I will not be able to make it, I'm in Angola for 3 days next week. [INAUDIBLE].

Speaker: [INAUDIBLE].

Speaker: I know, when things go well, I have no work to do. Unfortunately, I'm very busy all the time. [INAUDIBLE].

Speaker: Okay, take some sweets, let's go and [INAUDIBLE].

Speaker: [INAUDIBLE].

Speaker: You're legend.

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