THE PROCUREMENT OF TRANSNET'S 100 LOCOMOTIVES

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LIST OF ENTITIES

Name of entity	Role of entity
CSR E-Loco Supply (Pty) Ltd	("CSR") Awarded a tender to manufacture 100 electric locomotives
Surtees Railway Supplies (Pty) Ltd	("Surtees") bidder for the manufacturing of the 95 electric locomotives
Mitsui and Co African Railways Solutions	("Mitsui") An entity that was initially considered to supply the 100 locomotives

LIST OF ROLE PLAYERS

Name of Persons	Description of role or capacity
Mr Brian Molefe	• Former Transnet Group Chief Executive (GCEO) (2011-2014)
Mr Garry Pita	• Former Group Chief Supply Chain Officer (GCSCO) (2010 - 2015)
Mr Siyabonga Gama	• Chief Executive of Transnet Freight Rail (2006 - 2016)
Mr Thamsanqa Jiyane	• Former Chief Procurement Officer, Transnet Freight Rail (2012 - 2015)
Ms Lindiwe Mdletshe	• Commodity Manager Transnet Freight Rail (2012-2015)
Mr Wang Pan	• Director: CSR E-Loco Supply

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LIST OF EXHIBITS

Exhibit	Document
1.	Memorandum for the approval of confinement of 100 locomotives to MARS
2.	Extract of the Procurement Procedure Manual dealing with Confinement
3.	Excerpts of the minutes of the meeting held on 21 October 2013 of the Transnet board of directors.
4.	Memorandum for the approval of confinement of 100 locomotives to CSR
5.	Excerpts of the Transnet Board minutes of the dated 24 January 2014
6.	Email of 22 January 2014 from Mr F Callard to Mr T Jiyane and Mr S Gama
7.	CSR Proposal dated 14 March 2014.
8.	Transnet RFP issued to CSR dated 25 February 2014.
9.	CSR's Excel spreadsheet outlining its Local Production and Content.
10.	Class 21E Locomotives Commissioning and Warranty records.
11.	Schedule 1 of the Locomotive Supply Agreement between Transnet and CSR dated 17 March 2014.
12.	Payment Schedule for 100 Locomotives,
13.	Email dated 10 October 2014 from Mr T Jiyane to Mr A Singh and Ms N Galeni
14.	Memorandum by Mr B Molefe to the Transnet Board dated 23 May 2014
15.	CSR's proposal dated 26 February 2018

CHAPTER 1:
PROCUREMENT PROCESS

1.1 Background

1.1.1 In April 2012, the Transnet Board approved the procurement process for the acquisition of 1064 Locomotives to meet the tonnage or volumes set out in the Transnet Market Demand Strategy ("MDS").

1.1.2 There was a delay in finalising the procurement process for the 1064 Locomotives which Transnet's ability to achieve the tonnage targets set out in the MDS.

1.1.3 In order to salvage the MDS targets, Transnet embarked on the procurement of the 100 locomotives that would be deployed to the Coal Export Line. In turn, the Coal Export Line would release its aging 125 locomotives to be deployed to the General Freight Business (GFB) to mitigate against the delays in the acquisition of the 1064 Locomotives. Even though the 125 locomotives were released, a decision was taken to procure only 100 locomotives as a replacement.

1.1.4 This chapter analyses the procurement compliance for the acquisition of the 100 locomotives by Transnet.

1.2 Confinement submission to MARS

1.2.1 On 30 August 2013, the then Group Chief Executive (GCE), Mr Brian Molefe ("Mr B Molefe") submitted a memorandum[1] for the procurement of 100 locomotives from Mitsui & Co African Railway Solutions (Pty) Ltd ("MARS") through the confinement process.

1.2.2 Procurement through a confinement method is provided for in the Transnet Procurement Procedures Manual ("the PPM")[2] under the following circumstances:

1.2.3 where genuine ***urgency*** has arisen, which is not due to bad planning;

1.2.4 where the services are only obtainable from one or a ***limited number of suppliers***;

1.2.4.1 for reasons of ***standardisation*** or compatibility with existing services; and

1.2.4.2 when the goods being procured are ***highly specialised and largely identical to those previously executed by that supplier*** and it is not in the interest of the public or the organisation to solicit other offers, as it would result in wasted money and/or time for Transnet.

1.2.5 The reasons relied upon in the memorandum to confine to MARS were as follows:

[1] *Exhibit 1: Memorandum from Mr B Molefe to the BADC for the approval of confinement of 100 Locomotives to MARS.*
[2] *Exhibit 2: Extract of the Procurement Procedure Manual dealing with Confinement.*

Urgency

1.2.6 The urgency in this case was triggered by the threat that the MDS targets would not be achieved as a result of the delays in the procurement of the 1064 Locomotives;

1.2.7 MARS would address the urgent timelines within which Transnet had to procure since MARS had previously supplied Transnet with the class 19E locomotives that were required for the Coal Export Line; and

1.2.8 In view of the previous supply by MARS, this would result in Transnet saving 12 months that ordinarily would have been spent on design, prototype building and testing phases if a different class of locomotive was procured.

Standardisation

1.2.9 As a result of Transnet having previously procured class 19E locomotives from MARS, the acquisition of a further batch of 100 class 19E would provide operational simplicity in that:

1.2.9.1 maintenance practices would align with the existing maintenance regime;

1.2.9.2 there would be standardised crew operations which would obviate the need to train crew on a different set of locomotives; and

1.2.9.3 spares inventories would be standard.

Highly specialised and largely identical goods

1.2.10 Class 19E locomotives were regarded as modern locomotives and identical to the ones previously supplied by MARS and that would have enabled MARS to deliver within a short space of time.

1.2.11 The memorandum motivating for the appointment of MARS was, however, withdrawn from the agenda of the BADC meeting scheduled for 21 October 2013[3].

1.2.12 The reason advanced by the management team that attended the Board meeting for the withdrawal of this item from the agenda, was the alleged sensitivity and media controversy caused by a previous acquisition of locomotives that Transnet had undertaken through confinement.

1.3 Unjustifiable confinement submission to CSR

1.3.1 Exactly three months after the withdrawal of the memorandum[4] to confine to MARS, on 21 January 2014, Mr B Molefe submitted another memorandum to the BADC motivating for a confined award of 100 Electric locomotives to CSR. The case for confinement to CSR was motivated on the same grounds as those advanced for MARS i.e. (a) *urgency*, (b) *standardisation*, and (c) *highly specialised goods* in a manner similar to the motivation submitted for MARS.

[3] *Exhibit 3: Excerpts of the minutes of the BADC meeting held on 21 October 2013.*
[4] *Exhibit 4: Memorandum from Mr B Molefe to the BADC for the approval of confinement of 100 Locomotives to CSR.*

1.3.2 On 24 January 2014, the Transnet Board approved the acquisition of 100 locomotives from CSR through the confinement method[5]. The recommendation of confining to CSR defeated the purpose and requirements for confinement as set out in the PPM for the following reasons:

Urgency compromised

1.3.3 Despite the need to urgently procure the 100 locomotives, the requirement for urgency was not met by the decision to confine to CSR on the basis that the type of locomotives that was proposed by CSR i.e. class 20E, required further modifications to enable them to interoperate with the then-existing class 19E locomotives.

1.3.4 The modifications resulted in the delay in the production of the locomotives due to the following:

1.3.4.1 design modifications to the class 20E locomotives;

1.3.4.2 building the prototype of the modified locomotives; and

1.3.4.3 testing and commissioning of the modified locomotives.

1.3.5 In our interview[6] with Mr Francis Callard ("Mr F Callard"), he advised that the Business Case for the acquisition of the 100 locomotives was based on procuring the locomotives from MARS for the following reasons:

1.3.5.1 MARS already had a design for the class 19E locomotives;

1.3.5.2 MARS could urgently deliver the locomotives; and

1.3.5.3 the locomotives could provide further standardisation of the fleet as Transnet had previously acquired 110 identical locomotives from MARS.

If these elements are not met, then procurement of the locomotives using the confinement process would not comply with the PPM and thus unjustifiable.

Lack of Standardisation

1.3.6 The standardisation that was intended to be achieved initially through the acquisition of the class 19E locomotives was wholly negated by the proposal to procure the class 20E locomotives from CSR.

1.3.7 The above-mentioned point was brought to the attention of Messrs Siyabonga Gama and Thami Jiyane ("Mr S Gama and Mr T Jiyane") by Mr F Callard who objected to the inexplicable change in the initial Business Case to acquire the 19E locomotives. In his email dated 23 January 2014[7] he advised Messrs Gama and Jiyane that:

> *"The 20E locomotives do not have the power and interoperability that was at the heart of the business case. The implications are that the locomotives are*

[5] *Exhibit 5: Excerpts of the minutes of the Special Board of Directors meeting held on of 24 January 2014.*
[6] *In an interview conducted on 17 May 2018 at Transnet, TFR offices between MNS Attorneys and Mr F Callard.*
[7] *Exhibit 6: Email of 23 January 2014 from Mr F Callard to Messrs T Jiyane and S Gama.*

not a heavy haul, and as a result, the calculations for Project Shongololo no longer hold and the projects and volume targets may be at risk'

Furthermore the [class 20E] locomotives cannot interoperate with the current 19E locomotives adding further complexity to the operations".

1.3.8 The complexities referred to in the email were further explained by Mr F Callard during our interview as being:

"the crew had to be taught to drive this new model of a locomotive and a different set of spares would have to be obtained for this particular class of locomotives envisioned under the confined award to CSR"

1.3.9 In our interview with Mr Frikkie Harris ("Mr F Harris"),[8] he advised the MNS team that, as a result of the significant modifications to the class 20 locomotives, the locomotives that were eventually delivered by CSR were class 21E locomotives.

1.3.10 Therefore, the same standardisation challenges that bedevilled the class 20E locomotives equally applied to the class 21E locomotives that were eventually delivered by CSR.

Goods not largely identical to previously supplied

1.3.11 CSR had previously supplied Transnet with 95 class 20E locomotives for the General Freight line.

1.3.12 For the purposes of supplying the additional 100 locomotives for the Coal Export Line, CSR had to significantly modify the class 20E locomotives. As a result of the significant modifications, the type of locomotive that was eventually delivered was a class 21E locomotive

1.3.13 These class 21E locomotives were thus not largely identical to the locomotives that were previously supplied by CSR.

1.3.14 This is further confirmation that the confinement to CSR did not meet one of the key requirements of the PPM that confined goods had to be largely identical to the ones previously supplied.

1.3.15 In the overall, the memorandum motivating for the appointment of CSR did not meet the requirements prescribed by the PPM. Even though the PPM is an internal Transnet document, it nevertheless forms part of a legally binding and enforceable legal framework with which the confinement to CSR had to comply. This legal principle was established in **All Pay & Others V SASSA and Others 2014 (1) SA 604 (CC)** where the court ruled on the materiality of not complying with SASSA's internal circular prescribing the composition of the Bid Evaluation Committee. The court held that:

"The Circular and the RFP read together with the constitutional and legislative procurement provisions constitute the legally binding and enforceable framework within which tenders had to be submitted, evaluated and awarded.

[8] *In an interview conducted on 11 September 2018, at Transnet TFR offices between MNS Attorneys and Mr F Harris.*

Compliance with the requirements for a valid tender process, issued in accordance with the constitutional and legislative procurement framework, is thus legally required. These requirements are not merely internal prescripts that SASSA may disregard at whim. To hold otherwise would undermine the demands of equal treatment, transparency and efficiency under the Constitution. (our emphasis).

1.3.16 The above judgement authoritatively provides that internal polices at state-owned entities cannot simply be disregarded when it suits the relevant officials but must be adhered to as they promote the principles of equal treatment, transparency, and efficiency espoused by the Constitution. Accordingly, Transnet officials were required to observe strict adherence to the provisions of the PPM.

1.4 CSR's Proposal non-compliant with the RFP requirements

1.4.1 The CSR's proposal[9] dated 14 March 2014 did not comply with some of the requirements stipulated in Transnet's RFP[10] dated 25 February 2014.

1.4.2 After the Board approved the confinement process to CSR, Transnet requested CSR to submit a proposal in line with the requirements prescribed by Transnet. The column below juxtaposes the deviations by the CSR proposal from the requirements stipulated in the RFP:

ITEM	RFP REQUIREMENTS	CSR PROPOSAL
DELIVERY	*Expeditious delivery for acceptance testing is a priority commencing latest September 2014 with completion by March 2015.* *Any proposals on earlier delivery are invited."*	Deliver the first locomotive in February 2015 and the last batch in September 2015
SUPPLIER DEVELOPMENT	This is a non-negotiable suspensive condition and shall meet or exceed 70% as measured in the SD Value Summary	63% of the total price'

1.4.3 It is clear from the above column that the CSR's proposal was not compliant with the RFP requirements in that its proposed delivery fell way outside of the delivery timelines envisaged in the RFP. Non-compliance with these timelines undermined the very reason Transnet had to urgently procure the 100 locomotives through a confinement process so as to mitigate the delays in achieving the MDS targets.

1.4.4 The compliance or otherwise of the SD requirement is also debatable on the basis that Transnet had a threshold of 70% as measured in the SD value summary, whereas CSR's proposal committed to 63% of the total price. It seems as if there was no consensus between CSR and Transnet on the appropriate measurement

[9] *Exhibit 7: CSR Proposal dated 14 March 2014.*
[10] *Exhibit 8: Transnet RFP issued to CSR dated 25 February 2014.*

and compliance of the SD requirements.

1.4.5 In light of the above, CSR was not in a position to meet the most critical requirements stipulated in the RFP, thus there was no benefit to Transnet for confining the 100 locomotives to CSR.

1.5 Non-compliance with Local Production and Content requirements

1.5.1 Regulation 9 (1) of the Preferential Procurement Policy Framework Regulations 2011 made it mandatory[11] for organs of the state when issuing RFPs for designated sectors, to make it a condition for bidders to comply with the minimum threshold for designated sectors.

1.5.2 On 16 July 2012, the National Treasury issued an Instruction Note on local content and production which prescribed the minimum local production content for the procurement of the locomotives to be as follows:

Classes of Rail Rolling Stock	Stipulated minimum threshold
Diesel locomotive	55%
Electric locomotive	60%
Electric Multiple Units (EMU)	65%
Wagons	80%

1.5.3 Contrary to the provisions of Regulation 9 (1) of the PPPFA Regulations and the Instruction Note, the RFP that was issued by Transnet to confine to CSR did not expressly state that it was a condition of the RFP that CSR should comply with the minimum threshold of 60% for local production and content.

1.5.4 The use of the word "must", in the PPPFA Regulation 9(1) is indicative of the fact that it was peremptory[12] for the RFP to make it a condition for the bidders to comply with the stipulated minimum threshold for local production and content. It was therefore not optional for any organ of state to issue an RFP for designated sectors without a specific condition that bidders must comply with the stipulated thresholds.

1.5.5 Failure by the RFP to specify the condition for local production and content, rendered the RFP to be irregular for non-compliance with the provisions of the PPPF Regulations.

1.5.6 As a result of the direct failure of the RFP to indicate the required minimum threshold, CSR submitted a proposal wherein:

[11] *An organ of state must in the case of designated sectors, where in the award of tenders local production and content is of critical importance, advertise such tender with a specific tendering condition that only locally produced goods, services or works or locally manufactured goods with a stipulated minimum threshold for local production and content will be considered.*

[12] *WA Joubert et al,* ***The Law of South Africa:*** *25 Part 1 Statute Law and Interpretation, pg. 399*

1.5.6.1 forty (40) locomotives would be manufactured and assembled in China whilst sixty (60) locomotives would be assembled in South Africa;[13]

1.5.6.2 its declaration and commitment for Local Production and Content was 15%, far below the 60% minimum threshold prescribed by the Instruction Note.[14]

1.5.7 It has since been confirmed[15] that indeed 40 of the 100 locomotives completely manufactured in China

1.5.8 In view of the above, the appointment of CSR despite its failure to meet the requirements of the Treasury Instruction Note, was irregular.

1.6 Advance Payment to CSR without an Advance Payment Guarantee

1.6.1 Clause 1.2.2 (b) of Schedule 1 to the Locomotive Supply Agreement[16] concluded between Transnet and CSR on 17 March 2014, provides as follows:

> *"No milestone payment shall become due:*
>
> *(a) ...*
>
> *(b) except in respect of the final milestone payment), until the contractor has provided evidence satisfactory to the Company that the Advance Payment Bond extends to the amount due in respect of the applicable milestone payment."*

1.6.2 The practical effect of this clause is that Transnet could not and should not have paid CSR any milestone payment (except the final payment) without CSR first providing Transnet with an Advance Payment Bond as a form of security for milestone payments made by Transnet.

1.6.3 The rationale and importance for such a form of security was confirmed in ***Teichman Structures (Pty) Ltd and Hollard Insurance Company and Another 24233/18 [2018] ZAGPJHC*** where the court held inter alia that:

> *"they are seen as protective measures for employers/beneficiaries against the default of the contractor of its obligations under a contract."*

1.6.4 Contrary to the provisions of clause 1.2.2(b) of the LSA, on 1 October 2014 Transnet paid[17] CSR a milestone payment of R1 320 000 000 including VAT (one billion three hundred and twenty million) without CSR having provided Transnet with an Advance Payment Bond as required by the LSA.

1.6.5 The payment of the second milestone payment to CSR, prior to the issuance of the APG, was a direct breach of the LSA and exposed Transnet to unwarranted risk as there was no security for the advance payment made to CSR.

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[13] See *Exhibit 7.*
[14] *Exhibit 9. CSR's Excel spreadsheet outlining its Local Production and Content.*
[15] *Exhibit 10. Class 21E Locomotives Commissioning and Warranty records.*
[16] *Exhibit 11: Schedule 1 of the Locomotive Supply Agreement between Transnet and CSR dated 17 March 2014.*
[17] *Exhibit 12, Payment Schedule for 100 locomotives.*

1.6.6 The wrongfulness of paying the milestone payment without the requisite Advance Payment Bond was acknowledged by Mr T Jiyane in his email[18] correspondence dated 10 October 2014, addressed to Mr A Singh and Ms N Galeni, wherein he stated that:

> *"I am aware that the Issue of the payment to CSR without an APG exposes Transnet"*
>
> *"I take full responsibility to the payment being effected without the APG being Issued and Finance paid on instructions from my office."*

1.6.7 By his own admission, Mr T Jiyane acknowledged that he exposed Transnet to a grave risk by issuing the instruction to effect payment to CSR prior to an APG being issued.

1.6.8 It is clear from the above that this conduct was in clear breach of the prescripts of Schedule 1 of the LSA.

[19] *Exhibit 13, Email dated 10 October 2014 from Mr T Jiyane to Mr A Singh and Ms N Galeni.*

CHAPTER 2:
THE INCREASE IN ESTIMATED TOTAL COSTS

2.1 Problem Statement

2.1.1 On 24 January 2014, the Transnet Board approved[19] the procurement of 100 locomotives from CSR at an ETC of R3.871 billion. On 17 March 2014, Transnet signed a Locomotive Supply Agreement with CSR for the supply of 100 locomotives at R4.840 billion.

2.1.2 On 23 May 2014, the Transnet Group Chief Executive (the GCE) submitted a memorandum[20] to the Transnet Board accounting for the increase in ETC from R3.871 billion to R4.840 billion.

2.1.3 This chapter sets out to provide insight into the increase in ETC pertaining to the acquisition of 100 equivalent class 19E dual-voltage electric locomotives.

2.2 Methodology

In order to assess the accuracy of the reasons advanced by the then GCE in the memorandum, we undertook Inter alia the following steps:

2.2.1 analysed the financial model that formed the basis of the R3.871 billion to ensure that all the assumptions on escalations, foreign currency forecasts, and costs of design changes that were built in were well understood and appreciated.

2.2.2 assessed the various line items from table 1 of the memo (including the base price per locomotive, the escalation costs, and foreign currency costs) for reasonability and, documented our findings.

2.2.3 determined a fair value for the transaction.

[19] See *Exhibit 5, Minutes of the Special Transnet Board meeting date 24 January 2014.*
[20] *Exhibit 14, Memorandum dated 23 May 2014 by Mr B Molefe to the Transnet Board.*

2.3 Analysis of Increase in Estimated Total Costs

2.3.1 Table A below is an extract of Table 1 of the memorandum and details the cost items making up the ETC.

		Transnet GCE Memorandum
		R' mil
	Base price per locomotive as at May 2013 (no hedging & escalation costs)	34.34
Item A:	Impact of exchange rate to contract date (backward-looking)	3.69
Item B:	Impact of inflation to contract date (backward-looking)	1.26
Item C:	Modification costs (and duties)	3.47
Item D:	Cost to fix escalation (forward-looking)	2.63
Item E:	Foreign exchange hedging (forward-looking)	1.08
	Discount negotiated	-2.47
	Final contracted price per locomotive	**44.00**
Item G:	Contingencies (@ 10%)	4.40
	Proposed ETC per locomotive (including contingencies at 10%)	48.40
	Proposed ETC for 100 locomotives (including contingencies at 10%)	4 840.04
	ETC requested per 21 January Board submission for 100 locomotives	3 870.76
	Increase in ETC for 100 locomotives	969.28

2.3. 2 Our review of the various cost items listed in the table indicate that an increase in the amount of R969.28 million was unjustifiable as some of the cost items were either incorrect or inflated. The table below provides a comparison of each of the cost items and indicate the extent to which some of them are not justified.

		Transnet GCE Memorandum	Recalculated	Difference
		R' mil	R' mil	R' mil
	Base price per locomotive as of May 2013 (no hedging & escalation costs)	34.34	30.95*	3.39
Item A:	Impact of exchange rate to contract date (backward-looking)	3.69	0.43	3.26
Item B:	Impact of inflation to contract date (backward-looking)	1.26	1.50	-0.24
Item C:	Modification costs (and duties)	3.47	3.47	-
Item D:	Cost to fix escalation (forward-looking)	2.63	1.92**	0.71
Item E:	Foreign exchange hedging (forward-looking)	1.08	1.08	
	Discount negotiated***	-2.47	-2.09	-0.38
	Final contracted price per locomotive	**44.00**	**37.27**	**6.73**
Item G:	Contingencies	4.40	3.73	0.67
	Proposed ETC per locomotive (including contingencies at 10%)	48.40	41.00	7.40
	Proposed ETC for 100 locomotives (including contingencies at 10%)	4 840.04	4 100.21	739.84
	ETC requested per 21 January Board submission	3 870.76	3 870.76	
	Increase in ETC	**969.28**	**229.44**	**739.84**

** R30.95 mil is made up as follows: CSR locomotive price of R28.86 mil + FX adjustment of R1.20 mil + Inflation adjustment of R0.89 mil.*

*** The Inflation cost of R1.92 mil is not discounted to allow for the time value of money.*

**** The negotiated discounts represent 5.32% of all preceding costs.*

2.3.3 In the section that follow, we asses in detail the main cost items from Table 1 of the memorandum explaining the increase in ETC and our reasons why some of the cost items were not justified

2.3.3.1 Determining the Base Price

(a) The then GCE, in Table 1 of the memorandum, started with a base price per locomotive of R34.34 million. It was incorrect for the memorandum to make reference to a base price per locomotive of R34.34 because as at April 2012, CSR provided a base price per locomotive of R28.86 million21. This was in respect of a Class 20E locomotive which still required modifications in order to be classified as a Class 19E Equivalent.

(b) For the purposes of determining the base price as at May 2013, we have adjusted the R28.86 million for inflation and foreign currency movements from April 2012 to May 2013 and arrived at revised based price of R30.95 million per locomotive obtained. This represents an excess of R3.39 million per locomotive.

2.3.3.2 Item A: Backward-looking Foreign Exchange rate impact

(a) It is unclear why the Memorandum referred to a Rand per Yen exchange rate when the CSR RFP submission referred to a Rand per Dollar exchange rate. The recalculations have been done following the justifications from the Memorandum. The conclusions may differ materially if the calculations are based on the Rand/Dollar exchange rates.

(b) The computed price per locomotive of R30.95 million was as at May 2013. An allowance was therefore made for foreign exchange rate movements between May 2013 and March 2014, the contract signing date. Exchange rates obtained from the South African Reserve Bank ('SARB') website show a 3.51% depreciation of the Rand against the Yen from R0.1015 per Yen to R0.1051 per Yen.

(c) The Treasury Instruction Note required that a minimum of 60% of the locomotive must be locally produced, with 40% foreign content. Assuming that 40% of each of the locomotives was being manufactured abroad, an amount of R0.43 million per locomotive was arrived at for the backward-looking foreign exchange rate impact. The amount of R3.69 million from the memorandum represents an excess of R3.26 million (over the R0.43 million) and requires justification.

[21] *Exhibit 15: CSR's proposal dated 26 February 2018*

2.3.3.3 Item B: Backward-looking Inflation impact

(a) The computed price per locomotive of R30.95 million also made no allowance for inflationary pressures between May 2013 and March 2014, the contract signing date. Producer Price Index ('PPI') levels were extracted from the Statistics South Africa ('StatsSA') and the Organisation for Economic Co-operation and Development ('OECD') websites.

(b) Table B1 below details the actual PPI rates for South Africa and Japan and the assumptions made for local and foreign content.

Table B 1

	PPI	Content	Weighted average
South Africa	7.42%	60%	4.45%
Japan	1.01%	40%	0.40%
			4.86%

(c) A weighted average rate of 4.86% was applied in computing the backward-looking inflation/escalation cost of R1.5 million per locomotive. The memorandum, however, noted an amount of R1.26 million per locomotive (R0.24 million lower). The rates used and the respective weightings applied to labour costs, material costs and CPI will need to be provided for a reconciliation of the R0.24 million to be carried out.

2.3.3.4 Item C: Modification costs

(a) The Class 20E CSR locomotives required modifications at a cost of R3.47 million per locomotive before it could be classified as a Class 19E equivalent. The modification costs, obtained from the CSR RFP submission which was valid till the end of March 2014, were added to the locomotive price computed as at March 2014.

(b) It is worth noting that the memorandum included these same modification costs, having started with a base price for a Class 19E locomotive which is assumed to require no modification. There was no rational basis for the inclusion of these modification costs.

2.3.3.5 Item D: Forward-looking escalation/Inflation impact

(a) The memorandum pegged the cost to fix forward-looking inflation at R2.63 million per locomotive as at March 2014. In recalculating this cost, the 18-month delivery schedule, with the assumptions as per Table D1, and PPI for South Africa and Japan, as per the assumption in Table D2, were used.

Table D 1

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Number of Locomotives	13	13	13	13	13	13	13	9

Table D 2

	PPI	Content	Weighted average
South Africa	6.0%	60%	3.60%
Japan	2.0%	40%	0.80%
			4.40%

(b) The assumptions of 6.0% for South African PPI and 2.0% for Japanese PPI going forward were higher than the long-term averages, as per data obtained from Trading Economics. The weighted average rate of 4.40% is also higher than that assumed in the 100 locomotives Business Case, making for more conservative assumptions. The recalculated cost, to account for future inflation over the 18-month period from March 2014 to September 2015, was R1.92 million per locomotive. The additional amount of R0.71 million per locomotive could not be accounted for.

2.3.3.6 Item E: Forward-looking Foreign Exchange rate impact

(a) The justifications provided in the memorandum with regards to the forward-looking foreign exchange rate impact referred to a Rand/Dollar exchange rate, making for inconsistency with Item A. No reference has been made to a Rand/Yen exchange rate. The reason for which the backward-looking calculations were based on the Rand/Yen exchange rate and the forward-looking calculations, seemingly, on a Rand/Dollar exchange rate are unclear and need to be justified.

(b) The 100 Locomotives Business Case[22] modelled future foreign exchange movements using data obtained from the Bureau of Economic Research ('BER'). These are forecasts and not foreign exchange hedged rates. Given Transnet's policy on the management of foreign currency risk, it can only be assumed that the currency risk was to be borne by CSR after agreeing on the forecasted exchange rates. The assumptions used in the 100 Locomotives Business Case are as per Table E1 below.

Table E 1

	2013	2014	2015
Rand/Yen	0.0982	0.0923	0.0940
Rand appreciation		-6.08%	-4.27%

(c) The calculations show an appreciation in the value of the Rand against the Yen when taking the 2013 rate as a base rate. If these rates were used to determine the cost of fixing foreign currency risk over 2014 and 2015, the implication would instead be a benefit to Transnet (being reflected as a negative amount) and not the cost of R1.08 million per locomotive reflected in the memorandum.

(d) The cost of R1.08 million per locomotive was nonetheless assumed given the lack of clarity on the exchange rate definition (Dollar or Yen) and the levels assumed.

2.3.3.7 Item G: Contingencies

In keeping with the assumptions in modeling the Business Case, we allowed for a 10% contingency on all costs (the base price, modification costs, backward- and forward-looking inflation, and foreign exchange costs). In keeping with the memorandum, the discount was allowed for before accounting for contingency costs.

2.3.3.8 Discount

A discount of R2.47 million per locomotive seems to have been agreed to on 17 March 2014, the contract signing date. This represented (approximately) 5% of all costs. A different (and likely lower) agreement might have been reached on the discount had the recalculated figures, as per this Report, had been presented. We have therefore allowed for a proportionately lower amount of R2.09 million discount per locomotive.

[22] *Exhibit 15, Procurement of 100 New 19E Equivalent Dual Voltage Locomotives-Coal Export Line dated 30 August 2013*

2.3.4 From all of the above, it is clear that an increase in ETC of R969 million is not fully justifiable. It is our view that an increase in ETC of R230 million would have been more appropriate.

CHAPTER 3:
CORPORATE GOVERNANCE FAILURES

3.1 Introduction

3.1.1 Transnet is a state-owned company established in terms of section 2 of the Legal Succession to the South African Transport Services Act, 9 of 1989, and incorporated in terms of the company laws of the Republic of South Africa.

3.1.2 Transnet is also listed under Schedule 2 of the Public Finance Management Act 1 of 1999 (PFMA).

3.1.3 As a result, Transnet must comply with the provisions of the PFMA and the Companies Act, 71 of 2008, as amended ("Companies Act").

3.1.4 The Companies Act outlines the following duties of a director:

3.1.4.1 In terms of Section 76 (1) a director must not use a position of a director to knowingly cause harm to the company.

3.1.4.2 In terms of Section 76 (3) a director of a company when acting in that capacity must exercise the powers and perform the functions of a director:

(a) in good faith and for a proper purpose;

(b) in the best interest of Transnet; and

(c) with a degree of care, skill, and diligence expected from a person occupying a similar position and having the general knowledge, skill, and experience.

3.1.5 Section 76(4) of the Companies Act provides that in relation to any matter arising out of the exercise of a director's powers or in the performance of a director's duties, a director would have satisfied the duty to act in good faith and in the best interests of the company and with the necessary care and skill, if the director:

(a) took reasonably diligent steps to become informed about the matter;

(b) ....

(c) made or supported a decision which he believed on a rational basis to be in the best interests of the company;

(d) made a decision or supported a decision of a committee or the board in relation to a particular matter based on rational basis for believing and did believe that the decision was in the best interests of the company, and in reaching this decision,

a director is entitled to rely on an opinion or recommendation of a relevant colleague and or a professional advice from a suitably qualified professional in a particular field.

3.1.6 The Companies Act outlines various fiduciary duties that directors of a company such as Transnet are required to comply with as they execute their duties. This chapter will demonstrate how *inter alia* Messrs Brian Molefe, Anoj Singh, Siyabonga Gama and Thamsanqa Jiyane breached their fiduciary duties during the procurement of the 100 locomotives.

3.2 Submitting a memorandum to the Board recommending confinement to CSR

3.2.1 On 21 January 2014, Mr B Molefe and Mr A Singh recommended a memorandum to the Board motivating for confinement of the award of the tender for supplying 100 electric locomotives[23]. The confinement to not in line with the prescripts of the PPM in that:

3.2.1.1 CSR was not in a position to urgently deliver the required locomotives within the time period required; and

3.2.1.2 The locomotives proposed by CSR could not be standardised with the Transnet fleet and were not largely identical to the ones previously supplied by CSR.

3.2.2 Had Messrs B Molefe and A Singh followed the expert advice within TFR[24] they would have known that the amendment of the original memorandum without TFR's technical input, would fail to satisfy the PPM requirements regulating confinement.

3.2.3 Their submission of the memorandum without the technical input was a breach of section 76(3) of the Companies Act which imposed a fiduciary duty to act with a degree of care, skill, and diligence expected from directors in a similar position and with equivalent experience.

3.3 Failure to alert the Transnet Board to objections to confinement to CSR

3.3.1 On 24 July 2014, Messrs S Gama and T Jiyane attended the special Board meeting after having received Mr F Callard's communication advising that confining to CSR instead of MARS would not be in line with the requirements for confinement as CSR was not in a position to urgently deliver the appropriate locomotives to Transnet.

3.3.2 Messrs. S Gama and T Jiyane did not engage with Mr F Callard in order to properly interrogate the query and be in a position to decide and or give guidance to the Board.

3.3.3 Messrs S Gama and T Jiyane should have at least alerted the Board to the queries raised in order for the Board to be in a position to make an informed judgment.

3.3.4 In their failure to inform the Board of the queries by Mr F Callard from the operating

[23] ??

[24] *Mr Francis Callard, as the author of the original memorandum to confine the 100 locomotives*

division viz TFR, Messrs S Gama and T Jiyane breached:

3.3.4.1 section 76(2)(b) which obliges the director to disclose material information to the Board at the earliest practicable opportunity; and

3.3.4.2 section 76(3) that requires the directors to act with a degree of care, skill, and diligence expected from persons in a similar position and with equivalent experience.

3.4 Submitting a misleading memorandum to the Transnet Board justifying the ETC escalation from R 3.8 billion to R 4.4 billion

3.4.1 On 23 May 2014, Messrs B Molefe, S Gama, and A Singh recommended a memorandum to the Board accounting for the increase in the acquisition costs of the 100 Electric locomotives from R3.8 billion to R4.4 billion. Chapter 2 of this Report demonstrates that this memorandum contained unreasonably inflated amounts of monies aimed at justifying the acquisition cost of R4.4 billion.

3.4.2 Messrs B Molefe, S Gama and A Singh failed to properly interrogate the memorandum and note the unreasonableness of the explanation set out in the memorandum.

3.4.3 As a result of the above actions, Messrs B Molefe, S Gama, and A Singh failed to act with a reasonable degree of care, skill, and diligence required from directors in their position as prescribed by section 76(3) of the Companies Act.

3.5 Conclusion

3.5.1 This report has established the following in relation to the acquisition of 100 locomotives from CSR:

3.5.1.1 the confinement of 100 locomotives to CSR was not in compliance with the PPM as it did not meet the requirement of urgency, standardisation, and highly specialised goods as prescribed;

3.5.1.2 the CSR proposal did not meet the objectives of confinement as set out in the memorandum of 21 January 2014 approved by the Transnet board of directors;

3.5.1.3 the acquisition cost escalated from R3.8 billion to R4.4 billion. The memorandum submitted by Mr B Molefe, and recommended by Messrs A Singh and S Gama, justifying the increased cost of R969 million unjustifiably inflated the factors that contributed to the increase. As a result, Transnet overpaid by at least R3.47 million per locomotive and at most, R6.2 million per locomotive; and

3.5.1.4 Messrs B Molefe, S Gama, A Singh and T Jiyane, failed in their fiduciary duties in the acquisition of 100 locomotives from CSR.

CHAPTER 4:
RECOMMENDATIONS

In light of the findings in the previous chapters, it is recommended that the Transnet Board must:

4.1 institute disciplinary proceedings against Mr T Jiyane for failing to alert the Board about the objections raised against awarding the 100 locomotives to CSR;

4.2 refer and/or report some of its former executives[25] to the Judicial Commission of Enquiry into allegations of State Capture for their further investigations.

4.3 institute civil proceedings to recover losses suffered by Transnet as a result of the conduct of its former senior executives[26].

[25] *Messrs B Molefe and S Gama*
[26] *Messrs B Molefe, A Singh and S Gama*

REPORT 3(B)

REPORT 3(B) – EXHIBIT 1

EXHIBIT 1

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TRANSNET

MEMORANDUM

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TO: Transnet Board Acquisitions and Disposals Committee (BADC)

FROM: Mr. Brian Molefe

DATE: 30 August 2013

SUBJECT: MITIGATION OF MDS VOLUMES AT RISK THROUGH THE INVESTMENT IN AND PROCUREMENT OF 100 CLASS 19E EQUIVALENT DUAL VOLTAGE ELECTRIC LOCOMOTIVES AND 60 CLASS 43 DIESEL LOCOMOTIVES.

PURPOSE

1. The purpose of this submission is to request the Transnet Board Acquisitions and Disposals Committee to recommend to the Transnet Board of Directors the following:

   a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:

   b) Note the investment in and procurement of 100 Class 19 E and 60 Class 43 Diesels will protect 24.5 mt of General Freight volumes at risk resulting from the delay in procurement of the 1064 locomotives.

   c) the investment in and procurement of 100 Class 19E equivalent electric locomotives required for the Coal Export Line in the amount of R3 871 m (excluding borrowing costs): **(Annexure A)**

   d) the confinement and award of the procurement for the 100 Class 19E equivalent electric locomotives to Mitsui & Co African Railway Solutions (PTY) LTD (MARS):

   e) the investment in and procurement of 60 Class 43 diesel locomotives for General Freight in the amount of R1 826 m (excluding borrowing costs):

   f) an extension of the current contract with General Electric South African Technologies (GESAT) for 60 Class 43 diesel locomotives:

   g) The above awards will be conditional subject to paragraphs 78 and 79 and

   h) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions.

EXECUTIVE SUMMARY

2. The TFR locomotive fleet plan was first approved by the Transnet Board in April 2011 and updated with the 1064 GFB locomotive submission. The proposed locomotive acquisitions are in line with the fleet plan and have been budgeted for in the *7 Year Market Demand Strategy (MDS) 2013/14 - 2019/20*. The delay in the 1064 fleet acquisition has put General Freight Business (GFB) MDS volumes at risk. The Class 19E dual voltage electric and Class 43 diesel locomotives recently delivered are modern capable locomotives. The Class 19E electric

locomotives will be deployed on the Coal Export line which will enable the release (cascade) of 125 locomotives to General Freight. This submission proposes an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 Class 19E electric locomotives to MARS and extending the current Class 43 Contract with GESAT by 60 locomotives. The accelerated acquisition will mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15. The volumes mitigated increase from 6.2 mt (14/15) to 15.1 mt (16/17) and the cumulative income protected is R9 197 m (13/14 - 16/17).

3. The Class 19E dual voltage electric and Class 43 have proven themselves in service and will improve service quality through improved reliability and reduced maintenance costs.

4. This accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisition remain unaffected. The acquisitions are funded from the current MDS. The delay in the 1064 will extend its funding to beyond the 7 year period.

5. The proposed transactions do not increase the risk related to the 1064 tender process.

6. Socio-economic benefits will be realised in line with existing commitments and expectations.

GOVERNANCE PROCESSES

7. The following governance processes were followed in developing and approving the business case. In each case the queries and amendments were dealt with.

   a) The matter was tabled and recommended by Transnet Freight Rail Investment Committee on 15 July 2013

   b) The matter was tabled and recommend by Transnet Capital Investment Committee (CAPIC) on 19 August 2013

   c) The matter was tabled and recommended by Transnet EXCO on 21 August 2013.

BACKGROUND

8. The status of the TFR Fleet Plan is summarised in the table below:

	Approved Fleet Plan	RFP / Contracted	This Submission	Future
Coal Fleet	112	-	100	62
GFB	1064 & 95	1064 & 95	60	-
Ore Export Line	32 & 26	32	-	26

9. The future acquisitions for the expansion of the Coal Export line to 97.5 mt and the Ore Export line to 80 mt will depend on market conditions and development of the full supply chain across all stakeholders.

10. The submission is to mitigate locomotive shortfalls over the next four years in support of TFR MDS volumes through:

    a) Accelerated 100 Class 19E equivalent dual voltage electric locomotives for the Coal Export Line which will release locomotives to General Freight before the locomotives run out of their useful life.

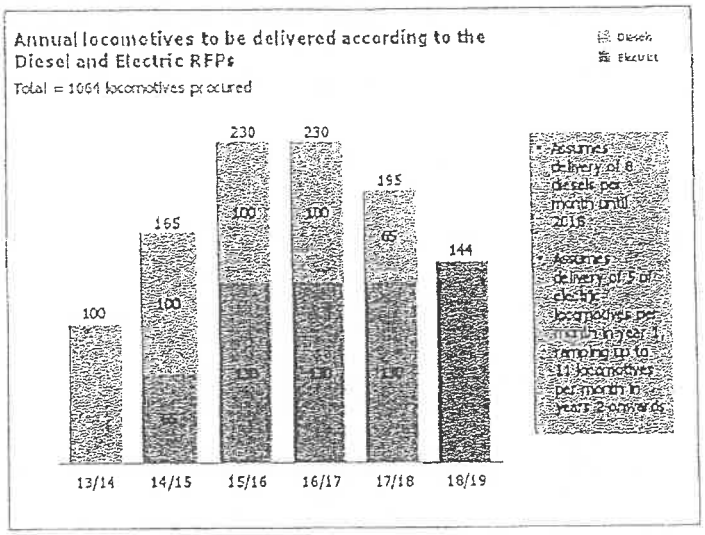
    b) 60 Class 43 Diesel Locomotives for General Freight.

11. TFR's Corporate Plan sets out the *7 Year Market Demand Strategy (MDS) 2013/14- 2019/20* to virtually double General Freight volumes to 170 mt by 2019/20. This requires an integrated and

synchronised approach across locomotives, wagons, infrastructure and personnel. These aspects were covered in the 1064 business case submission.

a) The 1064 locomotive business case which drives the General Freight volumes received its PFMA approval in August 2013. The 1064 business case was in support of the locomotive fleet plan linked to the annual volume increase and the run out of the existing fleet.

12. At the time of the tabling the 1064 business case, the 465 diesel and 599 electric delivery timelines were based on the RFP then in the market. The exhibit below details the locomotive delivery timelines that were modelled as per the RFPs and used as the base case assumption.

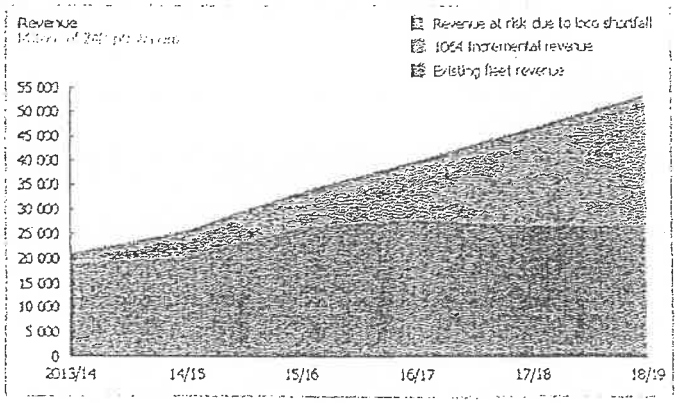


13. The PPPFA exemption also contributed to the delay of the 1064 procurement timeline.

14. With the PFMA approval recently obtained and the tender adjudication process still to be completed, the 1064 program has slipped by at least a year against original expectations. The current RFP timelines are being reviewed by the Locomotive Steering Committee to ensure a compressed timetable to further mitigate volume risks to the MDC.

15. Even with the 1064 business case being approved, there is a revenue shortfall which is exacerbated by the delay in locomotive delivery.

The 1064 locomotives are instrumental in capturing MDS target revenues, but a revenue shortfall will persist due to procurement timelines lagging target demand



16. The MDS shortfalls are tabled below. Even without any delay in the 1064 procurement, the MDS was under pressure in the early years. With the year delay, the shortfall in volumes spikes in 2014/15 and propagates through the MDS.

Shortfall	MDS Shortfall Scenario				
M Tons	2013/14	2014/15	2015/16	2016/17	Cumulative Total
No Delay	7.4	14.7	6.3	4.1	32.52
Year Delay	8.5	19.5	16.4	18.5	62.97
Rand Million					
No Delay	1 716	3 663	1 672	1 091	8143
Year Delay	1 989	4 850	4 373	4 900	16 111
1064 Year Delay					
M Tons	1.2	4.8	10.1	14.4	30.45
Rand Million	272	1 187	2 701	3 809	7 969

17. Should the 1064 locomotives be delayed by two years then the General Freight MDS shortfall Scenario worsens as shown in the following table.

	MDS Shortfall - Two Year Delay				
Shortfall	2013/14	2014/15	2015/16	2016/17	Cumulative Total
M Tons	1.2	7.5	18.0	29.9	56.59
Rand Million	272	1 855	4 804	7 932	14 864

MOTIVATION

18. The program and motivation below partially addresses the above MDS shortfall in the early years protecting tons and income per the table below.

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total

Avg. Rand / Ton	225.4	244.7	255.4	264.0	
100 19E - Tons Protected	2.4	2.4	4.4	7.2	16.44 Tons
Income Protected Rm	R 541	R 587	R 1 134	R 1 901	R 4 163
60 Diesels Tons Protected		3.8	7.9	7.9	19.6 Tons
Income Protected Rm		R 930	R 2 018	R 2 086	R 5 033
Total Tons	2.4	6.2	12.3	15.1	36.04 Tons
Income Protected Rm	R 541	R 1 517	R 3 152	R 3 987	R 9 197

19. The prime motivators for this submission are to:
    a) Protect General Freight volumes through delivering diesel and electric locomotives earlier than is possible through the 1064 program.
    b) Ensure delivery earlier than the 1064 program by:
        i. Confining the procurement of the electric locomotives
        ii. Extending the current diesel locomotive contract.

MDS Shortfall – 100 Class 19E Dual Voltage Electric Locomotives:

20. The 100 Class 19E locomotives will be deployed on the Coal Export Line which will enable the release of 125 locomotives to the General Freight network protecting approximately 16.4 million tons (cumulative 13/14-16/17) of General Freight in the 7 Year MDS volume targets and thus allowing growth in the GFB market which would not have been possible because of the 1064 locomotive procurement delay.

21. The locomotive fleet plan presented to the Transnet Board in April 2011 proposed 112 new locomotives to meet an unconstrained coal export demand of 97 mt by 2015/16 with a proposed fleet of 308 electric locomotives. The "Capital investment for Export Coal 81 mt" predicated replacing the aged fleet with Class 19E equivalent locomotives. The updated locomotive fleet plan of April 2013 accompanying the 1064 General Freight locomotive business case also predicated 112 new locomotives for the Coal Business.

22. Subsequent to the Fleet Plan, the operational model was revised to take full advantage of the dual voltage capability of the Class 19E locomotive. The changeover to the new operational model commenced in July 2013 and will build up as drivers are trained on Radio Distributed Power operations on the current fleet and new the locomotives become available. This changes the future mix of the Coal Fleet. The new operational model is bringing about greater efficiencies and creating capacity.

23. The 112 locomotives were for expansion and replacement. Due to the volume shortfall in MDS it was decided to accelerate the acquisition of 100 electrics to enable the cascade of 125 locomotives to GFB and mitigate the MDS volume risk.

24. Cascading locomotives to General Freight will assist in mitigating the delay currently experienced in the 1064 program. In all cases the cascading will facilitate growth though to 2017/18 when the 1064 delivery begins to have significant impact. The class 7E and Class 10E series of the current coal fleet are facing imminent run outs, increasing maintenance costs and decreasing reliability and the cascade to General Freight is an interim measure.

25. The 100 Class 19E locomotives will sustain the Coal Line electric fleet for 81 million tons per annum capacity and standardize the coal fleet on Class 19E type locomotives with significant operational and cost advantages.

    a) To achieve this operational efficiency requires 200 wagon trains to bypass Ermelo Yard and couple parallel to the main line eliminating shunting and standing time in the yard.

26. The cumulative cascade program for the Class 10E and Class 7E locomotives depends on the acquisition of the 100 Class 19E locomotives which we envisage can be cascaded to GFB, as an interim measure, as follows;

    a) 40 in 2013/14

    b) 74 end 2015/16

    c) 120 end 2016/17

27. The first locomotives are cascaded in 2013/14. There are no or minimal cascades in 2014/15 as the locomotives are being delivered and commissioned. The effectiveness of the cascade is felt in 2015/16 and beyond.

28. Using the rule of thumb for General Freight that 100 locomotives generate approximately 6 mt per annum, the 125 released locomotives will protect approximately 7.2 mt per annum of general freight.

29. The exact allocation to the areas below will be determined at the time of cascading according to operational priorities.

    a) **Manganese exports through Ngqura:** Manganese exports from the Northern Cape through Ngqura are expected to grow according to the *7 Year Business Plan* to 12 mt (and to 16 mt thereafter). The Class 7E series released from the Coal Line to General Freight traffic will supplement this service till the full complement of class 20E locomotives have been delivered where after the Class 7E series will be retired.

    b) **Thabazimbi – Pyramid South:** This is an AC electrified section served by Class 7E series locomotives and the predicted volume growth is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	8.868	10.347	15.135	17.056	18.446	22.897	22.912

    c) Cascading the Class 7E Series will facilitate volume growth through to 2015/16 as well as the potential life extending / technology changing modification on the cascaded Class 10E series.

    d) **Maputo Export:** This is a DC electrified section suitable for Class 18E locomotives only. The cascaded Class 10E will release Class 18E locomotives from other sections which will be transferred into this section. The tonnage increase is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	6.421	8.353	12.469	13.499	16.446	21.168	21.598

    e) **General Freight on the Coal Line:** This traffic uses DC traction or Diesel locomotives to Ermelo and then AC electrification to Richards Bay. Currently Class 7E3 locomotives

are designated for this traffic south of Ermelo. Releasing Class 11E locomotives from the export coal operation will enable the additional traffic and also substitute for the current Class 7E3 which will be cascaded.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	10.702	11.901	13.404	15.036	15.733	16.032	16.470

30. The TFR Business Plan volume projections for the Coal Export Line are:

	Actual	Actual	Budget	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Export Coal Mt	67.7	69.21	77.00	81.00	81.00	84.00	95.00	97.50	97.50

31. The 100 Class 19E business case articulates the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export Line.

32. The market analysis and infrastructure investment for "Capital investment for Export Coal 81 mt" was recommended by Transnet Board on 16 February 2011 and approved by the Shareholder (Minister of Public Enterprises) on 20 June 2012.

33. Other aspects more fully covered in the 100 Class 19E Locomotive submission are:

a) Reliability and Operational efficiency

b) Savings on operational expenditure and capitalised maintenance

c) Energy Savings

d) Locomotive Fleet Plan and Standardisation and its benefits which include:

i. The fleet is standardized with operational Interoperability

ii. Standard maintenance practices are propagated

iii. Reduction in spares holdings and special tools

<u>MDS Shortfall – 60 Class 43 Diesel Locomotives</u>

34. TFR is in the process of acquiring 143 class 43 Diesel locomotives from GESAT which have been delivered over the past two years which are have proven to be a capable locomotive. Given the MDS volume shortfall it is proposed that a further 60 locomotives be acquired from GESAT to further mitigate the volume risk as those in the 1064 program are now likely to come on stream in 2015.

35. The efficiency utilization of the locomotives will be comparable to that currently achieved on the Phalaborwa – Richards Bay flow of 7 262 GTK per locomotive month. This flow powered by new class 43 Diesels already exceeds the national fleet efficiency targeted for 2018/19. This represents a 24% increase on the targeted 2013/14 efficiency.

36. The 60 locomotives have a potential mitigation of 3.8 – 7.9 mt at an average 8 149 GTK's per loco per month exceeding the current Phalaborwa – Richards Bay flow. The potential income protection is R5 033 m (cumulative 2014/15 - 2015/16). The exact allocation of the 60 locomotives will be confirmed at the time of deployment over the following flows:

a) Botswana Coal to Bulk Connexion and Richards Bay.
   i. Potential 1.8mt – 3.8mt
   ii. Diesels required: 35 inclusive of technical allowance.
   iii. Potential GTK's per loco per month: 5 957
b) Elitheni Coal from Sterkstroom to East London
   i. Potential 1mt to 2.5mt
   ii. Diesels required: 15 inclusive of technical allowance
   iii. Potential GTK's per loco per month: 12 784
c) Manganese from Postmasburg to Bloemfontein / Bloemcon
   i. Potential 1 - 1.6mt mostly from new entrant miners.
   ii. Diesels required: 10 inclusive of technical allowance.
   iii. Potential GTK's per loco per month: 7 821.

PROJECT BENEFITS

37. Protection of GFB MDS income and targets amounting to R4 163 m for the 100 Class 19E and R5 033 m for the 60 Class 43 Diesels over the period 2013/14-2016/17.
38. Coal Export volumes and income are protected though improved reliability.
39. Sustainability objectives as per the Transnet Sustainability framework are met threefold:
    a) Sustainability from an **economic perspective** is met by offering a long term cost effective, low cost rail solution that addresses the needs of Industry to remain globally competitive and allows emerging miners to enter the coal export market.
    b) Sustainability from a **social perspective** is met through the optimisation of manufacturing facilities, job creation and proactive stakeholder engagement.
    c) Sustainability from an **environmental perspective** in energy savings through (i) the improved efficiency of the new locomotives and (ii) the overall energy saving through the regenerative capability of the locomotives.
40. The programme will support the shift from road to rail as the cascaded locomotives take up the shortfall in the General Freight market.
41. Benefits specific to the 100 Class 19E include:
    a) Energy savings will be achieved with an 18% improvement in KVA requirements over the old technology Class 7E and Class 10E locomotives.
    b) The regenerative capability of the new locomotives introduces further energy savings of between 22% and 26%.
    c) Quantifiable savings in maintenance of the new locomotives over the older series.
    d) Not quantified but direct and indirect savings with uninterrupted operations due to fewer failures.
42. Benefits specific to the 60 Class 34 Diesels include:
    a) Fuels savings of 8% over the older diesel fleet.

b) Significantly reduced failures compared to the current diesel fleet improving availability and reliability.

c) Standardisation of maintenance regimes with current Class 43 fleet.

d) Virtual elimination of significant damage to rail infrastructure (skid-marks) which are prevented by the modern traction control system.

e) The characteristics of the locomotive more closely match that of the electric fleet enabling optimum use of traction capability when worked in multiples with electric locomotives using RDP.

FINANCIAL AND BUDGET IMPLICATIONS

43. The financial motivation and budget implications for the 100 Class 19E and 60 Class 43 Diesels are discussed in detail in the respective submissions.

100 Class 19E Equivalent

44. The 100 Class 19E Locomotives are summarized below:

a) A base price per locomotive price of R 34.34 m (2013/14 - Yen 385 m @ Rand/Yen 0.09823)

b) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 343	R 1 737	R 1 439				R352	R 3 871
Delivery		56	44					100

c) Based on the original Coal 81 mt model, the acquisition of the 100 Class 19E sustaining locomotives has a net present value (NPV) of R98.49m over 10 years.

d) The present value (PV) of the Total Cost of Ownership using the 1064 locomotive model is R59.1m.

e) Approved infrastructure investments supporting the project totals R3 974 million.

60 Class 43 Diesels

45. The 60 Class 43 Diesels are summarized below:

46. The 60 Class 43 locomotives **are over and above** the 465 diesels of the approved 1064 locomotives.

a) The delays in the 1064 will result in the delivery of the 1064 locomotives extending beyond the current *7 year MDS* capital plan. The diesels in particular will not meet the originally planned delivery.

b) The fleet plan and the 1064 locomotive business case stress sustaining the fleet beyond the seven year period in the order of 60 to 80 locomotives per year.

c) The 60 Class 43 diesels will be funded from the 1064 locomotive budget for the first year.

d) The 1064 locomotive budget will be adjusted commencing the 2014/15 7 year cycle for the delayed delivery of the 1064 beyond the current 2013/14 7 year cycle. This

adjustment is in line with the stated intent of sustaining the fleet though a continuous replenishment of new locomotives.

e) A price per locomotive price of R 26m @ Rand / USD (R9.59/USD) (R27.67 m @ R10.4/USD for 2014/15).

f) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 156	R 1 504					R166	R 1 826
Delivery		60						60

g) The acquisition of the 60 Class 43 Diesel preserves an NPV of R1 529 m based on the 1064 Locomotive Model.

h) The PV of the Total Cost of Ownership using the 1064 Locomotive model is R59.1m.

PROCUREMENT STRATEGY

Confinement of 100 Electric Locomotives

47. An extract from the latest approved Procurement Procedures Manual, dated 01 October 2012, stipulating grounds for confinement which are relevant to this submission, reads:

"Confinements will only be considered under the following circumstances:

a) where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. However, where a genuine urgency has been created by the lack of proper planning, urgency can still be relied upon as a ground for Confinement. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.

b) the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;

c) for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or

d) when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time."

48. Par a, c and d are relied upon with urgency (a) being the main reason as described in this memo in detail. The urgency is motivated on:

    a) The one year delay between the requirements of the locomotive fleet plan and the delivery and commissioning of 1064 locomotives for general freight, with its related threat to the MDS volumes. The early delivery of these locomotives will release capacity to general freight as outlined earlier and provide a partial buffer until there are material deliveries of the 1064 locomotives. It buffers the anticipated shortfall in volumes as described earlier.

    b) The need for 60 Diesel locomotives and 100 Electric locomotives in order to deliver upon committed volumes in line with the MDS as a matter of extreme urgency.

49. In 2009, Transnet Freight Rail (TFR) entered into a contract with Mitsui & Co African Railway Solutions (PTY) LTD (MARS for the procurement of 110 new Class 19E electric locomotives for the Coal Export Line; TFR took delivery of the last locomotive in August 2012. MARS are also delivering the Class 15E locomotives for the Ore Export line and the last one is due to come of the factory line in September 2013:

    a) Feedback from the Technical Engineering team is that the Class 19E and Class 15E locomotives are performing well and have proven to be both efficient and reliable.

50. The Class 19E is a modern locomotive and the proposed 100 locomotives will be an extension of the current design. No prototyping or type testing is required conservatively saving 12 months or more.

51. The Japanese Yen has weakened marginally against the South African Rand. The Rand in turn has weakened significantly against the US Dollar. The foreign component of the original 110 x Class 19E contract was 40% Yen based and a contract on similar terms would be considerably cheaper than a new US Dollar based contract.

52. Considering the volumes at risk and the urgent requirement for the coal line locomotives to cascade the current fleet to General Freight, it is proposed that the procurement be confined to MARS Railway Solutions, a subsidiary of Japan's Mitsui & Co Limited.

53. Confinement will realize the quickest delivery and existing facilities previously used for the assembly of the 110 x Class 19E, the 76 x Class 15E locomotives, and 43 Class 43 Diesel locomotives will be idle and available and Transnet will save by not requiring set up costs of facilities and production runs.

54. The locomotives requested have been through the teething phase with most initial manufacturing and operational faults rectified. Present models are operating optimally and have exceeded their design parameters

55. Crew (drivers and assistants) are already trained on these locomotives.

56. TE is currently maintaining and repairing the Class 43 locomotives and the Class 19E Series which means that no additional training will be required

57. The following jobs will be retained in assembly facilities:

    a) Approximately 186 jobs will be retained at the TE assembly facility and further jobs will be retained in downstream enterprises

b) Approximately 400 jobs will be created over the period at the Union Carriage Works assembly facility and further jobs will be retained in downstream enterprises

58. Standardisation of the locomotive fleet brings the following benefits:

i. Operational simplicity

ii. Reduced spares holdings and simplified and standardised inventory

iii. Simplified maintenance

iv. Crew operations

59. Re-starting of these production lines will be quick; the designs are finalised so delivery lead times will be kept to a minimum and set up costs reduced.

60. Toshiba has indicated its serious intent in building a traction motor assembly facility in SA and this could be expedited through the SD obligations that would be linked to this contract.

61. The above reasons satisfy the confinement criteria of 'a', 'c' and 'd'.

62. Given that the original 110 Class 19E contract arose from an open tender process it would not be advisable to extend this contract as this could be seen as a material amendment to the initial tender. Additionally, the terms and conditions will be considerably different to those entered into in 2006 and will include significantly more SD requirements. This calls for a new procurement event via a confined tender.

Contract Extension with GESAT for 60 Class 43 Diesels

63. In December 2009, Transnet concluded a contract with General Electric South Africa Technologies (GESAT) PTY Ltd for the Supply of 100 Diesel Locomotives through an open tender process.

64. In 2011, through a confinement process, TFR concluded a contract with GESAT for an additional 43 Class 43 diesel locomotives. The completion date of the 43 Locomotives was end June 2013 in line with the Transnet planned schedule. The last few locomotives to roll out of assembly will be tested by 30 September 2013, whereafter they may be accepted. GESAT and TE have the ability to roll out between 8 to 10 locomotives per month.

65. In both transactions, Transnet Engineering (TE) was appointed as GESAT's subcontractor for the local assembly of the locomotives and the contractual obligations have been met.

66. As the production line is currently operational and design is finalised, delivery lead times will be reduced by approximately 18 months.

67. TE is currently maintaining and repairing the Class 43 locomotives which means that no additional training will be required.

68. The latest approved Procurement Procedures Manual, dated 01 October 2012, par 22.4.2, allows for a contract extension in this instance as we are requesting a material contract amendment to a previously confined event. The reasoning for the original confinement of the additional 43 loco's is still applicable given that there is a genuine unforeseeable urgency which has arisen due to the delay in the 1064 tenders, such urgency is not be attributable to a lack of proper planning, the goods are highly specialized and largely identical to those previously executed by that supplier and standardisation is a key benefit. Given that a contract is already

in place and that the additional 60 loco requirement will be largely on the same terms and conditions as the 43 loco confinement, this warrants extension.

Contracting strategy

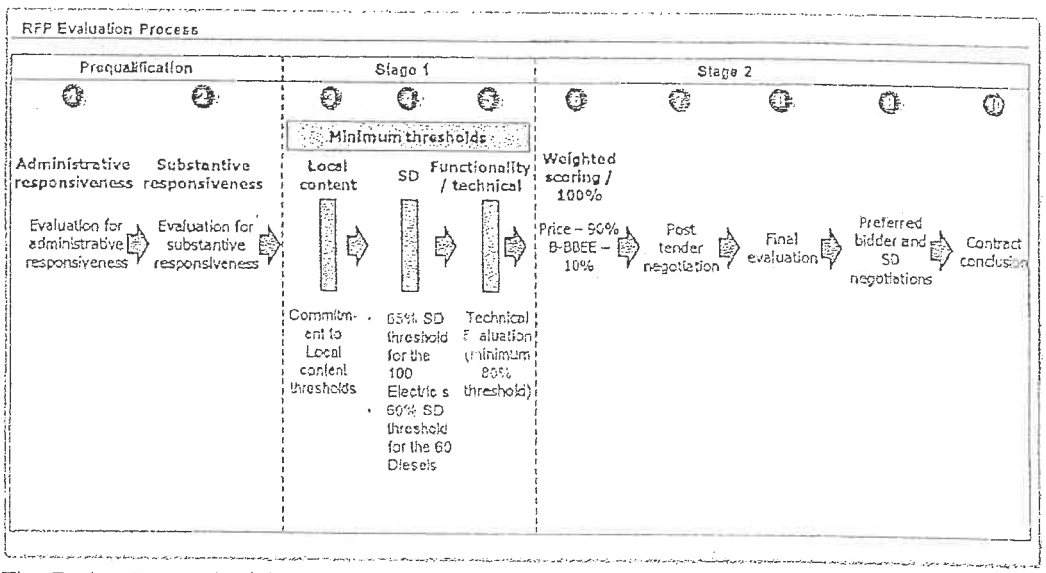
69. Extend the current contract with General Electric South African Technologies (GESAT) for 60 Class 43 Diesel Locomotives.

70. Confine and award to Mitsui & Co African Railway Solutions (PTY) LTD (MARS) for 100 Class 19E locomotives.

71. The reasons for the different confinement and extension strategies have been highlighted in the sections above.

Evaluation Methodology

72. The Request for Proposals (RFP's) for the confinement to Mars and extension to GESAT respectively will be issued and their respective proposals will be assessed as described below. The normal open tender process would follow the evaluation methodology indicated below.



73. The Evaluation Methodology for an open tender comprises the following steps:

1) **Administrative responsiveness** – bidders will need to pass the administrative responsiveness to enable them to be evaluated further. This includes evaluating all returnable documents were submitted and the bid documents were duly signed by the bidders

2) **Substantive responsiveness** – bidders must ensure that all pre-qualification criteria, the pricing schedule is completed, their bid materially complies with the scope/specification and that all material terms and conditions in the bid documents have been met

3) **Local Content** – bidders must comply to the minimum local content thresholds for Electric and Diesel locomotives as stipulated in the PPPFA

4) **SD thresholds** – the SD thresholds of 65% and 60% set for Electric and Diesel locomotives respectively must be met for bidders to proceed to the next step of the evaluation.

5) **Technical evaluation** – bidders will need to pass the minimum technical thresholds of 80% for both Electric and Diesel locomotives to proceed to the final phase (stage 2) of evaluations.

6) A **weighted scoring** approach for Price (90%) and B-BBEE – scorecard (10%) will be used determine final award

7) **Post tender negotiations** – post tender negotiation requesting preferred bidders to provide their Best and Final Offers

8) **Final evaluation** – preferred bidders to undergo final evaluation based on the 90/10 as stipulated by the PPM

9) **Preferred bidder negotiations** – selection of the preferred bidder and negotiation of various aspects including final SD commitments and the B-BBEE improvement plan (FRC Future)

10) **Conclude contract** – the parties sign a contract and addendums to formalize the agreement.

2. The above process is modified for the proposed confinement and extension in that:

   a) Administrative response (1) is simplified to essential documentation such as tax clearance certificate, BEE certificate etc.

   b) Substantive response (2) will be required on to ensure that all material terms and conditions in the bid documents have been met

   c) Local content threshold must be met

   d) SD threshold must be met

   e) Technical evaluation (5) is simplified to ensure that all modifications / improvements made over the life of the locomotives (Class 43 and Class 19E's) for incorporation.

   f) Weighted Scoring Approach (6) and

   g) Final Evaluation (8) is not required due to confinement and extension to one party although evaluation against expected SD, BEE improvement and price ranges will be conducted to ensure the deals meet Transnet's expectations.,

Local Content, Designated Components and Supplier Development (SD)

74. Meeting Local Content (3) is a prerequisite to proceeding to SD threshold (4) evaluation.

75. The targets per PPPFA National Treasury Instruction Note (dated 16-07-2012) on 'Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector' (Section 3 (3.1) are compulsory and are elaborated in following table:

Local Content - Section 3 (3.1)	
Category	Weighting
Local manufacturing: Threshold: 60% for Electric and 55% for Diesels)	100% of PPPFA

Total	100%

76. In addition, the progressive Local Content for Designated Components (Section 3 (3.2) will also be applicable to both Electric and Diesel locomotives as per the table below though they may not materialize as the contracts will be fulfilled before three years and they are not programmatic.

Designated Component / Activity Heading Only - Section 3 (3.2)	% Local Content 3-5 Years	% Local Content 6 Years and above.
Assembly of Locomotives and EMU	100%	100%
Car Body	100%	100%
Bogie (including wheels)	100%	100%
Coupling Equipment	100%	100%
Suspension	100%	100%
Heat, Ventilation and Air Conditioning	60%	70%
Braking System	70%	80%
Alternators	90%	100%
Traction Motors	65%	80%
Electric Systems	80%	90%

77. The Supplier Development targets are set out in the table below. They are considered realistic and achievable without posing a risk to the project.

Supplier Development (SD)	
Category	Weighting
Investment in plant – bidders monetary commitment to investment in plant and equipment	10%
Downstream procurement – bidders commitment to supporting 2nd, 3rd tier suppliers, etc.	15%
Skills development – supplier's commitment to skills development (number of people and monetary)	20%
Job creation / preservation – supplier's commitment to number of jobs maintained/created	30%
Small business promotion – supplier's commitment to usage of small businesses (monetary)	10%
ED/SD – bidders commitment to SD initiatives and ED development	15%
Total & Threshold > 65% for Electric and > 60% for Diesels	100%

<u>Award Conditions – 100 Class 19E Equivalent</u>

78. Approval to award the business to MARS is requested subject to SD compliance with the following:

a) Local content meeting or exceeding 60% by value

b) Compliance with new SD commitments with a minimum of 65% as measured in the SD Value Summary which forms part of the RFP

c) Transnet will also request a prince range of between R30.5m and R32m for the purposes of negotiation with the objective of coming in within the R34.34m per loco.

Award Conditions – 60 Class 43 Diesels

79. Approval to award the business to GESAT is requested subject to SD compliance with the following:

a) Local content meeting or exceeding 55% by value

b) Compliance with new SD commitments with a minimum of 60% as measured in the SD Value Summary which forms part of the RFP

c) Transnet will also request a prince range of between R22.5m and R24m for the purposes of negotiation with the objective of coming in within the R26m per loco.

SOCIO-ECONOMIC BENEFITS

80. The transaction will be aligned with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSI, and IPAP2.

81. Meeting the MDS growth targets supports the National Development Program in the industrialisation of SA's mineral resources.

82. The program supports the sustainable development of a South African locomotive production industry.

83. Economic benefits include:

a) Using idle capacity available in South Africa

b) In terms of the National Treasury instruction note the local content for designated sector (rolling stock - locomotives) for electric locomotives is 60% and for diesel locomotives is 55%.

c) Ability to reinstate / retain local jobs as the skills pool already exists

d) Approximately 2 900 indirect and direct South African jobs will be preserved which include approximately 186 direct jobs at the TE assembly facility and 1076 (first, second and third tier) at MARS with further jobs retained in downstream enterprises

PROJECT RISKS

84. Both projects face several risks that could affect their overall economic viability:

85. **Locomotive Delivery:** This could arise if (i) the confinement is not approved (ii) unforeseen circumstances on the part of supplier including not complying with CSDP conditions.

86. **Lower volumes:** MDS volumes may not materialise per plan negating the need to cascade locomotives and / or the class 43 diesels not being fully or optimally utilised.

87. The coal line locomotives are nonetheless still nearing their end of life and these will require replacement in the short term to sustain coal exports at 81 mt. Long term coal contracts are currently being negotiated for 81 mt and there are sufficient coal reserves to sustain this tempo. The model and NPV is further based on 95% of the coal export volumes materialising. There is no risk to this project if volumes do not ramp up to 97.4 mt.

88. Exchange Rate Fluctuations:

    a) For the 100 Class 19E confined to MARS, the Yen / Rand Rate is forecast to be more stable than the Rand / Dollar rate. Localisation is already set at 60%, thus mitigating exchange fluctuation risks.

    b) For the 60 Class 43 confined to GESAT the base price is taken R10/USD. The rate is forecast to strengthen in the short term which includes the duration of the contract before weakening.

89. Tariffs not being realised:

    a) For the coal line current FOB prices for RBCT coal are around US$90 per ton, well below the peak of over US$150 per ton. At R9.50/USD and a tariff of R126 per ton, transport accounts for ~13% of the FOB price. Pressure on tariffs will remain till there is a long term sustainable uptick in the FOB price.

    b) For General Freight increases linked to inflation are not seen as a risk while increases above inflation will be subject to scrutiny and downward pressure.

90. Tariff exposure to commodity downturns:

    a) In the short term this could impact the viability of emerging miners for export coal. This will affect only 3 mt as the rest are based on long term contracts being negotiated. The model is also based on 95% of the volumes realising.

    b) Locomotives have a 30 year life-cycle which transcends economic cycles. In the short to medium term the global economic recovery is seen as slow but sustained. The economic environment for General Freight locomotives was fully set out in the 1064 business case.

91. **Over Capitalisation of the Coal Line:** This is not seen as a risk as the locomotives sustain current volumes of 81 mt for which long term contracts are being negotiated. The reserves in the Mpumalanga basin are also acknowledged to be able to sustain this tempo for the long term. There is thus little risk of stranded assets. The locomotives being replaced are at the end or very close to the end of their economic life and would require replacement in the very short term even if they were not cascaded to General Freight.

92. Project interdependencies:

    a) Crucial to the new operations and achieving 81mt on the Coal Export Line with the additional 100 a Class 19E equivalent requires constructing the Ermelo bypass line. This line enables two 100 wagons trains from the mines to be coupled together enabling the train to proceed as a single 200 wagon Radio Distributed Power (RDP) train without going into Ermelo Yard.

    b) An interdependency for the 100 Class 19E locomotives is cascading locomotives to general freight. The 60 Class 43 Diesels do not have other project interdependencies

93. Project risks will be mitigated during implementation by a dedicated cross-functional project team to manage the contract.

RECOMMENDATION:

94. It is recommended that the Transnet Board Acquisitions and Disposals Committee recommends to the Transnet Board of Directors the following:

a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:

b) Note the investment in and procurement of 100 Class 19 E and 60 Class 43 Diesels will protect 24.5 mt of General Freight volumes at risk resulting from the delay in procurement of the 1064 locomotives,

c) the investment in and procurement of 100 Class 19E equivalent electric locomotives required for the Coal Export Line in the amount of R3 871 m (excluding borrowing costs): (Annexure A)

d) the confinement and award of the procurement for the 100 Class 19E equivalent electric locomotives to Mitsui & Co African Railway Solutions (PTY) LTD (MARS);

e) the investment in and procurement of 60 Class 43 diesel locomotives for General Freight in the amount of R1 826 m (excluding borrowing costs):

f) an extension of the current contract with General Electric South African Technologies (GESAT) for 60 Class 43 diesel locomotives:

g) The above awards will be conditional subject to paragraphs 78 and 79 and

h) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions.

RECOMMENDED BY:

Siyabonga Gama
Chief Executive
Transnet Freight Rail
Date: 2013.08.30

RECOMMENDED BY:

Garry Pita
Transnet SOC
Group Procurement Officer
Date: 2/9/13

RECOMMENDED BY:

Mohammed Mahomedy
Group General Manager Capital Integration
Transnet SOC
Date: 05/09/13

RECOMMENDED BY:

Anoj Singh
Group Chief Financial Officer
Transnet SOC
Date: 16/09/13

RECOMMENDED BY:

Brian Molefe
Group Chief Executive
Transnet SOC
Date: 20.9.13.

REPORT 3(B) – EXHIBIT 2

CHAPTER 15 : SPECIAL CASES

15.1 CONFINEMENTS

Confinements are to be used under the following circumstances:

- for transactions over the value of R2 million
- usually when Goods/Services are required on a once-off basis
- when the nature of the Goods/Services fall within one of the grounds for Confinement

In the context of construction procurement, a "Confinement" to one Bidder is referred to as a negotiation procedure.

15.1.1 Definition

A Confinement is a mechanism where permission is sought from the person with the appropriate Delegation of Authority to **"confine"** enquiries for required Goods/Services to one or a limited number of Bidders.

A Confinement is a departure from the norm of an open, competitive bidding process and as such must be treated with great circumspection. The misuse of confinements has the potential to entrench monopolies and as such is at odds with the imperatives of the New Growth Path. The NGP seeks to encourage open competition and the introduction of new entrants into the market, particularly those from previously disadvantaged communities.

It is important to note that confinements only apply to transactions over R2m. These rules therefore do not apply to transactions falling below R2m. The quotation system applies to such transactions regardless of the number of quotations the buyer is able to obtain.

15.1.2 Grounds

Confinements will only be considered under the following circumstances:

a) where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.

b) the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;

c) for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or

d) when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground

is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time.

15.1.3 Types of confinements

Depending on the circumstances one of the following two Confinement routes will be applicable:-

a) The normal Confinement route:
- prior authority to confine must be obtained from the person with the relevant delegation;
- bids will close at the relevant AC (relevant AC to be indicated in the submission for approval); and
- the relevant AC will consider the award of business.

b) Confine and award which is only to be used in cases where there is a sole supplier and/or cases of extreme urgency:
- prior authority to confine and award must be obtained;
- the submission to the person with Delegated Powers must fully motivate the reason for the urgency and provide an indicative / benchmark price;
- bids will close at the relevant AC (relevant AC to be indicated in the submission for approval);
- the business will be awarded by the person with the delegation to the relevant Bidder provided that the final price is within the benchmark as initially approved by the person with the delegation to approve the Confinement; and
- the AC must be informed after award.

15.1.4 Delegation of authority

a) Depending on the value of the transaction, only the GCE, BADC and the Transnet Board have the authority to authorise a Confinement.

b) The relevant monetary thresholds for authorising confinements in terms of the DoA Framework effective 1 June 2013 are as follows:

(i) GCE – up to but not exceeding R250 million;

(ii) BADC – up to but not exceeding R1 000 million; and

(iii) The Board – exceeding R1 000 million.

c) In instances where a confinement is confidential the GCE may approve such confinement without the confinement request being routed via any other authority.

15.1.5 Process

a) The submission for Confinement must be fully motivated in writing by the end-user and the OD CPO to the OD's main AC and the OD's CEO for prior written support of the recommendation to confine. It is important to properly motivate submissions taking into account all relevant factors. Poorly motivated submissions will be referred back to the OD concerned for re-motivation. The submission should be submitted on the relevant template under cover of a memo to the GCE.

b) Only if the reasons advanced for the proposed Confinement are supported and considered to be in the best interest of Transnet, should the Confinement of business to one or more contenders be escalated to Group.

c) The Confinement request must be considered by the Transnet GCSCO and the Group CFO each of whom shall indicate whether or not they support the request.

d) The matter must then be submitted to the GCE, the BADC or to the Board itself for final approval depending on the value of the transaction.

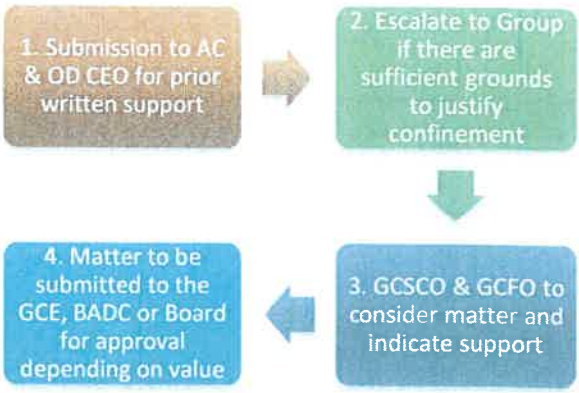


Figure [25] – The Confinement process

15.1.6 Confinement divided between more than one Bidder

Should it be decided to divide the total requirement of a Confinement between more than one Bidder, the total value of the business and not the individual contracts shall determine the level of approval required for the Confinement. Only after the necessary approval has been obtained, may the individual contracts be signed by the Manager with the necessary delegated contractual powers.

15.1.7 Amendment to contracts awarded via Confinement

a) Where a Material Amendment (i.e. the price, duration or scope is increased by more than 10%) to a contract awarded via Confinement is required, the matter must be sent to the relevant AC for support. The AC must submit the amendment to the original approver of the Confinement for prior approval of the amendment. The same principle applies where the cumulative value of amendments equals or exceeds 10% of the original contract value.

b) Where an amendment increases the price, duration or scope by less than 10%, this should be submitted to the AC for approval.

c) Where an amendment to a contract results in the value of the Confinement reaching a higher approval level, the matter must be sent to the original approver for review and recommendation. Approval must then be sought from the person with the delegated authority to approve the higher value of the Confinement.

d) Please refer to paragraph 22.5.7 for the general principles relating to contract amendments.

REPORT 3(B) – EXHIBIT 3

EXHIBIT 3

TRANSNET

EXCERPTS FROM THE MINUTES OF THE MEETING OF THE BOARD ACQUISITIONS AND DISPOSALS COMMITTEE NO.13/12 HELD ON 21 OCTOBER 2013 AT 09:00 IN BOARDROOM 4902, 49TH FLOOR, CARLTON CENTRE, JOHANNESBURG

"5 **MATTERS FOR DISCUSSION/APPROVAL**

5.1 **TFR: Update on the 1064 transaction**

Mr Callard joined the meeting at 09:13

5.1.1 Management highlighted that the tender for the procurement of the 1064 Electric and Diesel locomotives for General Freight Business ("GFB") was issued on 13 July 2012 and due to close on 16 October 2012; however, the deadline was extended to 30 April 2013. The Shareholder Minister has since granted the S54 PFMA Approval for the transaction. A two-fold evaluation process that focussed on the administrative and substantive responsiveness was applied. A Procurement Management Office will be created by TFR to manage all documentation relating to the transaction. To ensure that there is no contamination of information, the evaluation lead team is separated from other teams. The process is reviewed and recommended by the TFR CE and GCFO for the GCE's approval. The GCE will approve the request to progress to the next phase of the project.

Ms Tshepe joined the meeting at 09:15

5.1.2 Management indicated that the evaluation process was underway. Negotiations with the potential bidders have not yet commenced. Management proposed that the locomotive requirements be approved annually by the Committee or the Board to determine the procurement for the next year. This will allow a year's lead time for the manufacturers to adjust factory supplies, thus enabling locomotives to be matched according to absolute requirements of the next year. Programmatic procurement will form part of the final contract and will be tabled to the Board for approval. The negotiation process will be finalised by March 2014; with the contract finalised by May 2014.

5.1.3 The GCE sought clarity on the negotiation process timelines when the adjudication process is scheduled to be finalised by 30 October 2013. Management stated that the timelines were necessitated by various factors, amongst others, the number of tenderers, the range of negotiation that will cover both financial and technical aspects, the extent of the negotiation process, the technical aspects relating to the transaction and the December holiday break. The Chairperson requested Management to coordinate with the GCE's Office to expedite the matter prior to re-tabling to the Committee. Messrs Molefe/ Gama

5.1.4 The Chairperson stated that while he was not drawing comparisons, PRASA had a higher value tender and was able to conclude the negotiation process and award the tender in a period of 60 days. TFR should shorten the negotiation and award periods. The international bidders do not share the same lengthy holiday period as is customary in the Country. While the Committee will not be micro-managing Management, the Committee requested submission of steps being taken into the finalisation of the transaction; and those already completed. Messrs Molefe/ Gama

5.1.5 Ms Tshepe sought clarity behind the withdrawal of the 100 + 60 Diesel submission from the current Agenda as the Committee had requested that it be tabled due to the urgency of the transaction. Management stated that the matter was previously tabled to the Committee; and certain concerns were raised. The request was based on a tender that was awarded in 2006 and subsequently confined in 2010. A request for a further confinement was being made. Management indicated that

upon reflection, it opted to withdraw the matter after considering that when the initiatory confinement was made in 2010, there were press reports alleging that the Company had entered into a R1.4bn locomotive procurement "*secret* deal" (that was concluded without being put out to tender, which the then Deputy President Motlanthe's special adviser was set to benefit from). An article in relation to this matter was circulated in the meeting. Ms Tshepe was of the view that the press reports and the confinement ought to have been considered prior to the matter being tabled to the Committee. She stated that the antecedent submission was tabled on the basis of urgency to alleviate the risk relating to MDS volumes. Management stated that the withdrawal of the Agenda Item was due to potential governance risk relating to the transaction.

5.1.6 Mr Mkwanazi was of the view that the Committee should have been provided with the information prior to deliberating on the transaction to allow the Committee to adequately apply its mind to the matter. He further stated that the same information was not provided in 2011 and the communications intelligence was "*caught on the back foot*". Ms Tshepe enquired if a response to the media reports was issued and why the Board was not informed about the matter. She stated that the Committee enquired about the possible governance issues when the confinement was requested. The Chairperson stated that the Board was not provided with a holistic picture and implored upon Management to ensure that instances that may lead to a material risk to the reputation of the Company should be brought to the attention of the Committee.

The Committee noted the update and ***agreed*** that the matter will be dealt with as a matter arising.

Mr Callard was excused from the meeting at 09:40

8 MATTERS ARISING FROM THE MINUTES OF THE PREVIOUS MEETING

8/2 **Procurement of 1064 locomotives for the TFR General Freight Business:** The terms of reference for the appointment of an independent expert will be formulated and finalised by the Board Steering Committee comprised of the Chairperson, Chairperson of Risk and Mr Singh. The Board Steering Committee will gauge the skills required and appoint a service provider. Going forward, the expert will assist the Board

Management stated that the use of the independent expert will not be limited to the Procurement of 1064 locomotives, however, rolled across all matters relating to acquisitions and disposals. Independent expert advice is required on Rail, Ports and Pipes. The specifics in relation to frequency of the expert's attendance will be determined by the Committee. Management will finalise the process of appointing independent expert. A conversation on how the matter will be finalised will be communicated with the Chairperson.

Messrs Singh/ Pita"

REPORT 3(B) – EXHIBIT 4

EXHIBIT 4

TRANSNET

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MEMORANDUM

TO: Transnet Board Acquisitions and Disposals Committee (BADC)

FROM: Mr Brian Molefe, Group Chief Executive, Transnet SOC

DATE: 21 January 2014

SUBJECT: **MITIGATION OF MDS VOLUMES AT RISK THROUGH THE INVESTMENT IN AND PROCUREMENT OF 100 DUAL VOLTAGE ELECTRIC LOCOMOTIVES AND 60 CLASS 43 DIESEL LOCOMOTIVES.**

PURPOSE

1. The purpose of this submission is to request the Transnet Board Acquisitions and Disposals Committee to recommend to the Transnet Board of Directors the following:
   a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
   b) To approve the investment in and procurement of 100 electric locomotives required for the Coal Export Line in the amount of R3 871 m (excluding borrowing costs):
   c) To approve the confinement and award of the procurement for the 100 electric locomotives.
   d) To approve the investment and change in the fleet plan to procure of 60 Class 43 diesel locomotives for General Freight in the amount of R1 826 m (excluding borrowing costs):
   e) To approve an extension of the current Class 43 diesel locomotives contract for 60 additional locomotives:
   f) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions, including the award and process approval.

EXECUTIVE SUMMARY

2. The TFR locomotive fleet plan was first approved by the Transnet Board in April 2011 and updated with the 1064 GFB locomotive submission. The proposed locomotive acquisitions are in line with the fleet plan and have been budgeted for in the *7 Year Market Demand Strategy (MDS) 2013/14 - 2019/20.* The delay in the 1064 fleet acquisition has put General Freight Business (GFB) MDS volumes at risk.
3. This risk will be mitigated by the urgent acquisition of these locomotives.
   a) The heavy haul 100 Electric locomotives will be deployed in the Coal Export Line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 program. The 100 locomotives form part of the already approved Fleet Plan
   b) The 60 Class 43 diesel locomotives also fill the gap pending delivery from the 1064 program. These 60 locomotives do not form part of the approved Fleet Plan and this submission requests an amendment to the Fleet Plan to include these 60 locomotives
4. The Class 43 diesel locomotives recently delivered are modern capable locomotives. They have proven themselves in service and will improve service quality through improved reliability and reduced maintenance costs.

5. This submission proposes an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 electric locomotives to CSR (China South Rail) and extending the current Class 43 Contract with GESAT (General Electric South Africa Technologies) by 80 locomotives. The accelerated acquisition will mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15. The volumes mitigated increase from 6.2 mt (14/15) to 15.1 mt (16/17) and the cumulative income protected is R9 197 m (13/14 - 16/17).
6. The confinement to CSR and extension of the GE contract is motivated on the basis of urgency.
7. This accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisition remains unaffected. The acquisitions are funded from the current MDS. The delay in the 1064 will extend its funding to beyond the 7 year period.
8. The 60 Class 43 locomotives are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 60 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
9. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances.
10. The proposed transactions do not increase the risk related to the 1064 tender process.
11. Socio-economic benefits will be realised in line with existing commitments and expectations.
12. The context and arguments are presented as follows:
    a) History and Status of the TFR Fleet Plan
    b) Status of the 1064 Procurement
    c) Impact of the 1064 delay
    d) MDS Risk Mitigation
    e) Project Benefits
    f) Procurement Strategy
    g) Financial and budget Implications

BACKGROUND

13. The history and status of the TFR Fleet Plan and 1064 Procurement are presented to show that a genuine unforeseeable urgency has arisen and that the urgency is not attributable to a lack of proper planning. (Item 68 "Extract from Procurement Procedures Manual" refers)

History and Status of the TFR Fleet Plan

14. The TFR Locomotive Fleet and Modernisation Plan was presented to the new Board in April 2011 and predicated 776 GF locomotives by 2015/16 for GF volumes of 155.8 mt. The plan was modified in August 2011 when a further 426 locomotives were requested as the volumes increased to 176 mt by 2018/19. To mitigate the immediate shortage and facilitate the volume ramp up, 138 locomotives (95 electrics and 43 diesels) were approved by the Board in August 2011. Minor adjustments were made to the locomotive fleet plan for GFB with the presentation of the business case of the 1064 locomotives in April 2013.
15. The history and status of the TFR Fleet Plan is summarised in the table below:

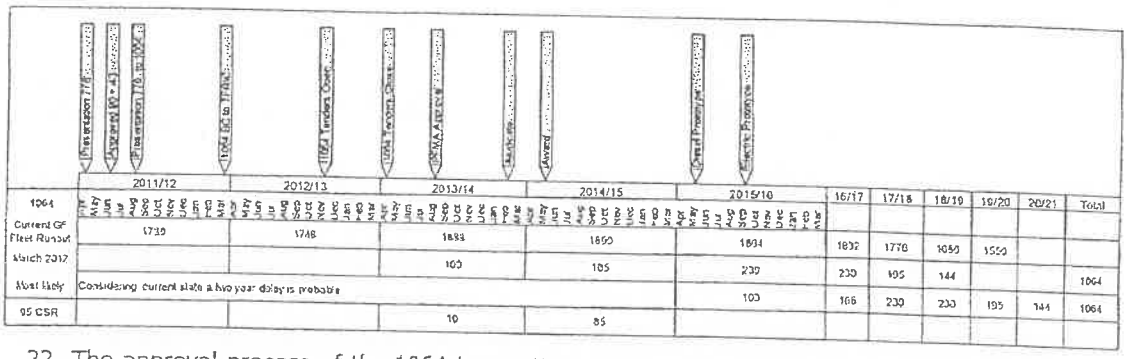
Loco Fleet History and Plan	Tons	Comment and Update
Coal Fleet (26 ton axle)		
112 (100)	97.5	• Probable downward volume revision. Contracts currently being signed for 10 years for 80 mt as coal reserves, sources and Eskom demand are evaluated. • 112 targeted for expansion to 97.5 mt • Current fleet of 10E, 7E and 11E require near term replacement. • 100 (off the 112) switched to fleet replacement pending finality of and commitment to long term coal export expansion and requested per this submission • Feasibility studies investigating expansion of Coal Line to Waterberg as 26ton per axle heavy haul line. This is not currently included in the Locomotive Fleet plan.
GFB (22 ton axle)		
50 EMD		• 50 "like new" EMD diesels were delivered between December 2009 and March 2010 on open tender.
100 GE (Class 43)		• In 2008 these locomotives were identified as a "quick fix" with 81 to sustain the aging fleet and 19 for volume expansion. • GE won the tender, which was confined to three companies, and the locomotives were delivered between May 2011 and January 2013.
776	155 mt	• In April 2011 the Fleet Plan was presented to the "new" Transnet Board for 776 GFB locomotives for 155.8 mt.
95 CSR and 43 GE		• In June 2011 the Board approved 138 locomotives (95 electric and 43 diesels). The electrics were for open tender. A new confined contract was entered into with GE for the 43 diesels. • The 95 and 43 locomotives were determined and limited by the uncommitted funds in the then Five year Capital program • The diesels were delivered between January 2013 and June 2013. • The 95 CSR are planned for delivery March 2014 to March 2015.
1064	170 mt	• August 2011 the locomotive requirements for 176 mt were presented being 1202 locomotives (776+446). • With the 138 already approved the balance of the GFB fleet plan was 1064 locomotives. (1202 -138) • In March 2012 the 1064 approval process commenced in tabling the business case at Transnet Freight Rail Investment Committee. • The 1064 procurement is expanded in the body of the document below.
60		• 60 Class 43 requested to fill the gap in the first year of the 1064 resulting from the delay in procurement.

Loco Fleet History and Plan	Tons	Comment and Update
Ore Export Line (30 ton axle)		
44 32 76	44 mt 60 mt	• 44 15E bought open tender (Toshiba / Mitsui) to replace / supplement existing 9E locomotives and Class 34 GE Diesels with an option for a further 18 locomotives. • The option to extend by 18 locomotives was not exercised. • A new confined contract was entered into with Mitsui for a total of 32 locomotives to take the Ore Export Line to 60 mt. This confinement was motivated on standardisation of the fleet. • ~ 110 Class 34 GE diesels returned to General Freight and replaced with 30 Class 43 GE. • Potential General Freight traffic may materialise from 2013/14 on the Ore Export line and 4 9E locomotives may be retained for this traffic.
23 15E and 3 Diesels	80 mt	• The volumes are not likely to materialise in the 7 year MDS program. The FEL feasibility study is on hold and there is currently no commitment to the increased volumes. • The locomotives are also put on hold. • The 15E production line has shut down. As and when required, the procurement options will be evaluated against standardisation, cost and interoperability. • Diesels, if required, will be provided from the GFB fleet

16. The essential points relating to this proposal are:
    a) The 100 Electric locomotives are for the coal line and were always part of the TFR locomotive fleet plan. See Para 35 and following. They release locomotives that can be used on GFB for the year that the 1064 program is delayed.
    b) The 60 Class 43 diesel locomotives are not part of the 1064 locomotive program.
        i. They are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 60 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
17. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances and this flexibility has been built into the tender and will be carried forward in the ultimate contracts.
18. The rationale for the 100 Electric and 60 Class 43 Diesel not being part of the 1064 locomotive process are covered under the Procurement Strategy Para 58.a) and following.
19. The future acquisitions for the expansion of the Coal Export line to 97.5 mt and the Ore Export line to 80 mt will depend on market conditions and development of the full supply chain across all stakeholders.

History and Status of the 1064 Procurement

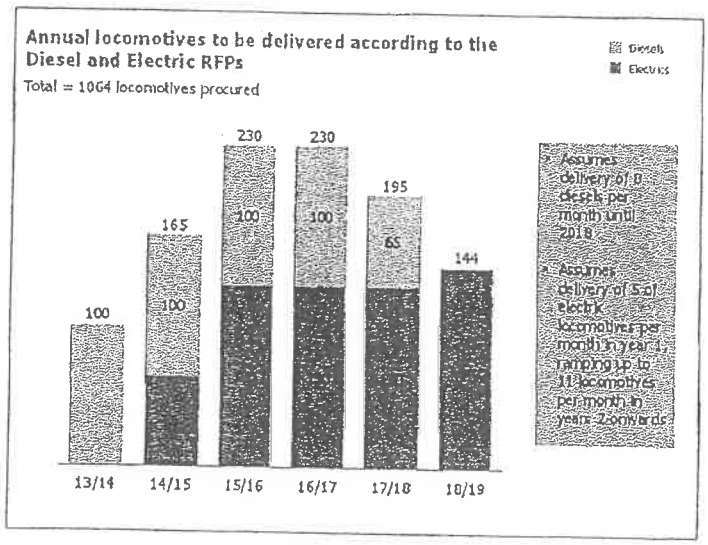
20. TFR's Corporate Plan sets out the *7 Year Market Demand Strategy (MDS) 2013/14- 2019/20* to virtually double General Freight volumes to 170 mt by 2019/20. This requires an integrated and synchronised approach across locomotives, wagons, infrastructure and personnel and these aspects were covered in the 1064 business case submission.
21. The history of the 1064 procurement is depicted in the exhibit below.



	2011/12	2012/13	2013/14	2014/15	2015/16	16/17	17/18	18/19	19/20	20/21	Total
1064											
Current GF Fleet Runout	1739	1748	1883	1850	1834	1832	1778	1650	1550		
March 2012			100	185	230	230	195	144			1064
Most likely	Considering current state a two year delay is probable				103	166	230	230	195	144	1064
95 CSR			10	85							

22. The approval process of the 1064 locomotives started in March 2011 when the business case was tabled at the Transnet Fright Rail Investment Forum.
23. Two approaches were used to shorten delivery times of the new locomotives as far as possible:
    a) An aggressive approach was taken with the maximum locomotives delivered per month cognisant of local conditions and
    b) Approval was obtained in July 2012 to go out on an RFP before the acquisition was finally approved or PFMA approval obtained.

24. Transnet adopted a cautious approach because of the value of the acquisition and appointed external consultants to evaluate the business case.
25. Board approval was obtained in April 2013 and PFMA approval in August 2013.
26. The tenders closed in April 2013 but negotiations with tenderers could not commence till PFMA approval had been obtained.
27. It is expected that adjudication will be finalised by February 2014 and contracts awarded by May 2014.
28. At the time of the tabling the 1064 business case, the 465 diesel and 599 electric delivery timelines were based on the RFP then in the market. The exhibit below details the locomotive delivery timelines that were modelled as per the RFPs and used as the base case assumption.

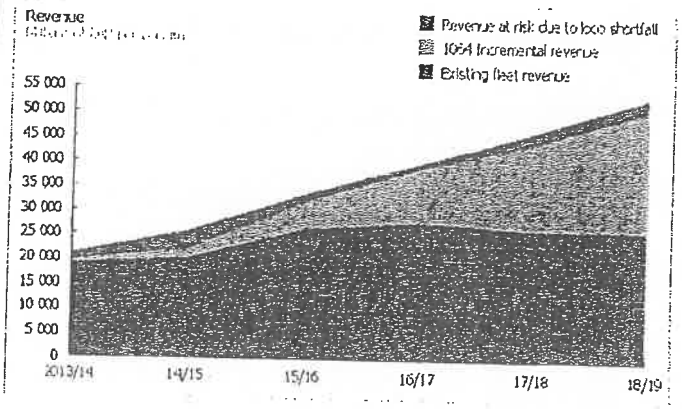


29. The 1064 program has slipped by at least a year against original expectations. The current RFP timelines are being reviewed by the Locomotive Steering Committee to ensure a compressed timetable to further mitigate volume risks to the MDC.

Impact of the 1064 Delay

30. Even with the 1064 business case being approved, there is a revenue shortfall which is exacerbated by the delay in locomotive delivery. This is depicted in the graph below extracted from the 1064 locomotive business case.

The 1064 locomotives are instrumental in capturing MDS target revenues, but a revenue shortfall will persist due to procurement timelines lagging target demand



31. The MDS shortfalls are tabled below for a one and two year delay.

a) One Year Delay:

Shortfall	MDS Shortfall Scenario - One Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay	33	138	314	533	763	946	1040
Year Delay	0	57	202	405	638	828	972
Impact							
Locomotives #	33	81	112	129	125	118	68
Tons Mt	1.6	5.2	9.8	13.7	14.0	13.3	7.6
Revenue Rm	363	1286	2610	3639	4073	4188	2584
Capital Rm	-1725	-1248	-1641	276	381	20	5249
Mtce. Rm	36	91	132	159	162	160	96
Fuel and Elec. Rm	67	183	331	440	469	471	290

Shortfall Total One Year Delay		2013/14 - 16/17
Tons	Mt	30
Revenue	Rm	7 900
Mtce.	Rm	417
Fuel and Elec.	Rm	1021

b) Two Year delay:

Shortfall	MDS Shortfall Scenario - Two Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/120
No Delay	33	138	314	533	763	946	1040
Year Delay	0	0	57	177	302	415	465
Impact							
Locomotives #	33	138	257	331	358	309	212
Tons Mt	1.6	7.9	18.1	28.6	33.0	31.3	23.8
Revenue Rm	363	1955	4831	7593	9604	9899	8057
Capital Rm	-2183	-3910	-4014	-1807	1292	2003	6480
Mtce. Rm	36	155	302	409	465	418	301
Fuel and Elec. Rm	67	303	678	1004	1194	1153	903

Shortfall Total Two Year Delay		2013/14 - 16/17
Tons	Mt	56
Revenue	Rm	14 743
Mtce.	Rm	901
Fuel and Elec.	Rm	2052

c) Notes to tables:

i. The locomotives per year in the tables are mid-year numbers representing productive capacity and are lower than the total "delivered" during the course of the year.

ii. The shortfall is totalled to 2016/17 on the assumption that other mitigating strategies will be put in place for the subsequent years.

MOTIVATION

MDS Risk Mitigation

32. The program and motivation below partially addresses the above MDS shortfall in the early years protecting tons and income per the table below.

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total
Avg. Rand / Ton	225.4	244.7	255.4	264.0	
100 19E - Tons Protected	2.4	2.4	4.4	7.2	16.44 Tons
Income Protected Rm	R 541	R 587	R 1 134	R 1 901	R 4 163
60 Diesels Tons Protected		3.8	7.9	7.9	19.6 Tons
Income Protected Rm		R 930	R 2 018	R 2 086	R 5 033
Total Tons	2.4	6.2	12.3	15.1	36.04 Tons
Income Protected Rm	R 541	R 1 517	R 3 152	R 3 987	R 9 197

33. Note that this submission is not a full risk mitigation. Further the benefit in 2013/14 is from Project Shongololo which are the new operating procedures introduced on the Coal Export Line.

34. The prime motivators for this submission are to:

a) Protect General Freight volumes through delivering diesel and electric locomotives earlier than is possible through the 1064 program.

b) Ensure delivery earlier than the 1064 program by:

i. Confining the procurement of the electric locomotives

ii. Extending the current diesel locomotive contract.

MDS Shortfall – 100 Dual Voltage Electric Locomotives:

35. The 100 Electric locomotives will be deployed on the Coal Export Line which will enable the release of 125 locomotives to the General Freight network protecting approximately 16.4 million tons (cumulative 13/14-16/17) of General Freight in the 7 Year MDS volume targets and thus allowing growth in the GFB market which would not have been possible because of the 1064 locomotive procurement delay.

36. The locomotive fleet plan presented to the Transnet Board in April 2011 proposed 112 new locomotives to meet an unconstrained coal export demand of 97 mt by 2015/16 with a proposed fleet of 308 electric locomotives. The "Capital investment for Export Coal 81 mt" predicated replacing the aged fleet with modern electric locomotives. The updated locomotive fleet plan of April 2013 accompanying the 1064 General Freight locomotive business case also predicated 112 new locomotives for the Coal Business.

37. Subsequent to the Fleet Plan, the operational model was revised to take full advantage of the dual voltage capability of the locomotive. The changeover to the new operational model commenced in July 2013 and will build up as drivers are trained on Radio Distributed Power operations on the current fleet and new the locomotives become available. This changes the future mix of the Coal Fleet. The new operational model is bringing about greater efficiencies and creating capacity and the order will be based on this technology.

38. The 112 locomotives were for expansion and replacement. Due to the volume shortfall in MDS it was decided to accelerate the acquisition of 100 electrics to enable the cascade of 125 locomotives to GFB and mitigate the MDS volume risk.

39. Cascading locomotives to General Freight will assist in mitigating the delay currently experienced in the 1064 program. In all cases the cascading will facilitate growth though to 2017/18 when the 1064 delivery begins to have significant impact. The class 7E and Class 10E series of the current coal fleet are facing imminent run outs, increasing maintenance costs and decreasing reliability and the cascade to General Freight is an interim measure.

40. The 100 Electric locomotives will sustain the Coal Line electric fleet for 81 million tons per annum capacity and standardize the coal fleet on Electric type locomotives with significant operational and cost advantages.

    a) To achieve this operational efficiency requires 200 wagon trains to bypass Ermelo Yard and couple parallel to the main line eliminating shunting and standing time in the yard.

41. The cumulative cascade program for the Class 10E and Class 7E locomotives depends on the acquisition of the 100 Electric locomotives which we envisage can be cascaded to GFB, as an interim measure, as follows;

    a) 40 in 2013/14

    b) 74 end 2015/16

    c) 120 end 2016/17

42. The first locomotives are cascaded in 2013/14. There are no or minimal cascades in 2014/15 as the locomotives are being delivered and commissioned. The effectiveness of the cascade is felt in 2015/16 and beyond.

43. Using the rule of thumb for General Freight that 100 locomotives generate approximately 6 mt per annum, the 125 released locomotives will protect approximately 7.2 mt per annum of general freight.

44. The exact allocation to the areas below will be determined at the time of cascading according to operational priorities.

    a) **Manganese exports through Ngqura**: Manganese exports from the Northern Cape through Ngqura are expected to grow according to the *7 Year Business Plan* to 12 mt (and to 16 mt thereafter). The Class 7E series released from the Coal Line to General Freight traffic will supplement this service till the full complement of class 20E locomotives have been delivered where after the Class 7E series will be retired.

    b) **Thabazimbi – Pyramid South:** This is an AC electrified section served by Class 7E series locomotives and the predicted volume growth is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	8.868	10.347	15.135	17.056	18.446	22.897	22.912

    c) Cascading the Class 7E Series will facilitate volume growth through to 2015/16 as well as the potential life extending / technology changing modification on the cascaded Class 10E series.

    d) **Maputo Export:** This is a DC electrified section suitable for Class 18E locomotives only. The cascaded Class 10E will release Class 18E locomotives from other sections which will be transferred into this section. The tonnage increase is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	6.421	8.353	12.469	13.499	16.446	21.168	21.598

e) **General Freight on the Coal Line:** This traffic uses DC traction or Diesel locomotives to Ermelo and then AC electrification to Richards Bay. Currently Class 7E3 locomotives are designated for this traffic south of Ermelo. Releasing Class 11E locomotives from the export coal operation will enable the additional traffic and also substitute for the current Class 7E3 which will be cascaded.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	10.702	11.901	13.404	15.036	15.733	16.032	16.470

45. The TFR Business Plan volume projections for the Coal Export Line are:

	Actual	Actual	Budget	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Export Coal Mt	67.7	69.21	77.00	81.00	81.00	84.00	95.00	97.50	97.50

46. The 100 Electric locomotive business case articulates the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export Line.

47. The market analysis and infrastructure investment for "Capital investment for Export Coal 81 mt" was recommended by Transnet Board on 16 February 2011 and approved by the Shareholder (Minister of Public Enterprises) on 20 June 2012.

48. Other aspects more fully covered in the 100 Electric Locomotive submission are:

    a) Reliability and Operational efficiency based on past experience of electric locomotives of similar design

    b) Savings on operational expenditure and capitalised maintenance

    c) Energy Savings

MDS Shortfall – 60 Class 43 Diesel Locomotives

49. TFR is in the process of acquiring 143 class 43 Diesel locomotives from GESAT which have been delivered over the past two years which are have proven to be a capable locomotive. Given the MDS volume shortfall, it is proposed that 60 class 43 locomotives be acquired to further mitigate the volume risk as those in the 1064 program are now likely to come on stream in 2015.

50. The efficiency utilization of the locomotives will be comparable to that currently achieved on the Phalaborwa – Richards Bay flow of 7 262 GTK per locomotive month. This flow powered by new class 43 Diesels already exceeds the national fleet efficiency targeted for 2018/19. This represents a 24% increase on the targeted 2013/14 efficiency.

51. The 60 locomotives have a potential mitigation of 3.8 – 7.9 mt at an average 8 149 GTK's per loco per month exceeding the current Phalaborwa – Richards Bay flow. The potential income protection is R5 033 m (cumulative 2014/15 - 2015/16). The exact allocation of the 60 locomotives will be confirmed at the time of deployment over the following flows:

    a) Botswana Coal to Bulk Connexion and Richards Bay.

        i. Potential 1.8mt – 3.8mt

ii. Diesels required: 35 inclusive of technical allowance.

iii. Potential GTK's per loco per month: 5 957

b) Elitheni Coal from Sterkstroom to East London

i. Potential 1mt to 2.5mt

ii. Diesels required: 15 inclusive of technical allowance

iii. Potential GTK's per loco per month: 12 784

c) Manganese from Postmasburg to Bloemfontein / Bloemcon

i. Potential 1 - 1.6mt mostly from new entrant miners.

ii. Diesels required: 10 inclusive of technical allowance.

iii. Potential GTK's per loco per month : 7 821

PROJECT BENEFITS

52. Protection of GFB MDS income and targets amounting to R4 163 m for the 100 Electric locomotives and R5 033 m for the 60 Class 43 Diesels over the period 2013/14-2016/17 .

53. Coal Export volumes and income are protected though improved reliability.

54. Sustainability objectives as per the Transnet Sustainability framework are met threefold:

a) Sustainability from an **economic perspective** is met by offering a long term cost effective, low cost rail solution that addresses the needs of industry to remain globally competitive and allows emerging miners to enter the coal export market.

b) Sustainability from a **social perspective** is met through the optimisation of manufacturing facilities, job creation and proactive stakeholder engagement.

c) Sustainability from an **environmental perspective** in energy savings through (i) the improved efficiency of the new locomotives and (ii) the overall energy saving through the regenerative capability of the locomotives.

55. The programme will support the shift from road to rail as the cascaded locomotives take up the shortfall in the General Freight market.

56. Benefits specific to the 100 Electric locomotives based on past experience include:

a) Energy savings will be achieved with an 18% improvement in KVA requirements over the old technology Class 7E and Class 10E locomotives.

b) The regenerative capability of the new technology of modern locomotives introduces further energy savings of between 22% and 26%.

c) Quantifiable savings in maintenance of new locomotives.

d) Not quantified but direct and indirect savings with uninterrupted operations due to fewer failures.

57. Benefits specific to the 60 Class 34 Diesels include:

a) Fuels savings of 8% over the older diesel fleet.

b) Significantly reduced failures compared to the current diesel fleet improving availability and reliability.

c) Standardisation of maintenance regimes with current Class 43 fleet.

d) Virtual elimination of significant damage to rail infrastructure (skid-marks) which are prevented by the modern traction control system.

e) The characteristics of the locomotive more closely match that of the electric fleet enabling optimum use of traction capability when worked in multiples with electric locomotives using RDP.

PROCUREMENT STRATEGY

Rationale for not being part of the 1064 process

58. The procurement process was carefully considered and was not taken into or part of the 1064 locomotive process. Aspects considered were:

a) **Type:** The 100 electrics are 26 ton per axle locomotives for heavy haul use to be deployed on the coal line. The 599 electric locomotives in the 1064 tender are 22 ton per axle locomotives for GFB use.

b) **Delivery:** The 60 diesels are similar to the 465 of the 1064 but the motivation below for extension is one of urgency because of the overall delay in the 1064 program. Including the diesels in the 1064 does not address the delay or urgency.

Analysis and Implications of Procurement Options

59. The following options were considered and reasoned:

a) Go out on tender

b) Do Nothing

c) Confine / Extend Contract

d) Extend current 20E contract for 95 CSR Locomotives

e) Leasing

60. **Go out on tender:** With this option the locomotives become available beyond the 1064 timeframe and hence this is not a viable option as it does not address the urgency. It is however the best option insofar as public perceptions, fairness and transparency are considered.

61. **Do Nothing:** This option puts the MDS volumes at risk that this proposal wishes to mitigate. The implications are:

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total
Tons Lost	2.4	6.2	12.3	15.1	36.04 Tons
Income Lost	R 541	R 1 517	R 3 152	R 3 987	R 9 197 Rm

62. **Confine / Extend contract:** This addresses the urgency of the proposal but has potential negative public implications. For the urgency already outlined and the reasons below this is not part of the 1064 process and will not impact on that process.

a) The diesel locomotives are known, running effectively, meet the technical requirements and prototyping and set up costs are not required

b) Extension of the GE contract is the fastest most efficient way to procure the diesel locomotives.

c) The CSR facilities are available for immediate production which will result in significant delivery acceleration based on the learnings of the 95 loco processes. CSR has capacity to produce 2000 locomotives per annum.

d) CSR is a known current supplier who has excelled in the two most recent tenders for electric locomotives from a technical capability and capacity perspective, supplier development, commercial and transformational perspective.

e) Confinement of the contract to CSR meets the grounds for confinement per the most recently BADC approved PPM.

f) Both the extension and confinement are acceptable procurement mechanisms per the PPM in this instance.

63. **Extend current 20E contract for 95 CSR Locomotives:** The 20E currently on order is a 22 ton per axle GFB locomotive. Additionally, extension would not be an acceptable procurement mechanism per the PPM given the material amendment to contract which could be challenged.

64. **Leasing:** Aurizon in Australia have indicated that they have about 20 locomotives available for lease. However, the newest of these is 30 years old and the quantities are not likely significantly impact volumes. We will view the 20 locomotives and assess their suitability for our network. There is no viable external market for 1064mm dual voltage electric locomotives. South African circumstances are (historically) unique requiring bespoke electric designs. Even if leased the conditions would be that TFR take ownership after a period of time.

65. **Implications:** The 1064 tender is currently under adjudication. It is the largest procurement processes within Transnet and while it seeks (inter alia) to launch a South African locomotive industry, it will be closely scrutinised by the losing bidders seeking any loophole to press an advantage. The tender calls for programmatic procurement and it is possible to reduce the final quantities. The following implications were considered in adjusting the (diesel locomotive) quantities.

a) The tenders have closed and asking respondents for revised submissions would delay the process further.

b) The perceptions that may be generated by "backtracking" on and reducing a visibly stated need and objective to "favour" a supplier, the urgency argument notwithstanding.

c) Proceeding with the proposed contract extension and announcing the reduction in diesel quantities at the time of award may be perceived as an underhanded manner of "favouring" a supplier.

Procurement Recommendation

66. For reasons of urgency, the confine / extend contract option is the recommended option.

67. This will procure the locomotives in the shortest possible time and, by so doing, best mitigates the potential shortfall in MDS volumes. The reasons of urgency have been set out as well as the complementary benefits of the recommended option.

Confinement of 100 Electric Locomotives

68. An extract from the latest approved Procurement Procedures Manual stipulating grounds for confinement which are relevant to this submission, reads:

"Confinements will only be considered under the following circumstances:

a) **where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. However, where a genuine urgency has been created by the lack of proper planning, urgency can still be relied upon as a ground for Confinement. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.**

b) the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;

c) for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or

d) when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time."

69. The project is motivated on the basis of Para (a) where a genuine unforeseeable urgency has arisen.

a) Item 13 et al covering the "History and Status of the TFR Fleet Plan" and the "History and Status of the 1064 Procurement" demonstrates the reasonable and timeous steps taken to address to the Board the run out of the current fleet and the locomotive requirements required to address the volume ramp up of GFB.

b) Item 11 et al further indicates that the delay was not attributable to a lack of proper planning as the GFB locomotive requirements have remained consistent throughout.

c) Considering (a) and (b), no individual or group of individuals is responsible for bad planning.

70. Complementing the urgency is ground (d):

a) Locomotives are highly specialised with limited suppliers worldwide.

b) The locomotives would be largely identical with those already supplied and to be supplied and

c) Transnet would incur wasted time and money in approaching the market (b) and (c) are relevant due to the fact that:

i. CSR has been adjudicated as the best bidder during the 95 electric loco process as well as joint on the 1064 process. Both these tenders include the Board approved procurement methodology of maximising supplier development whilst ensuring highest standards of quality and best possible commercial offering. Transnet has just spent a large amount of time, human capital and money in the recent tenders and going through another tender process would not be efficient given the urgency.

ii. Production of the current MARS contract has been completed and was based on previous procurement methodology where supplier development was not a key focus area and the Mitsui consortium did not fare well in the two most recent tenders issued by Transnet. Therefore continuation with Mitsui via confinement would pose unnecessary risk to the organisation. Furthermore, reputation risk exists, although subjective and places the company under

unnecessary risk if it were to follow a confinement approach with Mitsui. This reputation risk involves speculation in the media around Mitsui's local partners and their political affiliations. Transnet would never entertain awards based on political prowess of any business partners to an OEM but the risk does need to be taken into account from a reputational perspective.

71. TE is currently maintaining and repairing the Class 19E Electric Series which means that they are accustomed to maintenance regimes are more modern electric dual voltage locomotives. Limited additional training will be required and optimum utilisation of the current maintenance facilities will be met. Simplified maintenance practises will result in shorter Mean Time to Repair. Common practices will be addressed through maintenance regimes of the 95 loco series, 599 elements that CSR is shortlisted for and this fleet.

72. From a social-economic perspective the following jobs will be retained in assembly facilities:
    a) Approximately 186 jobs will be retained at the TE assembly facility and further jobs will be retained in downstream enterprises
    b) Approximately 400 jobs are estimated to be created over the period for electric assembly and further jobs will be retained in downstream enterprises
    c) Based on SD offerings made in recent tenders Transnet believes it can achieve maximum SD possible with at least 65% for diesels and 70% for electrics.
73. Considering the volumes at risk and the urgent requirement for the coal line locomotives to cascade the current fleet to General Freight, it is proposed that the procurement be confined to CSR.

Contract Extension with GESAT for 60 Class 43 Diesels

74. The arguments for an extension to the GESAT contract are similar to those for confinement and are motivated on:
    a) the basis of urgency (a) as outlined above
    b) and complemented by standardisation (c) and goods largely identical to those previously executed (d).
75. The project is motivated on the basis where a genuine unforeseeable urgency has arisen. The arguments above are also applicable to the 60 Class 43 Diesels.
76. The latest approved Procurement Procedures Manual, dated 01 October 2013, par 22.4.2, allows for a contract extension. In this instance the request is for a material contract amendment to a previously confined event. The reasoning for the original confinement of the additional 43 loco's is still applicable given that there is a genuine unforeseeable urgency which has arisen due to the delay in the 1064 tenders and such urgency is not be attributable to a lack of proper planning.
77. Complementing the urgency is that the goods are largely identical to those previously executed by that supplier and standardisation is a benefit for the specialized locomotives.
78. Addressing the urgency:
    a) In December 2009, Transnet concluded a contract with General Electric South Africa Technologies (GESAT) PTY Ltd for the Supply of 100 Diesel Locomotives through a limited tender process confined to three potential suppliers. In 2011 through a

confinement process, TFR concluded a contract with GESAT for an additional 43 Class 43 diesel locomotives. The completion date of the 43 Locomotives was end June 2013 in line with the Transnet planned schedule. The last few locomotives to roll out of assembly will be tested by 30 September 2013, where after they may be accepted.

b) As the production line is currently operational and design is finalised, delivery lead times will be reduced by approximately 12 months and Transnet will save by not requiring set up costs of facilities and production runs.

c) GESAT and TE have the ability to roll out between 8 to 10 locomotives per month.

d) No prototyping or type testing is required.

79. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:

a) Locomotives are highly specialised with limited suppliers worldwide.

b) The locomotives would be identical with the 143 Class 43 Diesels already supplied or about to be commissioned.

c) Transnet would incur wasted time and money in approaching the market as:

i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.

ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 12 months for diesels before production commences.

d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.

i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.

After many years these standards have now changed and TFR is evaluating the impact of these changes.

ii. Maintenance standardisation addresses:

- Reduced spares holdings and simplified and standardised inventory.
- Standardised tools and diagnostic instruments serving a common fleet
- Unified training and for maintenance staff.
- Simplified maintenance practises resulting in shorter Mean Time to Repair.

iii. TE is currently maintaining and repairing the Class 43 Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.

80. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:

a) the Class 43 diesel is a modern locomotive that is performing well and has proven to be both efficient and reliable and

b) the proposed 60 locomotives will identical to the current design and no prototyping or type testing is required conservatively saving 15 months or more and

c) the limited quantities required;

It is submitted that it is not in the best interest of Transnet to solicit other offers for the 60 Class 43 diesel locomotives.

81. In both transactions, Transnet Engineering (TE) was appointed as GESAT's subcontractor for the local assembly of the locomotives and the contractual obligations have been met.

82. The time and cost to localise production to comply with local content and SD requirements has to be amortised over the anticipated production run. The smaller the run, the more expensive the overhead.

83. Given that a contract is already in place and that the additional 60 loco requirement will be largely on the same terms and conditions as the 43 loco confinement, this warrants extension.

Contracting strategy

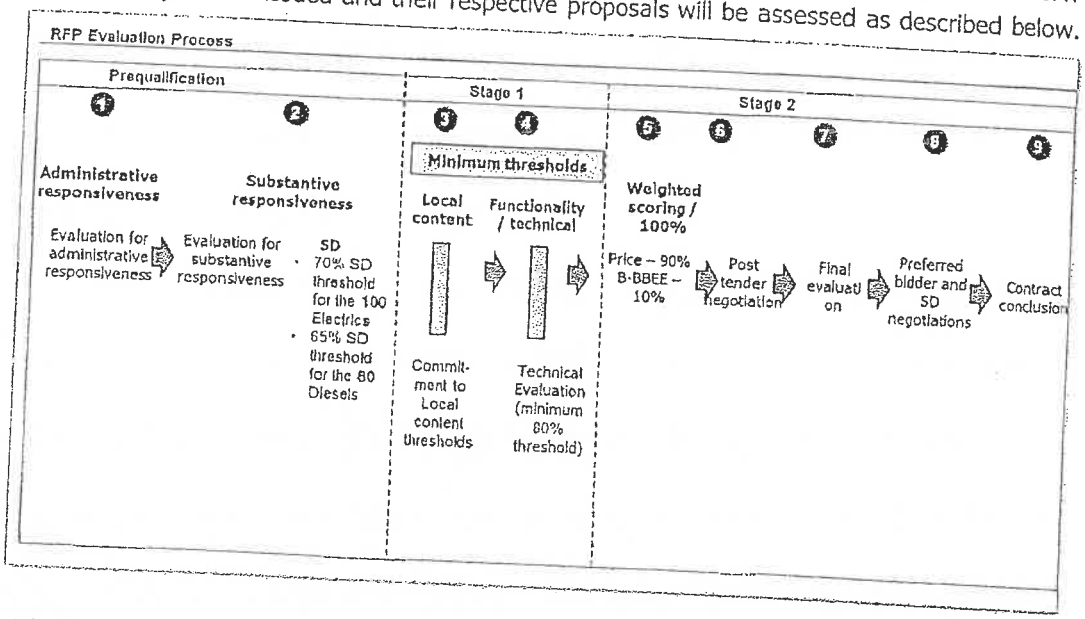
84. Extend the current contract with General Electric South African Technologies (GESAT)for 60 Class 43 Diesel Locomotives.

85. Confine and award to China South Rail (CSR) for 100 Electric locomotives.

86. The reasons for the different confinement and extension strategies have been highlighted in the sections above.

Evaluation Methodology

87. The Request for Proposals (RFP's) for the confinement to Mars and extension to GESAT respectively will be issued and their respective proposals will be assessed as described below.



88. The Evaluation Methodology for an open tender comprises the following steps;

1) **Administrative responsiveness** – bidders will need to pass the administrative responsiveness to enable them to be evaluated further. This includes evaluating all returnable documents were submitted and the bid documents were duly signed by the bidders

Local Content - Section 3 (3.1)	
Category	Weighting
Local manufacturing: Threshold: 60% for Electric and 55% for Diesels)	100% of PPPFA
Total	100%

92. In addition, the progressive Local Content for Designated Components (Section 3 (3.2) will also be applicable to both Electric and Diesel locomotives as per the table below though they may not materialize as the contracts will be fulfilled before three years and they are not programmatic.

Designated Component / Activity Heading Only - Section 3 (3.2)	% Local Content 3-5 Years	% Local Content 6 Years and above.
Assembly of Locomotives and EMU	100%	100%
Car Body	100%	100%
Bogie (including wheels)	100%	100%
Coupling Equipment	100%	100%
Suspension	100%	100%
Heat, Ventilation and Air Conditioning	60%	70%
Braking System	70%	80%
Alternators	90%	100%
Traction Motors	65%	80%
Electric Systems	80%	90%

1. The Supplier Development categories are set out in the table below. The pre-qualification targets are considered realistic and achievable without posing a risk to the project.

Supplier Development (SD)
Category
Investment in plant – bidders monetary commitment to investment in plant and equipment
Downstream procurement – bidders commitment to supporting 2nd, 3rd tier suppliers, etc.
Skills development – supplier's commitment to skills development (number of people and monetary)
Job creation / preservation – supplier's commitment to number of jobs maintained/created
Small business promotion – supplier's commitment to usage of small businesses (monetary)
ED/SD – bidders commitment to SD initiatives and ED development

Award Conditions – 100 Electric locomotives

2. Approval to award the business to CSR is requested subject to SD compliance with the following:

a) Local content meeting or exceeding 60% by value

b) Compliance with **new** SD commitments with a minimum of 70% as measured in the SD Value Summary which forms part of the RFP

c) Transnet will also request a prince range of between R30.5m and R32m for the purposes of negotiation with the objective of coming in within the R34.34m per loco which will be used as a guide as is dependent on forex fluctuation.

Award Conditions – 60 Class 43 Diesels

3. Approval to award the business to GESAT is requested subject to SD compliance with the following:

a) Local content meeting or exceeding 55% by value

b) Compliance with **new** SD commitments with a minimum of 65% as measured in the SD Value Summary which forms part of the RFP

c) Transnet will also request a prince range of between R22.5m and R24m for the purposes of negotiation with the objective of coming in within the R26m per loco which will be used as a guide as is dependent on forex fluctuation.

FINANCIAL AND BUDGET IMPLICATIONS

1. The financial motivation and budget implications for the 100 Electrics and 60 Class 43 Diesels are discussed in detail in the respective submissions.

100 Electrics

2. The 100 Electric Locomotives are summarized below and are based on previous experience with the Class 19E contract:

a) A base price per locomotive price of R 34.34 m (2013/14 - Yen 385 m @ Rand/Yen 0.09823)

b) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Continge ncy	Total
Project Plan Payment	R 343	R 1 737	R 1 439				R352	R 3 871
Delivery		56	44					100

c) Adding the 100 class 19E sustaining locomotives to the original Coal 81 mt model changes the Net Present Value of the total Coal 81 Project from (NPV) R90.63m to (NPV) R98.49m over 10 years.

d) The present value (PV) of the Total Cost of Ownership using the 1064 locomotive model is R58.6m per locomotive and R5 863m for the 100 locomotives.

e) Approved infrastructure investments supporting the project totals R3 974 million.

f) The cost is estimated and therefore a final price can only be given upon negotiation.

60 Class 43 Diesels

3. The 60 Class 43 Diesels are summarized below:

4. The 60 Class 43 locomotives **are over and above** the 465 diesels of the approved 1064 locomotives.

a) The delays in the 1064 will result in the delivery of the 1064 locomotives extending beyond the current *7 year MDS* capital plan. The diesels in particular will not meet the originally planned delivery.

b) The fleet plan and the 1064 locomotive business case stress sustaining the fleet beyond the seven year period in the order of 60 to 80 locomotives per year.

c) The 60 Class 43 diesels will be funded from the 1064 locomotive budget for the first year.

d) The 1064 locomotive budget will be adjusted commencing the 2014/15 7 year cycle for the delayed delivery of the 1064 beyond the current 2013/14 7 year cycle. This adjustment is in line with the stated intent of sustaining the fleet though a continuous replenishment of new locomotives.

e) A price per locomotive price of R 26m @ Rand / USD (R9.59/USD) (R27.67 m @ R10.4/USD for 2014/15).

f) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 156	R 1 504					R166	R 1 826
Delivery		60						60

g) The acquisition of the 60 Class 43 Diesel preserves an NPV of R1 871 m based on the 1064 Locomotive Model.

h) The PV of the Total Cost of Ownership using the 1064 Locomotive model is R63.7m per locomotive and R3 822m for the 60 additional diesels over their 30 year life.

i) The cost is estimated and therefore a final price can only be given upon negotiation

Financial Impact to Group

5. The proposed procurement has limited impact on Group finances and the critical ratios are maintained.

6. For no delay the ratios are:

Ratios: Transnet Group - As Is	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.9	29.1	31.5	32.5	35.4	36.3
- EBITDA %	42.9	46.7	49.1	49.7	51.8	52.6
- Return on average total assets (%)	8.0	10.0	11.3	12.4	14.2	14.5
- Gearing (%)	46.6	47.7	47.7	47.0	45.2	41.6
- Net debt to EBITDA (Times)	3.04	2.70	2.53	2.40	2.17	1.94
- Asset turnover (Times)	0.30	0.33	0.34	0.37	0.38	0.38
- Cash interest cover (Times)	3.3	3.6	4.0	4.1	4.5	4.8

7. For a one (1) year delay the ratios are:

Ratios: Transnet Group One (1) Year Delay	Budget 2013/14	Projections 2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.5	29.6	29.0	31.3	32.0
- EBITDA %	42.7	46.2	47.6	47.1	48.7	49.5
- Return on average total assets (%)	7.9	9.7	10.4	10.6	11.8	12.0
- Gearing (%)	46.2	47.3	47.8	48.7	48.7	47.1
- Net debt to EBITDA (Times)	3.01	2.71	2.67	2.75	2.64	2.49
- Asset turnover (Times)	0.30	0.33	0.33	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.8	3.7	3.7	3.9

8. For a two (2) year delay the ratios are:

Ratios: Transnet Group Two (2) Year Delay	Budget 2013/14	Projections 2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.3	29.3	29.1	31.6	32.6
- EBITDA %	42.7	45.9	47.2	47.1	48.9	50.0
- Return on average total assets (%)	7.9	9.6	10.3	10.7	12.0	12.3
- Gearing (%)	46.0	46.6	46.8	47.4	47.7	46.3
- Net debt to EBITDA (Times)	2.99	2.67	2.61	2.64	2.55	2.41
- Asset turnover (Times)	0.30	0.33	0.34	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.9	3.8	3.9	4.0

SOCIO-ECONOMIC BENEFITS

9. The transaction will be aligned with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSI, and IPAP2.
10. Meeting the MDS growth targets supports the National Development Program in the industrialisation of SA's mineral resources.
11. The program supports the sustainable development of a South African locomotive production industry.
12. Economic benefits include:
    a) Using idle capacity available in South Africa
    b) In terms of the National Treasury instruction note the local content for designated sector (rolling stock - locomotives) for electric locomotives is 60% and for diesel locomotives is 55%.
    c) Ability to reinstate / retain local jobs as the skills pool already exists
    d) Significant indirect and direct South African jobs will be preserved which include approximately 186 direct jobs at the TE assembly facility with further jobs retained in downstream enterprises

PROJECT RISKS

13. Both projects face several risks that could affect their overall economic viability:
14. **Locomotive Delivery:** This could arise if (i) the confinement is not approved (ii) unforeseen circumstances on the part of supplier including not complying with CSDP conditions.
15. **Lower volumes:** MDS volumes may not materialise per plan negating the need to cascade locomotives and / or the class 43 diesels not being fully or optimally utilised.

16. The coal line locomotives are nonetheless still nearing their end of life and these will require replacement in the short term to sustain coal exports at 81 mt. Long term coal contracts are currently being negotiated for 81 mt and there are sufficient coal reserves to sustain this tempo. The model and NPV is further based on 95% of the coal export volumes materialising. There is no risk to this project if volumes do not ramp up to 97.4 mt.
17. Exchange Rate Fluctuations:
    a) For the 100 Electric confined to CSR, the Yen / Rand Rate is used as a forecast given that the Class 19E deal was used as a base. Localisation is already set at 60%, thus mitigating exchange fluctuation risks.
    b) For the 60 Class 43 confined to GESAT the base price is taken R10/USD. The rate is forecast to strengthen in the short term which includes the duration of the contract before weakening.
18. Tariffs not being realised:
    a) For the coal line current FOB prices for RBCT coal are around US$90 per ton, well below the peak of over US$150 per ton. At R9.50/USD and a tariff of R126 per ton, transport accounts for ~13% of the FOB price. Pressure on tariffs will remain till there is a long term sustainable uptick in the FOB price.
    b) For General Freight increases linked to inflation are not seen as a risk while increases above inflation will be subject to scrutiny and downward pressure.
19. Tariff exposure to commodity downturns:
    a) In the short term this could impact the viability of emerging miners for export coal. This will affect only 3 mt as the rest are based on long term contracts being negotiated. The model is also based on 95% of the volumes realising.
    b) Locomotives have a 30 year life-cycle which transcends economic cycles. In the short to medium term the global economic recovery is seen as slow but sustained. The economic environment for General Freight locomotives was fully set out in the 1064 business case.
20. **Over Capitalisation of the Coal Line**: This is not seen as a risk as the locomotives sustain current volumes of 81 mt for which long term contracts are being negotiated. The reserves in the Mpumalanga basin are also acknowledged to be able to sustain this tempo for the long term. There is thus little risk of stranded assets. The locomotives being replaced are at the end or very close to the end of their economic life and would require replacement in the very short term even if they were not cascaded to General Freight.
21. Project interdependencies:
    a) Crucial to the new operations and achieving 81mt on the Coal Export Line with the additional 100 Electric locomotives requires constructing the Ermelo bypass line. This line enables two 100 wagons trains from the mines to be coupled together enabling the train to proceed as a single 200 wagon Radio Distributed Power (RDP) train without going into Ermelo Yard.
    b) An interdependency for the 100 Electric locomotives is cascading locomotives to general freight. The 60 Class 43 Diesels do not have other project interdependencies
22. Project risks will be mitigated during implementation by a **dedicated cross-functional project team** to manage the contract.

RECOMMENDATION:

23. It is recommended that the Transnet Board Acquisitions and Disposals Committee recommends to the Transnet Board of Directors the following:

    a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives;

    b) To approve the investment in and procurement of 100 Electric locomotives required for the Coal Export Line in the amount of R3 871 m (excluding borrowing costs);

    c) To approve the confinement and award of the procurement for the 100 Electric locomotives.

    d) To approve the investment and change in the fleet plan to procure of 60 Class 43 diesel locomotives for General Freight in the amount of R1 826 m (excluding borrowing costs);

    e) To approve an extension of the current Class 43 diesel locomotives contract for 60 additional locomotives;

    f) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions, including the award and process approval.

RECOMMENDED BY:

Siyabonga Gama
Chief Executive
Transnet Freight Rail

Date:

RECOMMENDED BY:

Anoj Singh
Group Chief Financial Officer
Transnet SOC Ltd

Date: 21/01/14

RECOMMENDED BY:

Brian Molefe
Group Chief Executive
Transnet SOC Ltd

Date: 22.1.14

REPORT 3(B) – EXHIBIT 5

CONFIDENTIAL

EXHIBIT 5

MINUTES OF THE SPECIAL BOARD OF DIRECTORS OF TRANSNET SOC LTD MEETING NO. 14/1 HELD ON 24 JANUARY 2014 AT 16:10 IN BOARDROOM 4901, 49TH FLOOR, CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG

Resolution No/ For Attention

1 CONSTITUTION OF MEETING AND APOLOGIES

1.1 Present

Mr ME Mkwanazi	Chairperson
Mr MA Fanucchi	Non-Executive Director
Ms Y Forbes	Non-Executive Director
Mr HD Gazendam	Non-Executive Director
Ms NP Mnxasana	Non-Executive Director
Mr B Molefe	Group Chief Executive
Ms NR Njeke	Non-Executive Director
Mr IM Sharma	Non-Executive Director
Mr IB Skosana	Non-Executive Director
Mr A Singh	Group Chief Financial Officer
Ms E Tshabalala	Non-Executive Director

1.2 In attendance

Ms NJ Mabandla	Group Executive: Group Legal Services
Mr SI Gama	Group Executive: Transnet Freight Rail
Mr T Jiyane	Chief Procurement Officer: Transnet Freight Rail
Mr GJ Pita	Group Chief Procurement Officer
Mr KL Mosia	Company Secretary
Ms ANC Ceba	Group Company Secretary

1.3 Apologies

Ms N Moola	Non-Executive Director
Ms DLJ Tshepe	Non-Executive Director

1.4 Welcome and Signing of Attendance Register

1.4.1 The Chairperson welcomed all members and attendees present, and having observed a quorum, declared the meeting duly constituted. He noted apologies from Mses Moola and Tshepe. The Attendance Register was circulated for signature.

5 Adoption of Agenda

1.5.1 The agenda was adopted as tabled.

2 SAFETY BRIEFING AND EVACUATION PROCEDURE

2.1 The safety briefing and evacuation procedures were conducted by Mr Linda.

3 DIRECTORS' DECLARATION OF INTERESTS

3.1 The Declaration of Interests Register was circulated for signature.

4 MATTERS FOR APPROVAL

4.1 Acquisition of additional 100 Class 19E equivalent Dual Voltage Electric Locomotives and 60 Class 43 Diesel Locomotives

4.1.1 Management took the Board through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to request the Board to:

- Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 Locomotives.
- Approve the investment in and procurement of 100 Electric Locomotives required for the Coal Export Line estimated at R3.8bn (excluding borrowing costs).
- Approve the confinement and award of the procurement for the 100 Electric Locomotives ("the 100 Electrics").
- Approve the investment and amendments in the Fleet Plan to procure 60 Class 43 Diesel Locomotives ("the 60 Diesels") for General Freight estimated at R1.8bn (excluding borrowing costs).

- Approve an extension of the current Class 43 Diesel Locomotives contract for 60 additional locomotives.
- Delegate authority to the GCE to sign and conclude all relevant documents to give effect to the above resolutions, including the award and process approval.

4.1.2 Mr Sharma stated that the matter was dealt with at the Board Acquisitions and Disposals Committee ("Committee"). The request for a confinement had been on the Committee's agenda for 3 months, and the matter was extensively deliberated by the Committee. The Company currently has a contract with *General Electric South Africa Technologies* in terms of the Class 43 diesels. The proposal was to confine the 100 Electrics to *China South Rail*. There were adverse media reports on the previous *Mitsui* confinement process. To manage reputational matters, the Company seeks to advance to a new supplier. Management indicated that the TFR Locomotive Fleet Plan was first approved by the Board in April 2011, and updated with the 1064 GFB Locomotives submission. The proposed locomotives acquisitions are in line with the Fleet Plan and were budgeted for in the MDS. The delay in the 1064 acquisition has placed GFB volumes at risk. The risk will be mitigated by the urgent acquisition of the locomotives. The heavy haul 100 Electrics will be deployed in the Coal Export line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 programme. The 100 Electrics form part of the already approved Fleet Plan. The 60 Diesels also fill the gap pending delivery from the 1064 programme. The 60 Diesels were not part of the approved Fleet Plan and the submission requested an amendment to the Fleet Plan to include the 60 Diesels.

4.1.3 Management informed the Board that the 1064 Locomotives were delayed due to the withdrawal of the PPPFA exemption. The submission proposed an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 Electrics to *China South Rail* and extending the current Class 43 Contract with *General Electric South Africa Technologies* by 80 locomotives. The accelerated acquisition will mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15FY. The volumes mitigated increases from 6.2mt for the 2014/15FY to 15.1mt for the 2016/17FY and the cumulative income protected will be R9.1bn for the 2013/14FY to 2016/17FY. The confinement to *China South Rail* and extension to *General Electric South Africa Technologies* contract was motivated on the basis of urgency The accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisition remains unaffected. The acquisitions are funded from the current MDS. The delay in the 1064 locomotives will extend its funding to beyond the MDS period. The Diesels were in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With a year's delay in the 1064 procurement, the 60 Diesels will fill the gap of the first year.

4.1.4 Management stated that the 100 Electrics business case articulated the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export line. TFR was in the process of acquiring 143 Class 43 Diesel Locomotives from *General Electric South Africa Technologies* (which have been delivered over the past 2 years and have proven to be a capable locomotive). Given the MDS volume shortfall, it was proposed that 60 Diesels be acquired to further mitigate the volume risk as the 1064 programme is likely to come on stream in 2015. The procurement process was carefully considered, with the aspects considered articulated as follows:

- **Type**: The 100 Electrics are 26 ton per axle locomotives for heavy haul use to be deployed on the Coal Line. The 599 Electrics in the 1064 are 22 ton per axle locomotives for GFB use.
- **Delivery**: The 60 Diesels were similar to the 465 of the 1064, but the motivation for extension as contained in the submission was urgency due to the overall delay in the 1064 programme. Including the 60 Diesels in the 1064 will not address the delay or urgency.

4.1.5 Management indicated that due to the urgency of the matter, the confined/extended contract option was the recommended option. The proposed procurement process will solicit locomotives in the shortest possible time and thus mitigate the potential shortfall in

MDS volumes. The reasons of urgency were set out and the complementary benefits of the recommended option were highlighted. The arguments for an extension to the *General Electric South Africa Technologies* contract were similar to those advanced for confinement and are motived on the basis of urgency, complemented by standardisation and goods largely identical to those previously executed.

4.1.7 Mr Gazendam sought clarity if the recommendation from the Committee was unanimous. He stated that the 60 and 100 locomotives were being awarded to the same entities recommended for the 1064 transaction, and requested Management to ensure that the matter is dealt with sensitively in the media.. Mr Skosana stated that the Committee extensively deliberated on the matter and requested the Committee to share critical matters that were an impediment on the transaction. Mr Sharma informed the Board that the Committee was of the view that the initial business case was not properly articulated. Further, the Committee had considered the reputational risks linked to confinement processes. However, the Committee was subsequently convinced by the revised business case and comforted by the fact that the 160 locomotives were awarded to the same entities that were being recommended for the 1064 transaction. Management informed the Board that the Committee had also requested the Company to explore alternative methods for acquisition e.g. leasing options of the locomotives. To this effect, the Company will procure 23 second hand locomotives from Australia.

RESOLVED that the Board:

- Noted the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 Locomotives.
- Approved the investment in and procurement of 100 Electric Locomotives required for the Coal Export Line estimated at R3.8bn (excluding borrowing costs).
- Approved the confinement and award of the procurement for the 100 Electric Locomotives to *CSR*.
- Approved the investment and amendments to the Fleet Plan to procure 60 Class 43 Diesel Locomotives for General Freight estimated at R1.8bn (excluding borrowing costs).
- Approved an extension of the current Class 43 Diesel Locomotives contract for 60 additional locomotives to *General Electric South Africa Technologies (Pty) Ltd.*
- Delegated authority to the GCE to sign and conclude all relevant documents to give effect to the resolution, including the award and process approval. 14/1/1

4.2 **Acquisition of 599 Electric Locomotives**

4.2.1 Management took the Board through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to:

- Provide the Board with an update regarding the progress on the tender evaluation process.
- Request the Board to note and approve the tender evaluation process.
- Request the Board to approve the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business.
- Request the Board to delegate all the necessary powers to the GCE to sign, approve and conclude all necessary documents to give effect to the above resolutions.
- Request that the Board notes that the above resolutions are subject to recommendation of the Board Acquisition and Disposals Committee.

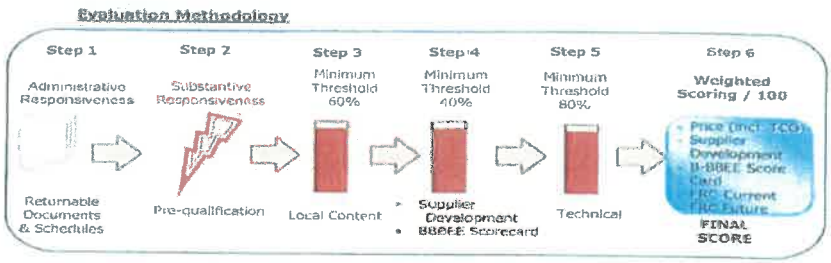
4.2.2 Mr Sharma advised the Board that Management took the Committee through the evaluation process and stated that the 599 Electric Locomotives were recommended for allocation to *Bidder T1* and *Bidder T2;* 60% to *Bidder T2* and 40% to *Bidder T1*, subject to a performance clause in the contract. The contract is estimated at R19.8bn (excluding hedging costs, escalations and scope of TE's work).

4.2.3 Management informed the Board that the original MDS volumes contained in the Corporate Plan were significantly at risk. This was due to the delays in the award of the 1064 tender due to the withdrawal of the PPPFA exemption. In order to manage the risks, Management

suggested that more than 1 supplier should be utilised to supply the required locomotives to reduce delivery risk and enhance the ability to meet the MDS volume targets. Management proposed that 2 suppliers be utilised to manufacture the required locomotives for, amongst others, the following reasons:

- To promote standardisation of the locomotive fleet to ensure that the total cost of ownership is minimised.
- To allow for critical mass that would enable successful negotiations on price and other critical commercial terms and conditions.
- To allow for critical mass that would promote localisation and programmatic procurement.
- To allow for flexibility in supplier options in future as it prevents monopoly behaviour.
- To reduce legal risks of the transaction.
- To reduce the overall contract risk of the transaction due to unforeseen circumstances.

4.2.4 Management stated that the Board approved the procurement of 599 Electric locomotives subject to Section 54 PFMA approval on 19 April 2012. The Board was given background on the procurement process followed, highlighting the 7 bidders who responded. The 6 step evaluation process followed was as indicated below:



4.2.5 Management informed the Board that the bids were evaluated according to the above criteria listed below, and highlighted the results of 6 step evaluation process as follows:

	WHAT IS BEING MEASURED	WEIGHT	T1	T2	T3	T5	T7
1	BBBEE SCORECARD	**10.00**	8.00	6.00	4.00	8.00	6.00
2	SD	**20.00**	15.50	16.15	15.12	16.67	15.89
3	Further Recognition Criteria (Current)	**5.00**	0.88	0.47	0.18	1.66	2.16
4	Further Recognition Criteria (Future)	**5.00**	0.94	2.11	1.26	2.45	1.82
5	Price (Total Cost of Ownership (TCO) excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation)	**60.00**	40.65	36.60	11.85	15.83	26.78
	TOTAL SCORE	**100.00**	**65.96**	**61.33**	**32.41**	**44.60**	**52.64**

4.2.6 Management indicated that apart from the fact that *Bidder T1* and *Bidder T2* scored the highest points, their proposals also offered the following benefit to the Company:

- Both bidders committed to Local Content higher than the threshold of 60% (*Bidder T1* committed 69.8%, whilst *Bidder T2* was 68.2%).
- Both bidders scored the highest points on technical evaluations.
- The Supplier Development commitment for *Bidder T1* was 77.5% and 80.7% for *Bidder T2*.
- The proposed Delivery Schedule was aligned to the Company's requirements.

4.2.7 Management stated that the outcome of the best and final offer as follows:

- *Bidder T1* offered to increase procurement to small businesses by R50m and technology transfer through skills development training and support by R10m. In addition, *Bidder T1* offered a R455 000 reduction in price per locomotive based on a revised foreign currency content percentage.
- *Bidder T2* offered a discount of R2.25m per locomotive, including a revised foreign currency content amount, thus offering the best price.
- The above process has almost eliminated the premium on the transaction.

4.2.8 Management stated that TIA performed gate reviews and ratified all the steps in the evaluation process as per Annexure A in the submission as contained in the pack. Mr Gazendam sought clarity if the split posed any challenges on a locomotive's unit price. Mr Skosana stated that it was invariable that the pricing of the 2 bidders was not the same. He urged Management to ensure that the negotiation delivers alignment on certain prices. Ms Mnxasana was concerned about *Bidder T2*'s split as it was already doing work for the Company. She stated that it was necessary to manage the concentration risk and the perception i.e. *Bidder T1* scored higher than *Bidder T2* but *Bidder T2* was granted a higher allocation. She proposed that a fair split should be considered. Ms Tshabalala was of the view that a 50/50 allocation should be considered. The Chairperson stated that, at some point, the Board should be provided with detail on TE's costs to get a holistic view. Mr Singh

4.2.9 Management stated there are no serious prejudices to the Company from a locomotive unit price. The prices will be fixed during the negotiation process. The split will accelerate the speed of delivery. A comprehensive exercise was conducted to determine TE's scope of work, and proposals for TE's scope of work will be shared with the preferred bidders. *Bidder T2* was currently building the 95 Locomotives (which will be delivered 3 months ahead of schedule). *Bidder T2* was allocated 560 locomotives per annum, although it has capacity for approximately 2000 locomotives per annum. *Bidder T2* was cheaper than *Bidder T1*, and its Supplier Development and localisation ratios were better than those of *Bidder T1*. Management was biased towards *Bidder T2* due to its ability to meet the Company's delivery schedule. The 60/40 allocation was motivated by the current risks.

4.2.10 Mr Skosana stated that it should be ensured that the contract is adequately punitive to cover instances of non-performance. Management stated that the penalties will be negotiated, and indicated that the intention is to impose strict penalties. Bidders were advised that performance bonds would be required. The performance bonds are punitive. Management stated that the Company will need to *"ride the wave"* on negative media due to the nature of the transaction. At an appropriate time, the Company will adequately engage the media on the procurement process. The perceptions will be adequately managed.

4.2.11 The Chairperson informed the Board that the difference between the split was approximately 60 locomotives, and the Company will pick up financial gain. Management stated that it never procured from *Bidder T1*. *Bidder T2*'s production line was ready while *Bidder T1* still needs to construct a prototype. Mr Fanucchi requested details on the partners in the respective consortia. Mr Skosana stated that the Company should be aware of the BEE choice so that the Company is not taken by surprise, and it can also manage the potential reputational issues. Management stated that *Bidder T1* set up a local company, the same company that worked on the Gautrain. *Bidder T2* is 70% owned by the *CSR E-Loco Supply Proprietary Limited* and 30% by a local company called *Matsete Basadi*.

4.2.12 Management stated that *Bidder T2*'s court case was on structuring the supplier development gate (details on the local and partners). *Bidder T2* felt it will be prejudiced to disclose the information whilst the 1064 transaction was still in progress. *Bidder T2* was willing to give the information to the competitors post the finalisation of the 1064 tender. Management stated that negotiations will commence from 27 January 2014, to be concluded within 6 weeks. The finalisation of the contract was targeted prior to 31 March 2014 to ensure execution of the pre-delivery payment.

RESOLVED that the Board:

- Noted and approved the tender evaluation process for the 599 Electric Locomotives.
- The acquisition of 599 Electric Locomotives estimated at R19.8bn (excluding hedging costs, escalations and scope of TE's work).
- Approved the recommendation of the *Bidder T1* and *Bidder T2* as a result of the evaluation process for the negotiations and award of business, subject a further endorsement by the Board Acquisitions and Disposals Committee post the negotiation process.
- Approved the allocation on a 60% - 40% basis; 60% to *Bidder T2* and 40% to *Bidder T1*, subject to a performance clause in the contract.
- Delegated authority to the GCE to sign, approve and conclude all necessary documents to give effect to the resolution.

14/1/2

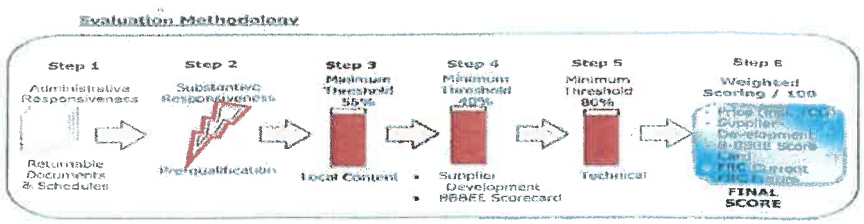
4.3 **Acquisition of 465 Diesel Locomotives**

4.3.1 Management took the Board through the submission as contained in the pack. The submission was taken as read. Management stated that a similar process was followed as for the Electric Locomotives. The bidders were probed further on the scheduled maintenance. The purpose of the submission was to:

- Provide the Board with an update regarding the progress of the tender evaluation process.
- Request the Board to note and approve the tender evaluation process.
- Request the Board to approve the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business.
- Request the Board to delegate all the necessary powers to the GCE to sign, approve and conclude all necessary documents to give effect to the above resolutions.
- Request that the Board notes that the above resolutions are subject to recommendation of the Board Acquisition and Disposals Committee.

4.3.2 Management highlighted the breakdown of the 1064 locomotives to the Board. Management took the Board through the evaluation process and stated that the 465 Diesel Locomotives were recommended for allocation to *Bidder T1* and *Bidder T4*. Management took the Board through the evaluation process and stated that the 465 Diesel Locomotives were recommended for allocation on an equal split, subject to a performance clause in the contract. The contract is estimated at R13.6bn (excluding hedging costs, escalations and scope of TE's work).

4.3.3 Management stated that the Board approved the procurement of 465 Diesel Locomotives subject to Section 54 PFMA approval. The Board was given background on the procurement process followed, highlighting the 4 bidders who responded. The 6 step evaluation process followed was as indicated below:



4.3.4 Management stated that the 4 bidders were evaluated according to the above criteria. Apart from the fact that *Bidder T1* and *Bidder T4* scored the highest points, their respective proposals also offered the following benefits to the Company:

- Both bidders committed to Local Content higher than the threshold (commitment for *Bidder T1* was at 61.1%, with *Bidder T4* at 55.5% against a threshold of 55%).
- *Bidder T1* scored 92.9% on the technical evaluations compared to the stipulated 80%.
- The Supplier Development commitment for *Bidder T1* was 66.15% and *Bidder T4's* commitment was 66.7% against a threshold of 40%.
- *Bidder T4* proposed the best delivery schedule of all the bidders.

- Both bidders provided the best Total Cost of Ownership in terms of the elements which were considered at the end.
- While the scoring for *Bidder T1* and *Bidder T3* seems very close, the price for *Bidder T3* was 32% higher than the price offered by *Bidder T1*.

4.3.5 Management proposed that 2 suppliers be utilised to manufacture the required locomotives for, amongst others, the following reasons:

- To promote standardisation of the locomotive fleet to ensure that the Total Cost of Ownership is minimised.
- To allow for critical mass that would enable successful negotiations on price and other critical commercial terms and conditions.
- To allow for critical mass that would promote localisation and programmatic procurement.
- To allow for flexibility in supplier options in future as it prevents monopoly behaviour.
- To reduce legal risks of the transaction.
- To reduce the overall contract risk of the transaction due failure of any supplier to fulfil its contractual obligations.

4.3.6 Management informed the Board that the equal allocation was motivated by the following reasons:

- There is a growing risk of very high dependency on *Bidder T4* due to previous locomotive transactions. This might lead to a promotion of monopolistic environment and will reduce the Company's ability to mitigate Total Cost of Ownership over the long-term. Allocating 50% to *Bidder T1* will allow this risk to be mitigated.
- The allocation will promote localisation and supplier development as there will be critical mass for *Bidder T1*.
- Delivery risk on *Bidder T1* will be mitigated as *Bidder T4* has demonstrated in the past to delivery ahead of schedule.

4.3.7 Management stated that TIA performed gate reviews and ratified all the steps in the evaluation process as per Annexure A in the submission contained in the pack. Mr Skosana sought clarity if the 50/50 split was the best route since *Bidder T4*'s rating was lower than *Bidder T1*'s rating. He indicated that the Board needs assurance on the elements of the 50/50 split as there were big differences in the preferred bidders' scores. Management stated that *Bidder T4*'s split related to the delivery risk. The delivery risk was not of significant risk on the Diesels. *Bidder T4*'s has delivered close to 250 locomotives in advance. In addition, a further player has been introduced to reduce the concentration risk. The Chairperson was of the view that the key issue for the split was the tenderers' ability to speed up production and secure the MDS volumes. Mr Fanucchi indicated that the 60/40 split (on Item 4.2 above) will save the Company R40m. Ms Mnxasana stated that *Bidder T4* was cheaper than *Bidder T1*. She supported the proposed allocation to manage concentration risks. Management stated that *Bidder T4*'s competitive advantage was that it was already in the system. The price difference was R2.7m per locomotive. Management was confident that the R2.7m premium could be reduced in the negotiations. The proposed allocation was premised on the reduction of concentration risk on *Bidder T4*.

4.3.8 Mr Sharma stated that the Committee approved the allocation, subject to Management's ability to negotiate a better allocation. The principle will be on the delivery schedule and total costs. Management should have flexibility to move the order to the other company if one fails to deliver on-time. Mr Skosana requested the Board to consider all quantitative issues in relation to the transaction, and sought confirmation if the proposed allocation will address the concentration risk as he was not fully convinced. Management stated that *Bidder T4's* price has always been R10m less than the other bidders. The price will be interrogated in the negotiation process. The Company will reserve the right to increase *Bidder T4's* allocation should there be no adverse findings in the price negotiation process. *Bidder T4's* price presents an 11% price difference.

4.3.9 Mr Skosana was uncomfortable that Management's flexibility will not be subjected to governance structures, and sought guidance on information that will be communicated to

the bidders. Management stated that the matter will be submitted to the Board on an annual basis due to the nature of transaction (programmatic procurement). It was indicated in the RFP that the *"Company reserves the right to procure more or less locomotives than advertised"* depending on the market conditions. Mr Gazendam stated that it should be ensured that Management adheres to the Board resolution. The Chairperson stated that the 11% differential was excessive; there should be a comparable number post the negotiation process. The Chairperson stated that the Total Cost of Ownership concept should still be built into the pricing. It was necessary to understand the Life Cycle costs and compare the prices, as well as the future cost of locomotives, maintenance and spares.

4.3.10 Ms Tshabalala sought clarity on whether the 31 March 2014 deadline was a realistic date for the finalisation of the contract, and Management stated that it was an ambitious date. However, the Company is under pressure to meet the capital budget and the transaction will assist. Mr Sharma congratulated the team on pulling the matter together. In October 2013, there were indications that the matter will be finalised by May 2014.

RESOLVED that the Board:

- Approved the tender evaluation process for the 465 Diesel Locomotives.
- The acquisition of 465 Diesel Locomotives estimated at R13.6bn (excluding hedging costs, escalations and scope of TE's work).
- Approved the recommendation of the *Bidder T1* and *Bidder T4* as a result of the evaluation process for the negotiations and award of business, subject a further endorsement by the Board Acquisitions and Disposals Committee post the negotiation process.
- Approved the allocation on a 50/50 split, subject to a performance clause in the contract.
- Delegated authority to the GCE to sign, approve and conclude all necessary documents to give effect to the resolution. 14/1/3

5 **TRANSNET BOARD OF DIRECTORS MANDATE**

The Board noted the Board of Directors' Mandate as contained in the pack.

6 **CLOSE**

The Chairperson thanked the Board for its commitment. There being no further business to conduct; the Chairperson declared the meeting closed at 17:40.

CHAIRPERSON
DATE: 21/02/2014

GROUP COMPANY SECRETARY
DATE: 17 FEBRUARY 2014

REPORT 3(B) – EXHIBIT 6

EXHIBIT 6

From: Francis Callard Transnet Freight Rail JHB <francis.callard@transnet.net>
Sent: Tuesday, 20 May 2014 10:50
To: Francis Callard Transnet Freight Rail JHB
Subject: Fw: URGENT CONFIDENTIAL - 100 and 60 Locomotives
Attachments: URGENT CONFIDENTIAL - 100 and 60 Locomotives.eml

On Thu Jan 23 15:50:18 SAST 2014, "Francis Callard Transnet Freight Rail JHB" <francis.callard@transnet.net> wrote:

----- Original Message ------
From:"Francis Callard Transnet Freight Rail JHB" <francis.callard@transnet.net>
Sent:Thu Jan 23 15:50:18 SAST 2014
To:"Siyabonga Gama Transnet Freight Rail JHB" <Gama.Siyabonga@transnet.net>,"Thamsanqa Jiyane Transnet Freight Rail JHB" <Thamsanqa.Jiyane@transnet.net>
Subject:URGENT CONFIDENTIAL - 100 and 60 Locomotives

Dear Siya and Thami.

This is a difficult mail to write. In helping to format a recent version of the 100 and 80 locomotive business case on Wednesday 22nd, I noticed that the case was changed from that which I had submitted on Monday. This mail is because of the nature of those changes and the implications. The implications are technical and in the rationale for the acquisition which was speedy delivery to mitigate MDS volumes at risk.

Project Shongololo was predicated on 19 Equivalent locomotives. These locomotives are 26 ton per axle, 311 kN at 34km/h and are equipped with Toshiba T-Ethernet interoperability. It is this equivalency of power and interoperability that was at the heart of the business case.

The locomotives proposed are not explicitly specified but if a current and delivered design is the criteria, then it is the 20E. This locomotive is a 22 ton per axle locomotive, 279kN at 40 km/h (284knat 30 km/h) and uses IEC61375 Standard for interoperabilty. This was specified as a GF locomotive. The implications are that the locomotive is not a heavy haul locomotive, is not as powerful and the locomotive calulations for Operation Shongololo no longer hold and the project and volume targets may be at risk. Furthermore the locomotives cannot interoperate with the current 19E locomotives adding further complexity to operations. To have the 20E interoperate with the 19E will require that they be fitted with wired DP at an additional cost of around R1m per locomotive.

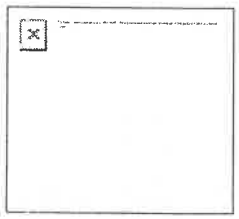
If the locomotives are of a new Co-Co design which will meet the power requirements then all the arguments relating to time saving using proven design and eliminating type testing no longer hold.

The TE assembly line for the current 20E has yet to produce a locomotive. If local asembly is the criteria then ramping up this line up to meet the 95 20E and this 100 delivery criteria is a risk that has not been – in my humble opinion – been visibly addressed. If imported as complete units then local content is problematic though the delivery program is achieved.

Respectfully for your information and consideration.

Regards

Francis



REPORT 3(B) – EXHIBIT 7

EXHIBIT 7

CSR 中国南车

To:
Brian Molefe
Group Chief Executive

TRANSNET SOC Ltd.

Carlton Centre, 150 Commissioner Street,
Johannesburg, 2001

From:
Wang Pan
General Manager

CSR E-Loco Supply (Pty) Ltd.
1st Floor, China Construction Bank Building,
95 Grayston Drive, Sandton, 2196,
Johannesburg

Tel.: +27-10 007 1127
Cell: +27-72 562 5154
Fax: +27-86 599 7734
E-mail: alton@csrzelc.com

Date: 14th March, 2014
Our Ref.: TFR-100- CSR002

Subject: Updated Price Proposal for Supply of Additional 100 sets of 20E Dual Voltage Electric Locomotives for Transnet Freight Rail

Dear Mr. Brian Molefe,

Thank you very much for giving us an opportunity to provide a proposal to Transnet Freight Rail regarding supply of additional 100 sets of 20E Dual Voltage Electric Locomotives.

As the Special Purpose Vehicle (SPV) in South Africa established by CSR Zhuzhou Electric Locomotive Co., Ltd. (CSR ZELC), CSR E-Loco Supply (Pty) Ltd would like to submit updated price proposal according to your RFP dated on 25th February, 2014, the Technical Proposal submitted on 28th February 2014 and negotiation between TFR and CSR E-Loco last week.

When TFR received this updated price proposal regarding 100 sets of locomotive, all previous price proposals submitted by CSR E-Loco Supply (Pty) Ltd to TFR shall be invalid.

1 PRICE PROPOSAL

The price is calculated based on the technical proposal of 20E locomotive with certain technical modifications as required. In order to comply with the requirement of Mr. Anoj during the price discussion, we would like to propose three options as following to be considered and decide:

1.1 Option 1

The price for Option 1 is **R 41,950,000.00** per locomotive excluding VAT. The total price of 100 sets of 20E locomotive is **R 41,950,000.00** excluding VAT. This price is calculated based on the following conditions:

1) All locomotives will be manufactured and assembled in China;

2) Payment terms:

- 30% of the Contract Amount excluding VAT will be paid before the Contract comes into effectiveness;
- 30% of the Contract Amount excluding VAT will be paid after design review, but not later than 6 months after Effectiveness of the Contract;
- 35% of each contract locomotive excluding VAT will be paid after the locomotive is accepted;
- 2.5% of the contract locomotive value will be paid after the reliability target is achieved;
- 2.5% of the contract locomotive value will be paid after the availability target is achieved.

3) No warranty bond will be provided;

4) The SD value will be about 36% of the total price;

5) The price excludes any spare parts, special tools, ECPB&WDP and other options.

1.2 Option 2

The price for Option 2 is **R 43,600,000.00** per locomotive excluding VAT. The total price of 100 sets of 20E locomotive is **R 4,360,000,000.00** excluding VAT. This price is calculated based on the following conditions:

1) 60 locomotives will be manufactured and assembled in China. 40 locomotives will be assembled in TE, CSR ZELC will provide TE with all CKD components for these 40 locomotives;

2) The price for TE's CKD component assembly shall not be higher than that for 359 locomotives project;

3) Payment conditions:

- 30% of the Contract Amount excluding VAT will be paid before the Contract comes into effectiveness;
- 30% of the Contract Amount excluding VAT will be paid after design review, but not later than 6 months after Effectiveness of the Contract;
- 38% of each contract locomotive excluding VAT will be paid after the locomotive is accepted;
- 1% of the contract locomotive value will be paid after the reliability target is achieved;
- 1% of the contract locomotive value will be paid after the availability target is achieved.

4) No warranty bond will be provided;

5) The SD value will be about 60% of the total price;

6) The price excludes any spare parts, special tools, ECPB&WDP and other options.

1.3 Option 3

The price for Option 3 is **R 44,000,000.00** per locomotive excluding VAT. The total price of 100 sets of 20E locomotive is **R 4,400,000,000.00** excluding VAT. This price is calculated based on the following conditions:

1) 40 locomotives will be manufactured and assembled in China. 60 locomotives will be assembled in TE, CSR ZELC will provide TE with all CKD components for these 60 locomotives;

2) The price for TE's CKD component assembly shall not be higher than that for 359 locomotives project;

3) Payment conditions:

- 30% of the Contract Amount excluding VAT will be paid before the Contract comes into effectiveness;
- 30% of the Contract Amount excluding VAT will be paid after design review, but not later than 6 months after Effectiveness of the Contract;
- 38% of each contract locomotive excluding VAT will be paid after the locomotive is accepted;
- 1% of the contract locomotive value will be paid after the reliability target is achieved;
- 1% of the contract locomotive value will be paid after the availability target is achieved.

4) No warranty bond will be provided;

5) The SD value will be about 63% of the total price;

6) The price excludes any spare parts, special tools, ECPB&WDP and other options.

1.4 Price of ECPB&WDP

According to the offer from potential supplier, the base price for ECPB+WDP is **R599,952.00** excluding VAT per locomotive. This price is the base price on April 2013. This base price is just for reference and will only be fixed after the design is frozen and approval of the supplier.

2 DELIVERY SCHEDULE

CSR E-Loco Supply (Pty) Ltd. proposes the followed delivery schedule options:

Delivery Schedules

	Option 1		Option 2		Option 3	
	2015		2015		2015	
	CSR	TE	CSR	TE	CSR	TE
February	10		2		2	
March	25		18		15	
April	30		20	6	15	4
May	35		20	12	8	12
June				12		12
July				10		12
August						12
September						8
Subtotal	100		60	40	40	60
Total	100		100		100	

Note:

1) The assumed effectiveness of Contract is expected 1st April 2014.

2) The delivery schedule of option 3 will be discussed and fixed with TE later.

3 WARRANTY PERIOD

3.1 Warranty period of locomotive

CSR commits the warranty period of the locomotive is **24 month or at the time of the achievement of 300,000 km** after the locomotive is accepted, whichever occurs first.

3.2 Warranty period of traction motor

The warranty period in respect of traction motor fitted to a Locomotive will be a period of 6 (six) years commencing on the Acceptance Date of that Locomotive.

3.3 Warranty period of spare parts

Each spare, including any traction motor not having been fitted to a Locomotive, will have a warranty period of 12 months after being placed in service by the Transnet Freight Rail or 15 months after Acceptance of that spare.

4 OTHER TERMS AND CONDITIONS

All other contractual terms and conditions for 95 locomotives project shall apply.

CSR 中国南车

5 VALIDITY

This price proposal shall be valid until the end of March 2014.

We really hope the great effort of CSR to comply the requirements of TFR shall satisfy you to conclude the contract as early as possible. We would like to try all the best and resources to serve the demand of Transnet as much as possible.

Thank you very much.

Best regards

Wang Pan

Director of CSR E-Loco Supply (Pty) Ltd.

Registration No.: 2012/128051/07
VAT No.: 4850261837
Address: 1st Floor, China Construction Bank Building,
95 Grayston Drive, Sandton, 2196, Johannesburg
Tel.: +27-10 007 1127 Fax: +27-86 599 7734

南车电力机车项目公司
CSR E-LOCO SUPPLY (PTY) LTD.

REPORT 3(B) – EXHIBIT 8

EXHIBIT 8

Iolefe, Group Chief Executive

TRANSNET

25 February 2014

Mr Wang Pan (Alton)
General Manager
CSR E-Loco Supply (Pty) Ltd
1st Floor, China Construction Bank Building,
95 Grayston Drive, Sandton, 2196,
Johannesburg

Dear Mr Wang Pan

Request For Proposal (RFP) for 100 20E Dual Voltage Electric Locomotives

1. I have pleasure in advising that a Transnet Board Resolution has authorised the acquisition of an additional 100 locomotives from CSR E-loco Supply (Pty) Ltd with certain technical modifications and subject to certain commercial terms and conditions to be agreed-on in negotiations.

2. This letter is to give effect to the resolution by inviting you to negotiations on the price, delivery and supplier development requirements to give effect to the above. This letter is an invitation only and shall not bind Transnet Ltd in any way.

3. Transnet would like to engage with CSR in an effort to solicit a proposal from CSR for additional 100 20E locomotives with certain technical modifications.

4. The salient points are:
   a. Quantity: 100 (One Hundred)
   b. Delivery: Expeditious delivery for acceptance testing is a priority commencing latest September 2014 with completion by March 2015. Any proposals on earlier delivery are invited.
   c. It is recognised that this delivery overlaps that of the current agreement but expeditious delivery is a priority.
   d. Price: The final price to be negotiated as speedily as possible.
   e. Payment: A 10% (Ten percent) deposit based on the contract value per locomotive shall be paid on (i) successful completion of negotiations and (ii) signing of the amendment to the agreement giving effect to the extension and (iii) compliance with all suspensive conditions stipulated in the agreement. Payment option with a favorable impact on price is also requested.
   f. Other payments for spares and tools as applicable shall be per the amended agreement.

g. Other Commercial Terms and Conditions: As per the amended agreement.
h. Supplier Development: This is a non-negotiable suspensive condition and shall meet or exceed 70% as measured in the SD Value Summary.
i. Other security documents related to the guarantee positioning to the advance payment.

5. The modifications required to the current Class 20E are:
   a. Continuous Tractive Effort of 311 kN at 34 km/h at wheel tread with adhesion of 30% maximum.
   b. Locomotive Bo-Bo axle mass limited to a maximum of 26 tons per axle.
   c. Incorporating all latest design changes.
   d. Locomotives to be fitted ECPB /WDP interoperable with class 19E locomotives.
   e. Braking Effort at 251kN at 50km/h to 5km/h, Blended Braking as per 20E locomotives.
   f. Locomotives to be fitted with F type coupler, spring loaded coupler carrier plate and NC390 draw gear.
   g. A MU (Multiple Operations) compatible with the current locomotives operating on the Coal export Line enabling them to work in consist.
   h. The locomotives should also include all other changes and improvements made by CSR itself to ensure that the new locomotives include all changes up to and as included per the built locomotives E20010.
   i. The changes, refinements and modifications to the original proposal as agreed to with CSR during the 20E clarification process, 20E design reviews and the 20E issues list must be incorporated.

6. The contract price per locomotive for this proposal shall be the same or less than the current contract including variation orders but excluding design and setup costs which have been amortised in the current agreement and excluding rate of exchange variations.

7. Your urgent response by no later than 28 February 2014 is sought to commence price and other necessary negotiations.

Yours faithfully

Brian Molefe
Group Chief Executive
Date: 26.2.14.

REPORT 3(B) – EXHIBIT 9

EXHIBIT 9

Local Content Information for 100 Sets of 21E Locomotive

NO.	COMPONENT / ACTIVITY	Cost weigting	Supplied from		Local Content	Imported	Localized
1	**Assembly of Locomotives**	**5.6%**			60%	98,112,000.00	147,168,000.00
	Assembly of Locomotives		CHINA	SA	60%		
	Testing of Locomotive		CHINA	SA	60%		
2	**Car Body:**	**15.8%**	CHINA		20%	553,632,000.00	138,408,000.00
	Car body shell		CHINA		NA		
	Door system			SA	100%		
	Windows			SA	100%		
	Drivers Chairs and Observer Seats			SA	100%		
	Cab and Passage Lighting			SA	100%		
	Grab pillars and rails			SA	100%		
	Interior cladding		CHINA		NA		
	Safety equipment			SA	100%		
	Pipe works and ducts		CHINA		NA		
	Cab radio/communication/antenna systems			SA	NA		
3	**Bogie:**	**16.8%**			0%	735,840,000.00	-
	Bogie frame (casting or fabrication)		CHINA		NA		
	Motor suspension unit		CHINA		NA		
	Gear wheel and pinion and gear case		CHINA		NA		
	Wheel sets and wheel components		CHINA		NA		
	Axle and axle boxes		CHINA		NA		
	Bearings		CHINA		NA		
	Bolster		CHINA		NA		
	Package brake units and levers		CHINA		NA		
	Air Piping		CHINA		NA		
	Primary and secondary suspension		CHINA		NA		
4	**Coupling Equipment :**	**0.5%**			40%	11,826,000.00	7,884,000.00
	Coupler body			DCD	100%		
	Coupler hook			DCD	100%		
	Yoke			DCD	100%		
	Pin			DCD	100%		
	Draft-gear		CHINA		NA		
5	**Suspension :**	**0.2%**			0	6,570,000.00	-
	Shock absorbers and dampers		CHINA		NA		
	Springs		CHINA		NA		
6	**Heat, Ventilation and Air Conditioning**	**0.8%**			75%	8,760,000.00	26,280,000.00
	Air-conditioner			SA	100%		
	Traction blower		CHINA		NA		
	Regrigerator			SA	100%		
	Heater			SA	100%		
7	**Braking System :**	**5.0%**			100%	-	219,000,000.00
	Air Brakes			SA	100%		
	Parking Brake			SA	100%		
	Disc Brake			SA	100%		
	Brake Shoes & Drums			SA	100%		
	Brake Blocks			SA	100%		
	Air reservoirs			SA	100%		
	Air piping (steel and rubber)			SA	100%		
8	**AC Traction Motors :**	**4.8%**			0%	210,240,000.00	-
	Stator frame		CHINA		NA		
	Stator coils		CHINA		NA		
	Rotor bars and shaft		CHINA		NA		
	Rotor coils		CHINA		NA		
	Pinion		CHINA		NA		
	Gearcase		CHINA		NA		

NO.	COMPONENT / ACTIVITY	Cost weigting	Supplied from		Local Content	Imported	Localized
9	**Electric Systems :**	**43.2%**			3.75%	1,821,204,000.00	70,956,000.00
	Traction Converter		CHINA				
	Brake Resistor		CHINA	SA	100%		
	Pantographs		CHINA		NA		
	Cable		CHINA		NA		
	Light		CHINA		NA		
	Auxiliary Transformer		CHINA		NA		
	Transformer		CHINA		NA		
	Electrical Boxes		CHINA		NA		
	Roof insulators, pantograph bushing, Potential transformer		CHINA		NA		
	Vacuum circuit breaker		CHINA		NA		
	High Speed circuit breakers		CHINA		NA		
	Change over switch		CHINA		NA		
	Auxillary Switchboards		CHINA		NA		
	380V auxiliary motors		CHINA		NA		
	HV cubicle		CHINA		NA		
	LV cubicle		CHINA		NA		
	Cooling Tower		CHINA		NA		
	Battery			SA	100%		
	Battery Charger		CHINA		NA		
	Control System		CHINA		NA		
	ADU			SA	NA		
	Connector			SA	NA		
10	**Facilities (Assume Workshops)**	**0.2%**			0	8,760,000.00	-
	Toilets		CHINA		NA		
	Wheel flange lubrication system		CHINA		NA		
11	**Design and Service**	**7.2%**			15%	268,056,000.00	47,304,000.00
	Design		CHINA		NA		
	Service		CHINA		NA		
	Total	*100.0%*				3,723,000,000.00	657,000,000.00
	Local Content Percentage						15.00%

Note: The local content calculation is based on no exemption.

REPORT 3(B) – EXHIBIT 10

EXHIBIT 10

CLASS 21E PROJECT: LOCOMOTIVES COMMISSIONING AND WARRANTY RECORDS

Contract Date: 01 April 2014

Contract Effective Date:

Loco Number	Works/Commisioning Tests Date	Days to issue H/O from completion of commissioning	Hand Over Date	Days to complete loco from H/O to release from TE	(TE/CSR,TFR) QA Signed Certificate	Days to issue loco acceptance from release at TE	Acceptance Date	Loco Warranty End Date (24 months)	TCS-R Cables/ Installation	Notes
21001	2014/09/06	147	2015/01/31	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 11th Dec
21002	2014/09/25	186	2015/03/30	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 11th Dec
21003	2015/05/18	138	2015/10/03	-30	2015/09/03	83	2015/11/25	2017/11/25	Cables	Arrived in SA Durban Port 16th Aug
21004	2015/05/24	129	2015/09/30	0	2015/09/30	56	2015/11/25	2017/11/25	Cables	Arrived in SA Durban Port 16th Aug
21005	2015/05/18	138	2015/10/03	-30	2015/09/03	83	2015/11/25	2017/11/25	Cables	Arrived in SA Durban Port 16th Aug
21006	2015/05/24	118	2015/09/19	4	2015/09/23	37	2015/10/30	2017/10/30	Cables	Arrived in SA Durban Port 16th Aug
21007	2014/11/05	87	2015/01/31	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 15th Jan
21008	2014/11/05	145	2015/03/30	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 15th Jan
21009	2015/01/06	143	2015/05/29	N/A	type test used	N/A	2015/08/28	2017/08/28	Cables	Arrived in SA Durban Port 29th Mar
21010	2015/01/06	143	2015/05/29	132	2015/10/08	50	2015/11/27	2017/11/27	Cables	Arrived in SA Durban Port 29th Mar
21011	2014/11/20	130	2015/03/30	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 15th Jan
21012	2014/11/25	125	2015/03/30	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 15th Jan
21013	2014/12/03	117	2015/03/30	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 07/02/2015
21014	2014/12/02	118	2015/03/30	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 07/02/2015
21015	2014/12/03	118	2015/03/31	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 07/02/2015
21016	2014/12/07	114	2015/03/31	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 07/02/2015
21017	2014/12/09	201	2015/06/28	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 07/02/2015
21018	2014/12/09	201	2015/06/28	N/A	type test used	N/A	2015/06/30	2017/06/30	Cables	Arrived in SA Durban Port 07/02/2015
21019	2014/12/10	170	2015/05/29	60	2015/07/28	34	2015/08/31	2017/08/31	Cables	Arrived in SA Durban Port 07/02/2015
21020	2014/12/18	162	2015/05/29	60	2015/07/28	34	2015/08/31	2017/08/31	Cables	Arrived in SA Durban Port 07/02/2015
21021	2014/12/20	160	2015/05/29	69	2015/08/06	22	2015/08/28	2017/08/28	Cables	Arrived in SA Durban Port 29th Mar
21022	2014/12/20	160	2015/05/29	64	2015/08/01	30	2015/08/31	2017/08/31	Cables	Arrived in SA Durban Port 29th Mar
21023	2014/12/30	219	2015/08/06	-1	2015/08/05	23	2015/08/28	2017/08/28	Cables	Arrived in SA Durban Port 29th Mar
21024	2014/12/29	239	2015/08/25	0	2015/08/25	34	2015/09/28	2017/09/28	Cables	Arrived in SA Durban Port 29th Mar
21025	2015/01/06	212	2015/08/06	-1	2015/08/05	23	2015/08/28	2017/08/28	Cables	Arrived in SA Durban Port 29th Mar
21026	2015/01/17	201	2015/08/06	-1	2015/08/05	23	2015/08/28	2017/08/28	Cables	Arrived in SA Durban Port 29th Mar
21027	2015/01/02	235	2015/08/25	0	2015/08/25	34	2015/09/28	2017/09/28	Cables	Arrived in SA Durban Port 29th Mar
21028	2015/01/20	198	2015/08/06	-1	2015/08/05	23	2015/08/28	2017/08/28	Cables	Arrived in SA Durban Port 29th Mar
21029	2015/01/27	191	2015/08/06	-1	2015/08/05	23	2015/08/28	2017/08/28	Cables	Arrived in SA Durban Port 29th Mar
21030	2015/01/26	186	2015/07/31	1	2015/08/01	30	2015/08/31	2017/08/31	Cables	Arrived in SA Durban Port 29th Mar
21031	2015/02/03	178	2015/07/31	11	2015/08/11	17	2015/08/28	2017/08/28	Cables	Arrived in SA Durban Port 25th Apr
21032	2015/02/05	176	2015/07/31	11	2015/08/11	17	2015/08/28	2017/08/28	Cables	Arrived in SA Durban Port 25th Apr
21033	2015/02/16	239	2015/10/13	0	2015/10/13	45	2015/11/27	2017/11/27	Cables	Arrived in SA Durban Port 16th Aug
21034	2015/03/09	194	2015/09/19	-1	2015/09/18	38	2015/10/26	2017/10/26	Cables	Arrived in SA Durban Port 16th Aug
21035	2015/03/15	188	2015/09/19	-1	2015/09/18	38	2015/10/26	2017/10/26	Cables	Arrived in SA Durban Port 16th Aug
21036	2015/02/26	190	2015/09/04	0	2015/09/04	52	2015/10/26	2017/10/26	Cables	Arrived in SA Durban Port 16th Aug
21037	2015/04/24	148	2015/09/19	-1	2015/09/18	42	2015/10/30	2017/10/30	Cables	Arrived in SA Durban Port 16th Aug
21038	2015/04/22	150	2015/09/19	4	2015/09/23	37	2015/10/30	2017/10/30	Cables	Arrived in SA Durban Port 16th Aug
21039	2015/04/24	148	2015/09/19	4	2015/09/23	37	2015/10/30	2017/10/30	Cables	Arrived in SA Durban Port 16th Aug
21040	2015/04/24	162	2015/10/03	-30	2015/09/03	83	2015/11/25	2017/11/25	Cables	Arrived in SA Durban Port 16th Aug
21041	2015/05/24	-54	2015/03/31	54	2015/05/24	68	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21042	2015/05/24	-54	2015/03/31	54	2015/05/24	68	2015/07/31	2017/07/31	Installation	Assembled in Koedoespoort
21043	2015/05/24	-54	2015/03/31	54	2015/05/24	68	2015/07/31	2017/07/31	Installation	Assembled in Koedoespoort
21044	2015/05/24	-54	2015/03/31	54	2015/05/24	68	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort

21045	2015/05/23	6	2015/05/29	8	2015/06/06	55	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21046	2015/05/25	4	2015/05/29	8	2015/06/06	55	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21047	2015/03/15	75	2015/05/29	11	2015/06/09	52	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21048	2015/04/08	51	2015/05/29	15	2015/06/13	48	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21049	2015/05/09	20	2015/05/29	15	2015/06/13	48	2015/07/31	2017/07/31	Installation	Assembled in Koedoespoort
21050	2015/04/07	52	2015/05/29	15	2015/06/13	48	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21051	2015/04/10	49	2015/05/29	15	2015/06/13	48	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21052	2015/04/15	44	2015/05/29	16	2015/06/14	47	2015/07/31	2017/07/31	Installation	Assembled in Koedoespoort
21053	2015/04/14	75	2015/06/28	-1	2015/06/27	34	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21054	2015/04/18	71	2015/06/28	-6	2015/06/22	39	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21055	2015/04/18	71	2015/06/28	-6	2015/06/22	39	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21056	2015/04/18	71	2015/06/28	-1	2015/06/27	34	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21057	2015/05/15	44	2015/06/28	-9	2015/06/19	42	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21058	2015/05/20	39	2015/06/28	-9	2015/06/19	42	2015/07/31	2017/07/31	Cables	Assembled in Koedoespoort
21059	2015/05/05	54	2015/06/28	10	2015/07/08	82	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21060	2015/05/09	50	2015/06/28	3	2015/07/01	61	2015/08/31	2017/08/31	Cables	Assembled in Koedoespoort
21061	2015/05/08	51	2015/06/28	3	2015/07/01	58	2015/08/28	2017/08/28	Cables	Assembled in Koedoespoort
21062	2015/05/05	54	2015/06/28	10	2015/07/08	54	2015/08/31	2017/08/31	Cables	Assembled in Koedoespoort
063	2015/05/15	77	2015/07/31	-23	2015/07/08	82	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21064	2015/05/18	74	2015/07/31	-20	2015/07/11	79	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21065	2015/06/10	51	2015/07/31	-13	2015/07/18	72	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21066	2015/05/18	74	2015/07/31	-12	2015/07/19	71	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21067	2015/05/25	67	2015/07/31	-18	2015/07/13	77	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21068	2015/06/25	36	2015/07/31	-12	2015/07/19	71	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21069	2015/05/15	77	2015/07/31	-6	2015/07/25	65	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21070	2015/06/01	60	2015/07/31	9	2015/08/09	19	2015/08/28	2017/08/28	Cables	Assembled in Koedoespoort
21071	2015/06/11	50	2015/07/31	9	2015/08/09	50	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21072	2015/06/26	35	2015/07/31	-4	2015/07/27	63	2015/09/28	2017/09/28	Cables	Assembled in Koedoespoort
21073	2015/06/07	54	2015/07/31	5	2015/08/05	23	2015/08/28	2017/08/28	Cables	Assembled in Koedoespoort
21074	2015/06/11	50	2015/07/31	1	2015/08/01	60	2015/09/30	2017/09/30	Cables	Assembled in Koedoespoort
21075	2015/06/11	50	2015/07/31	9	2015/08/09	52	2015/09/30	2017/09/30	Cables	Assembled in Koedoespoort
21076	2015/06/25	82	2015/09/15	-31	2015/08/15	46	2015/09/30	2017/09/30	Cables	Assembled in Koedoespoort
21077	2015/06/24	83	2015/09/15	-31	2015/08/15	46	2015/09/30	2017/09/30	Cables	Assembled in Koedoespoort
21078	2015/06/22	55	2015/08/16	0	2015/08/16	45	2015/09/30	2017/09/30	Cables	Assembled in Koedoespoort
21079	2015/06/25	52	2015/08/16	0	2015/08/16	45	2015/09/30	2017/09/30	Cables	Assembled in Koedoespoort
21080	2015/07/03	53	2015/08/25	-2	2015/08/23	64	2015/10/26	2017/10/26	Cables	Assembled in Koedoespoort
21081	2015/07/01	54	2015/08/24	-1	2015/08/23	64	2015/10/26	2017/10/26	Cables	Assembled in Koedoespoort
21082	2015/07/02	57	2015/08/28	0	2015/08/28	59	2015/10/26	2017/10/26	Cables	Assembled in Koedoespoort
21083	2015/07/04	55	2015/08/28	0	2015/08/28	59	2015/10/26	2017/10/26	Cables	Assembled in Koedoespoort
21084	2015/07/13	52	2015/09/03	0	2015/09/03	53	2015/10/26	2017/10/26	Cables	Assembled in Koedoespoort
21085	2015/07/13	60	2015/09/11	0	2015/09/11	45	2015/10/26	2017/10/26	Cables	Assembled in Koedoespoort
21086	2015/07/13	60	2015/09/11	0	2015/09/11	49	2015/10/30	2017/10/30	Cables	Assembled in Koedoespoort
21087	2015/07/26	47	2015/09/11	0	2015/09/11	49	2015/10/30	2017/10/30	Cables	Assembled in Koedoespoort
21088	2015/07/16	61	2015/09/15	0	2015/09/15	41	2015/10/26	2017/10/26	Cables	Assembled in Koedoespoort
21089	2015/07/18	59	2015/09/15	0	2015/09/15	41	2015/10/26	2017/10/26	Cables	Assembled in Koedoespoort
21090	2015/07/15	66	2015/09/19	-2	2015/09/17	39	2015/10/26	2017/10/26	Cables	Assembled in Koedoespoort
21091	2015/07/27	78	2015/10/13	0	2015/10/13	45	2015/11/27	2017/11/27	Cables	Assembled in Koedoespoort
21092	2015/07/28	95	2015/10/31	0	2015/10/31	30	2015/11/30	2017/11/30	Cables	Assembled in Koedoespoort
21093	2015/07/29	69	2015/10/06	-2	2015/10/04	52	2015/11/25	2017/11/25	Cables	Assembled in Koedoespoort
21094	2015/08/15	52	2015/10/06	-2	2015/10/04	52	2015/11/25	2017/11/25	Cables	Assembled in Koedoespoort
21095	2015/08/16	59	2015/10/14	0	2015/10/14	44	2015/11/27	2017/11/27	Cables	Assembled in Koedoespoort
21096	2015/08/05	82	2015/10/26	0	2015/10/26	32	2015/11/27	2017/11/27	Cables	Assembled in Koedoespoort
21097	2015/08/30	53	2015/10/22	0	2015/10/22	36	2015/11/27	2017/11/27	Cables	Assembled in Koedoespoort
21098	2015/09/11	42	2015/10/23	0	2015/10/23	38	2015/11/30	2017/11/30	Cables	Assembled in Koedoespoort
21099	2015/09/10	45	2015/10/25	0	2015/10/25	36	2015/11/30	2017/11/30	Cables	Assembled in Koedoespoort
21100	2015/09/14	43	2015/10/27	0	2015/10/27	34	2015/11/30	2017/11/30	Cables	Assembled in Koedoespoort

REPORT 3(B) – EXHIBIT 11

SCHEDULE 1

PRICING AND PAYMENT TERMS

1. ONE HUNDRED LOCOMOTIVES

1.1 **Contract Price**

The **Contract Price** for the above referenced Locomotives means the price in South African Rands for such Locomotives as set out in the table immediately below. The Contract Price for the Locomotives are fixed and firm, free on rail and are for the given quantities.

Contract Price (ZAR)	
Quantity of Locomotives	Contract Price per Locomotive (ZAR)
100	R 43 800 000.00

1.2 Payment Terms

1.2.1 The Contract Price for the above referenced Locomotives shall be paid by the Company in stage payments (each a **Milestone Payment**) on the respective date/stages specified under the heading "Date/Stage" in the table immediately below (each a **Milestone** and each such date on which such Milestone is achieved, a **Milestone Date**) and in the amounts set opposite the respective dates or stages:

Date /Stage	**Payment %**
The Effective Date	30% of the Contract Price
The date of Design Review finalization	30% of the Contract Price
The date of issue of an Acceptance Certificate for a Locomotive	37% of the Contract Price of such Locomotive
The Mission Reliability Retention Release Date	1,5% of the Contract Price of such Locomotive
The Fleet Availability Retention Release Date	1,5% of the Contract Price of such Locomotive

1.2.2 No Milestone Payment shall become due:

(a) in the case of all other Milestone Payments, unless the first Milestone Date has occurred;

(b) (except in respect of the final Milestone Payment) until the Contractor has provided evidence satisfactory to the Company that the Advance Payment Bond extends to the amount due in respect of the applicable Milestone Payment;

(c) until the Company has a received a duly completed Tax Invoice from the Contractor in respect of such Milestone Payment in accordance with Clause 8.3.3 (Tax Invoice).

1.2.3 Subject to paragraph 1.2.4 below, if either the Mission Reliability Retention Release Date or Fleet Availability Retention Release Date occurs prior to the Acceptance of all 95 (ninety five) Locomotives, then the Retention Amounts due on such dates (as applicable) for each Locomotive not yet Accepted, shall become due on the date of Acceptance of that Locomotive.

1.2.4 No amount shall be due on either the Mission Reliability Retention Release Date or the Fleet Availability Retention Release Date unless, before or on the date on which the first of those Milestones is achieved, the Company has received a duly executed original of the Performance Bond.

2. SPARES

1.3 Contract Price

1.3.1 The prices for the Spares listed in Part 1(Spares) of Schedule 7 (Spares, Tools and Test Equipment) are fixed for 12 (twelve) months from the Effective Date and shall not be varied, amended and/or supplemented without the prior written consent of the Company.

1.3.2 The Company shall pay for an Initial Spares Order on the date and in the amount set apposite such date and the Contractor shall procure the availability, sell and deliver to the Company such Spares with a minimum stock value, in each case, as specified in the table below.

Date	**Recommended Spares value ZAR to be purchased by the Company**
On the date of signature of an Acceptance Certificate for the first Locomotive	R 150 000.00 per Locomotive

1.4 Payment Terms

On the date set out in the table above:

1.4.1 the Company shall make payment to the Contractor of the Initial Spares Value provided that:

(a) the Company shall have received a duly completed Tax Invoice for such Spares from the Contractor; and

(b) the Company shall have been satisfied as to their condition, values and quantities in accordance with Clause 16.4 (General);

1.4.2 upon such payment, the Contractor shall transfer title to all Spares listed in the Initial Spares Order to the Company in accordance with Clause 16.6 (Title Transfer);

1.4.3 the Contractor shall deliver such Spares to the Delivery Point.

3. TOOLS AND TEST EQUIPMENT

1.5 Contract Price

The Company shall pay for the Tools and Test Equipment Order on the date and in the amount set apposite such date and the Contractor shall procure the availability, sell and deliver to the Company such Tools and Test Equipment with a minimum stock value, in each case, as specified in the table below.

Date	Recommended Tools and Test Equipment value ZAR to be purchased by the Company and to be made available by the Contractor
On the date of signature of an Acceptance Certificate for the Last Locomotive	R 50 000.00 per Locomotive
On the date of signature of an Acceptance Certificate for the first Locomotive	

1.6 **Payment Terms**

On the date set out in the table above:

1.6.1 the Company shall make payment to the Contractor of the Initial Tools Value and the Initial Test Equipment Value, provided that:

(a) the Company shall have received a duly completed Tax Invoice for such Tools and Test Equipment from the Contractor; and

(b) the Company shall have been satisfied as to their condition, values and quantities in accordance with Clause 16.4.1 (Inspection);

1.6.2 upon such payment, the Contractor shall transfer title in the Tools and Test Equipment to the Company in accordance with Clause 16.6 (Title Transfer); and

1.6.3 the Contractor shall deliver such Tools and Test Equipment to the Delivery Point.

1.7 **Tax Invoices**

1.7.1 Subject to paragraphs 1.2.2, 1.4.1 and 1.6.1 of this Schedule, the Contractor may issue a Tax Invoice in respect of a Milestone on the relevant Milestone Date (being the **Invoice Date** for the purposes of this paragraph 1.7, unless that date falls on a day which is not a Business Day, in which case the Invoice Date shall be the next Business Day) and must do so in the manner set out in Clause 8.3.3 (Tax Invoice) and paragraph 1.7.2 below. Subject to paragraph 1.8 below all amounts for which the Contractor issues a Tax Invoice from time to time shall be payable as follows:

(a) in respect of the first Tax Invoice which the Contractor issues during any calendar month, within 30 (thirty) Business Days of the applicable Invoice Date;

(b) if the Contractor issues more than 1 (one) Tax Invoice during a calendar month, the second and any further Tax Invoices issued during that calendar month and any Tax Invoices issued in the next calendar month shall become payable in the sequence in which they have been issued on the first Business Day of the next and every subsequent calendar month (but, in each case, not earlier than 10 (ten) Business Days after the relevant Invoice Date), such that the Company shall not be liable to make payment in respect of more than 1 (one) Tax Invoice per calendar month.

1.7.2 All Tax Invoices submitted by the Contractor shall contain the following items:

(a) the Company's project code "TFRAC-HO-13365";

(b) the words "tax invoice" in a prominent place on that Tax Invoice;

(c) the name, address, registration number and VAT number of the Contractor;

(d) the name, address and VAT number of the Company;

(e) an individual invoice number and a date of issue;

(f) a full description of the goods or services supplied;

(g) the quantity or volume of goods or services supplied; and

(h) the value of the relevant supply and VAT charged.

1.8 **Certification of Milestone Payments**

1.8.1 The Engineer shall consider each Tax Invoice submitted by the Contractor from time to time by reference to the Works executed, to

determine whether or not the relevant Milestones have been attained and, accordingly, whether the Contractor is entitled to receive the relevant Milestone Payment in respect of that Invoice. Upon having considered a Tax Invoice, the Engineer must approve a Milestone Payment to the extent that the applicable Milestones have been attained and completed in full. If the Engineer has not disagreed with the amount shown on a Tax Invoice in Writing within 5 (five) Business Days, such Tax Invoice shall, in the absence of manifest error, be deemed to be accepted.

1.8.2 If the Company disagrees with the amount shown in a Tax Invoice it shall notify the Contractor in Writing within 5 (five) Business Days, providing full particulars in support of any objection the Company raises. If the Contractor accepts such notice and does not object or register in Writing its disagreement with such notice, the amount payable by the Company shall be adjusted accordingly and the Contractor shall submit a revised Tax Invoice for the adjusted amount of the relevant Milestone Payment to the Company (together with a credit note in respect of the original Tax Invoice).

1.8.3 If the Contractor does not accept any such notice of disagreement, and the dispute is not resolved with 5 (five) Business Days of the date of the aforesaid notice, the matter shall be referred to the Steering Committee in accordance with Clause 26 (Dispute Resolution). In the event of the Steering Committee reaching agreement that the sum payable as specified on the disputed Tax Invoice is incorrect, the Contractor shall issue a revised Tax Invoice within 10 (ten) Business Days of the Steering Committee's determination setting out the sum due as determined by the Steering Committee (together with a credit note in respect of the original Tax Invoice). In the event of the Steering Committee reaching agreement that the sum payable as specified on the disputed Tax Invoice is correct, then the Company will immediately process such Tax Invoice in accordance with the remaining provisions of this paragraph 1.8 applicable to approved Tax Invoices. Should the Steering Committee fail to resolve the matter, such Dispute shall constitute an Excluded Dispute and resolved in accordance with the remaining provisions of Clause 26 (Dispute Resolution).

1.8.4 In order to determine whether to approve any Tax Invoice, the Engineer shall take into account the following:

(a) all Written confirmations issued by the Contractor in respect of Milestones linked to such confirmations;

(b) all freight forward's receipts issued by the freight forwarder in respect of Milestones linked to such receipts; and

(c) any Acceptance Certificate that has been issued in respect to the Milestone that is linked to the Acceptance of a Locomotive.

1.8.5 On receipt of a Tax Invoice, the Engineer must verify that the information contained in that Tax Invoice is true and correct and that there are no items in that Tax Invoice with which the Engineer reasonably disagrees

or which relate to a claim for payment in relation to anything supplied or for work done by the Contractor which the Engineer considers not to have been supplied or performed in accordance with this Agreement.

1.8.6 To the extent that the actual progress and level of completion of the Works are found to meet the requirements for completion of a Milestone, the Engineer shall certify the payment and issue a certificate of acceptance in respect of the relevant Tax Invoice (a **Payment Certificate**).

1.8.7 To the extent that the actual progress and level of completion of the Works is found not to meet the requirements for completion of a Milestone, the Engineer shall not certify the payment.

1.8.8 The Engineer must notify the Contractor of his findings within 5 (five) Business Days after receiving a Tax Invoice and supporting documents. If the Engineer has not indicated in Writing that he will withhold certification of such Tax Invoice, then the Payment Certificate with respect to such Tax Invoice shall, in the absence of manifest error, be deemed to have been issued.

REPORT 3(B) – EXHIBIT 12

INVOICE NUMBER	DESCRIPTION	AMOUNT
CSR-TFRAC-HO-13365-003	12 X 21E Electric Locomotives (E21001,E21002,E21007,E21008,E21011,E21012,E21013,E21014,E21015,E21016 ,E21017, E21018)	195 360 000,00
CSR-TFRAC-HO-13365-004	12 X 21E Electric Locomotives (E21041,E21042,E21043,E21044,E21045,E21046,E21047,E21048,E21049,E21050,E21051,E21052)	195 360 000,00
CSR-TFRAC-HO-13365-005	6 X 21E Electric Locomotives (E21053,E21054,E21055,E21056,E21057,E21058)	97 680 000,00
CSR-TFRAC-HO-13365-006	12 X21E (21E009,21E021,21E023,21E025,21E026,21E028,21E029,21E031,21E032,21E061,21E070,21E073)	195 360 000,00
CSR-TFRAC-HO-13365-007	6 X 21E (21E019,21E020,21E022,21E030,21E060,21E062)	97 680 000,00
CSR-TFRAC-HO-13365-008	18 X 21E (21E024,21E027,21E059,21E063,21E064,21E065,21E066,21E067,21E068,21E069,21E071,21E072,21E074,21E075,21E076,21E077,21E078,21E079)	293 040 000,00
CSR-TFRAC-HO-13365-009	18 X 21E (21E006,21E034,21E035,21E036,21E037,21E038,21E039,21E080,21E081,21E082,21E083,21E084,21E085,21E086,21E087,21E088,21E089,21E090))	293 040 000,00
CSR-TFRAC-HO-13365-010	16 X 21E (21E003,21E004,21E005,21E010,21E033,21E040,21E091,21E092,21E093,21E094,21E095,21E096,21E097,21E098,21E099,21E100)	260 480 000,00
CSR-TFRAC-HO-13365-001	Advance payment of 30% of the Total contract price of 100 Class 21E	1 320 000 000,00
CSR-TFRAC-HO-13365-011	Fleet availability -1.5% of the total price	66 000 000,00
CSR-TFRAC-HO-13365-012	Fleet availability -1.5% of the total price	66 000 000,00
CSR-TRAC-HO-13365-002	Advance payment of VAT for the second 30% of the Total contract price of 100 Class 21E	-
CSR-TRAC-HO-13365-002	CSR - 100 Class 21E-Second Advance payment for 100 sets additional 20E Electric locos (30% of	1 320 000 000,00
TFR PAYMENTS FOR LOCOMOTIVES (100 X 21E)		**4 400 000 000,00**

INVOICE NUMBER	DESCRIPTION	AMOUNT

EXHIBIT 12

INA20046	Traction motor with pinion	4 107 017,54
INA20054	Bogie assemby of non-drive side 21E (Minus 50% advance payment)	12 500 000,00
INA20054	Bogie assemby of non-drive side 21E (Minus 50% advance payment)	
CSR-100-VO02-002	Second Milsestone payment for 58 ECP+WDP delivered	20 878 329,60
CSR-100-V2-004	Acceptance Milestone payment for 100 ECP+WDP	5 999 520,00
CSR-100-VO02-006	100 sets of additional cable looms for the TCS-R and H-TCS and 5 sets of spare parts	536 820,00
CSR-100-VO05-02	100 sets of installation equipment and 5 sets of spare parts to mount the temporary TCS-R on t	775 220,00
CSR-100-VO06-002		5 849 900,00
INA20067	Wheel set with U-tube and axle box bearing (Minus 50% advance payment)	1 500 000,00
CSR-100-VO02-004	50% of 100 sets of additional cable looms for the TCS-R and H-TCS and 5 sets of spare parts	536 820,00
CSR-100-VO05-01	100 sets of installation equipment and 5 sets of spare parts to mount the temporary TCS-R on t	775 220,00
CSR-100-VO06-001	110 sets of H-TCS Devices	5 849 900,00
CSR-100-VO02-005	Cable looms x70	641 249,70
CSR-100-VO-001	50% payment for variation Order of TFR Free issue on On Board system	1 107 678,10
CSR-100-VO-002	Variation order of Wabtec ECPB+WDP System	17 998 560,00
INA80004	70 X Duplicate keys for 21E locomotives	21 000,00
INA20026	Supply and installation of RFID for 21E	181 000,00
INA20027	Second milestone payment for 42 ECP+WDP	15 118 790,40
CSR-100-VO02-002	40 sets of class 21E cable loom sets and roof antennae	466 428,40
INA30014	Driver windscreen	57 800,00
INA20046	Traction motor with pinion	574 982,46
SA100NEL-WTB01	Variance order for stainless steel sand pipes	140 000,00
INA20016	Advance payment (50% of the total amount R43 679 600.00)	21 839 800,00
INA20043	Wheel set and traction motor assembly	3 100 000,00
INA20070	**Advance payment (20%) for WBT MU Cable**	50 900,00
INA20073	**Advance payment (20%) for protection of auxiliary transformer radiator**	128 000,00
INA80173	MU support cable assembly (Minus 20% advance payment -INA20070)	194 240,00
INA80206	EPS+MU Suppor Cable assembly kit	8 040,00
INA80153		1 440 000,00
INA80398	Installation of communication equipment -retro fit and test comms equipment 21E HTCS (Minu	915 927,00
INA80251	Protection Cover for Radiator Installation of Protection Cover (Minus 20% advance payment or	475 040,00
INA80639	Installation and system test of UDAQ- 100% of payment	930 000,00
INA80191	21HTCS 50% Advance payment	922 120,00

INA80759	Installation and system test of UDAQ	527 000,00
TFR Payment (Spares , VO and EOP) FOR 21E		**126 147 303,20**

VAT	TOTAL AMOUNT	PAYMENT DATE
R 27 350 400,00	222 710 400,00	27-Jul-15
R 27 350 400,00	222 710 400,00	19-Aug-15
R 13 675 200,00	111 355 200,00	21-Aug-15
27 350 400,00	222 710 400,00	14-Sep-15
13 675 200,00	111 355 200,00	14-Sep-15
41 025 600,00	334 065 600,00	14-Oct-15
41 025 600,00	334 065 600,00	16-Nov-15
36 467 200,00	296 947 200,00	17-Dec-15
R 184 800 000,00	1 504 800 000,00	28-Mar-14
R 9 240 000,00	75 240 000,00	2017/05/19
R 9 240 000,00	75 240 000,00	2017/06/29
R 184 800 000,00	184 800 000,00	12-Sep-14
R 0,00	1 320 000 000,00	1-Oct-14
616 000 000,00	**5 016 000 000,00**	

VAT	TOTAL AMOUNT	PAYMENT DATE

R 574 982,46	4 682 000,00	2016/04/04
	12 500 000,00	2016/04/14
R 1 750 000,00	1 750 000,00	2016/03/14
R 2 922 966,14	23 801 295,74	17-Apr-15
R 839 932,80	6 839 452,80	2016/05/13
R 75 154,80	611 974,80	2016/06/10
R 108 530,80	883 750,80	2016/06/10
R 818 986,00	6 668 886,00	2016/06/10
210 000,00	1 710 000,00	2016/07/01
75 154,80	611 974,80	15-Jun-15
108 530,80	883 750,80	15-Jun-15
818 986,00	6 668 886,00	3-Jul-15
R 89 774,96	731 024,66	2015/08/21
R 155 074,93	1 262 753,03	2014/08/15
R 2 519 798,40	20 518 358,40	2014/09/22
R 2 940,00	23 940,00	2016/12/01
R 25 340,00	206 340,00	2015/11/20
R 2 116 630,66	17 235 421,06	2015/11/20
R 65 299,98	531 728,38	2014/11/19
R 8 092,00	65 892,00	2016/02/01
R 655 480,00	655 480,00	2016/03/14
R 19 600,00	159 600,00	9-Mar-15
R 3 057 572,00	24 897 372,00	2015/08/14
R 434 000,00	3 534 000,00	2016/01/26
7 126,00	58 026,00	2016/08/01
17 920,00	145 920,00	2016/08/05
27 193,60	221 433,60	2017/11/02
1 125,60	9 165,60	2017/11/02
201 600,00	1 641 600,00	2017/11/02
R 137 389,05	1 053 316,05	2018/07/20
66 505,60	541 545,60	2018/07/20
139 500,00	1 069 500,00	2018/10/04
129 096,80	1 051 216,80	2018/11/07

79 050,00	606 050,00	2018/12/03
18 259 334,17	**143 831 654,92**	

REPORT 3(B) – EXHIBIT 13

EXHIBIT 13

Ziyanda Nyanda

From: Thamsanqa Jiyane Transnet Freight Rail JHB <Thamsanqa.Jiyane@transnet.net> on behalf of Thamsanqa Jiyane Transnet Freight Rail JHB <Thamsanqa.Jiyane@transnet.net

Sent: Friday, 10 October 2014 10:58 AM

To: Anoj Singh Corporate JHB

Cc: Lindiwe Mdletshe Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Nomfuyo Galeni Transnet Freight Rail JHB

Subject: CSR Payment confirmation

Dear Chief,

I am aware that the issue of the payment to CSR without an APG exposes Transnet.

I take full responsibility to the payment being effected without the APG being issued and Finance paid on instructions from my office.

We created the confusion which led to the APG not being issued on time as we were not clear to CSR on when exactly the payment will be made.

I would still want the Finance team in TFR to trust my office in future and be able to act on instructions we issue, if there is someone to be blamed for this is me.

I issued the instruction that the payment must be made on the basis of the fact that the invoice was long overdue and CSR had accommodated us with the delay in payment.

We were engaged with CSR from the 22 September 2014 till yesterday with trying to speed up the issuing of the APG and the undertaking they gave us was that we will get it before the 15 October 2014.

I would still like for the Finance team to trust my word and I will engage you once more on this as we go forward.

There is another payment due in 5 days and I know that we will be engaging CSR to delay the payment, we may end up in the same situation once more.

Kind regards

Thami

REPORT 3(B) – EXHIBIT 14

EXHIBIT 14

Transnet SOC Ltd
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1990/000900/30

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MEMORANDUM

To: Transnet Board of Directors (BOD)

From: Brian Molefe, Group Chief Executive

SUBJECT: INCREASE IN ESTIMATED TOTAL COST (ETC) FOR THE ACQUISITION OF 100 EQUIVALENT CLASS 19E DUAL VOLTAGE ELECTRIC LOCOMOTIVES FOR THE EXPORT COAL LINE

PURPOSE:

1. The purpose of this memo is:
   a) for the BOD to note of the reasons for the increase in ETC.
   b) to request that the BOD approves an increase in the estimated total cost for the acquisition of 100 equivalent Class 19E Dual Voltage Electric Locomotives for the Export Coal Line from R3.871 billion to R4.840 billion.

EXECUTIVE SUMMARY:

2. In summary the increase in ETC of R 969 million can be attributed to the following:

Update of business case for economic Impacts	R 495 m	51 %
Scope Change	R 347 m	36 %
Risk Mitigation - Forex, Escalation and Contingencies	R 373 m	39 %
Discount Negotiated	- R 247 m	- 25 %

3. 90 % of the ETC increase relates to changes in market conditions and the risk tolerance level of the company. Whilst 39 % of the ETC increase relates to strategic factors such as localisation and competition. These increases have been offset by competitive negotiations that realised a benefit of 25 %.
4. 36 % of the ETC increase relates to the scope change however considering the discount negotiated the cost of the scope change is reasonable.
5. The need to incur these costs has been justified and the associated costs are reasonable in the circumstances.
6. The final price is comparable to the Mitsui proposal except for additional scope change items allowed for in the ETC.

7. The NPV of the business case remains positive at R 7.1 billion.
8. Impacts on the 2014/15 corporate plan has been assessed and mitigated.
9. Risk mitigation measures have been developed and are being implemented to ensure benefits are realised.
10. This acquisition in conjunction with other locomotive acquisitions will significantly contribute towards the company achieving its original MDS targets of 350 mt by 2018/19.

BACKGROUND:

11. The rationale for the investment in the 100 equivalent class 19E Dual Voltage Electric locomotives is to mitigate against the shortfall on MDS volumes anticipated due to the tractive capacity shortage as a result of the delivery on the 1064 locomotive programme taking longer than expected.
12. The 100 equivalent Class 19 E Dual Voltage locomotives are destined for the Export Coal Line. This will result in 125 existing Coal Line locomotives being cascaded and deployed to the General Freight Business until such time that the 1064 locomotive contract starts to produce locomotives (August 2015) where after the 125 cascaded locomotives will be run out.
13. The acquisition of 100 equivalent Class 19E Dual Voltage Locomotives was approved by the Board of Directors on 24 January 2014 at a cost of R 3.871 billion excluding the cost of hedging for foreign exchange movements and excluding the cost of future escalation costs.
14. A contract to acquire 100 electric locomotives was concluded with CSR E Loco Supply (Pty) Ltd on 17 March 2014 at a cost of R 4.4 billion including the cost of future escalations and foreign exchange hedging costs, thus resulting in an increase in ETC of R 969 million.
15. The contract concluded with CSR E Loco Supply (Pty) Ltd includes a supplier development requirement of 60 % as per DTI codes for local content.
16. The locomotives will be delivered at a rate of between 12 to 20 locomotives per month. 40 Locomotives will be manufactured in China with the remainder being manufactured locally by TE.
17. The 1st locomotive will be delivered in February 2015 with the 100th locomotive being delivered in September 2015. This represents an 18 month period due to the TE and localisation requirements which we are currently trying to shorten which will enable MDS volumes to be achieved.
18. PFMA approval for this transaction is being sought as it is above the R 3.9 billion Section 54 threshold, due to the increase in ETC.
19. DPE has indicated that processes are underway to facilitate such approval. The contract entered into with CSR E Loco Supply (Pty) Ltd is subject to PFMA approval being obtained.

DISCUSSION:

20. In order to analyse the increase in ETC two factors need to be considered:

    i. Updated economic data from business case date to current (backward looking);

    ii. Future financial risks emanating from the transaction and costs associated to mitigate these risks (forward looking).

21. This document has been prepared to explain the increase in ETC on this basis, concentrating on why these costs needed to be incurred and were these costs reasonable in the circumstances.

22. The increase in ETC of R 969 million is due to the following reasons (refer Table 1 below):

    a. Forex movements from the approved business case to award date (backward looking) (Item A of Table 1)

    b. Inflationary related escalations from the approved business case to award date (backward looking) (Item B of Table 1)

    c. Variations to design for a higher specification for CSR locomotive (strategic) and due to the localisation requirement of 60 %, Transnet Engineering (TE) will assemble the locomotives and enable it to become an OEM (strategic) (Item C of Table 1)

    d. The cost of fixing future escalations over the life of the contract (forward looking risk mitigation) (Item D of table 1)

    e. The cost of fixing forex exposure over the life of the contract (forward looking risk mitigation) (Item E of Table 1)

    f. Contingencies related to variation orders, options (such as electronically controlled pneumatic braking and wire distributed power etc.) and capital spares (Item G of table 1)

    g. As part of the negotiation process a further discount of R 2.4 million per locomotive was negotiated on the basis of ensuring that the price is market related.

Table 1

		R (m)	%
Price per locomotive as per Board submission 21 January 2014 excluding Hedging and Escalation costs		34.34	
Impact of the exchange rate to contract date (backward looking)	A	3.69	10.7%
Impact of labour inflation, material inflation, CPI up to contract date (backward looking)	B	1.26	3.7%
Additional cost for variations for higher locomotive specification and additonal duties	C	3.47	10.1%
Cost to fix forward looking escalation (forward looking)	D	2.63	7.6%
Cost to fix forward forex hedging (forward looking)	E	1.08	3.1%
Discount negotiated	F	-2.47	-7.2%
Final Contracted Price per Locomotive		44.00	
Final Contracted Price for 100 Locomotives		4400.00	
10 % Contingency for capital spares, variation orders, options etc.	G	440.00	
Proposed ETC for 100 Locomotives including contingencies		4840.00	
ETC requested per 21 January 2014 Board submission		3871.00	
Therefore increase in ETC requested		969.00	

BACKWARD LOOKING ECONOMIC AND OTHER FACTORS THAT HAVE IMPACTED THE PRICE:

23. The submission prepared in January 2014 for BOD and the Transnet Board meetings were based on economic forecasts obtained in May 2013.

24. 10 months have elapsed since the initial calculations resulting in a number of parameters having materially changed between the business case preparations and the contract negotiation. These are summarised in the table below:

Table 2

	Board Submission January 2014	Negotiation/ Contracting Stage	% movement
Rand to the Yen	0.09823	0.10878	10.74%
Local CPI	100%	105.10%	5.10% **
Local Hot rolled Steel plates Index	100%	110.80%	10.80% **
Local PPI	100%	106.40%	6.40% **
Chinese Equivalent CPI index	100%	102.50%	2.50% **
US Equivalent CPI index	100%	101.33%	1.33% **
Euro Equivalent CPI index	100%	102.08%	2.08% **
Japanese Equivalent CPI index	100%	101.34%	1.34% **

** Index movements calculated from May 13 to Mar 14 (10 Months)

Item A of Table 1

a. Foreign exchange rates: The rand has depreciated by 10.74 % against the Japanese Yen. This has impacted the expected price of the locomotive as per the business case and ultimately the Estimated Total Cost (ETC) as approved by the Board by approximately 10.74 %.

   Consequently the additional 10.7 % per A in Table 1 above is reasonable.

Item B of Table 1

b. Labour cost increase: During the May 2013 to March 2014 period the cost of labour increased in South Africa by higher than CPI, as evidenced by the higher than CPI wage settlement that Transnet entered into at 8.5 % for a two year period. Due to the localisation requirement of 60 %, Transnet Engineering (TE) will assemble the locomotives and consequently local labour will be utilised for the assembly.

c. Material cost increase: A significant component of the locomotive is steel which is impacted by the steel commodity price of which the trading currency is in US Dollars. The local hot rolled steel plate's index increased by 10.8 % over the period.

d. Inflation. Local Producer Price Index increase on average by 6.4 % over the period affecting the locally sourced scope of the project. Foreign equivalent indices increased on average by about 1.3 % to 2.5 % over the same period. This together with the foreign exchange deterioration indicated above resulted in the import component of the project increasing.

e. Statistics SA report that the headline CPI annual inflation rate in April 2014 was 6.1 %, further explained in the Business Day article "CPI breaches Reserve Bank target" dated 22 May 2014.

f. Applying the relevant proportion of each of the labour, material and other input costs which make up the basket of items required for the manufacture of the locomotives over the 10 month period, would result in the net 3.7 % increase in the locomotive price.

g. Consequently the net impact of 3.7 % on the locomotive price due to the change in economic conditions as per item B in Table 1 above is reasonable.

FORWARD LOOKING ECONOMIC FACTORS AND MEASURES TO MITIGATE FINANCIAL RISK THAT HAVE IMPACTED THE PRICE:

Forex

25. The Financial Risk Management Framework (FRMF) approved by the Board of Directors (BOD) does not permit Transnet accepting forex exposure on committed transactions.

26. The South African Reserve Bank (SARB) also does not permit SOC's to accept open exposure on foreign currency contracts.

27. In addition credit rating agencies and bond holders both prefer conservative risk appetites and consequently would also support fixing our forex exposure.

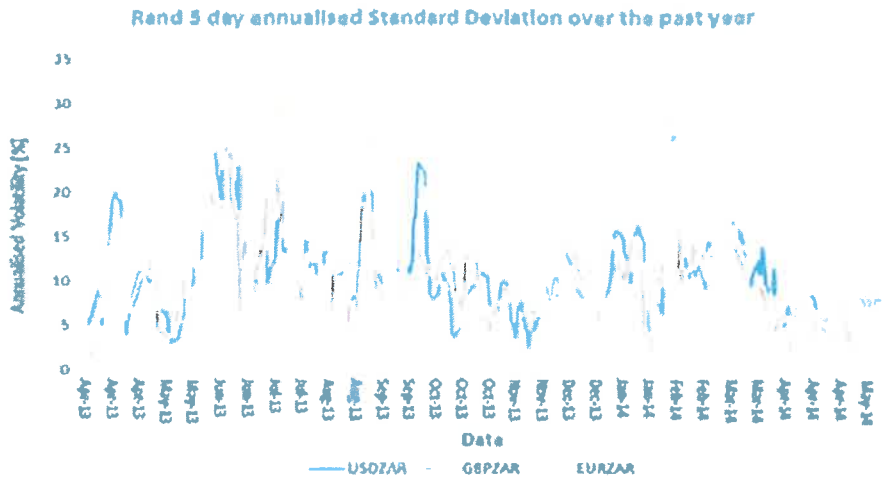
28. Consequently the cost of foreign currency hedging to mitigate and protect the Company against foreign currency devaluation is an inherent cost of the transaction.

29. Costs related to forex are influenced by market forces which are not within managements control and therefore were not included in the ETC for the business case submission. The impacts of these forex related costs would only be known once the contract was negotiated and finalised as they are based on market conditions and sentiment at the time.

30. The cost of fixing the forex exposure is impacted by currency volatility and time or duration of the exposure.

31. The recent volatility in the foreign exchange rate of on average up to between 15 & 20 % directly impacts the transaction cost as can be seen on Table 3 below:

Table 3

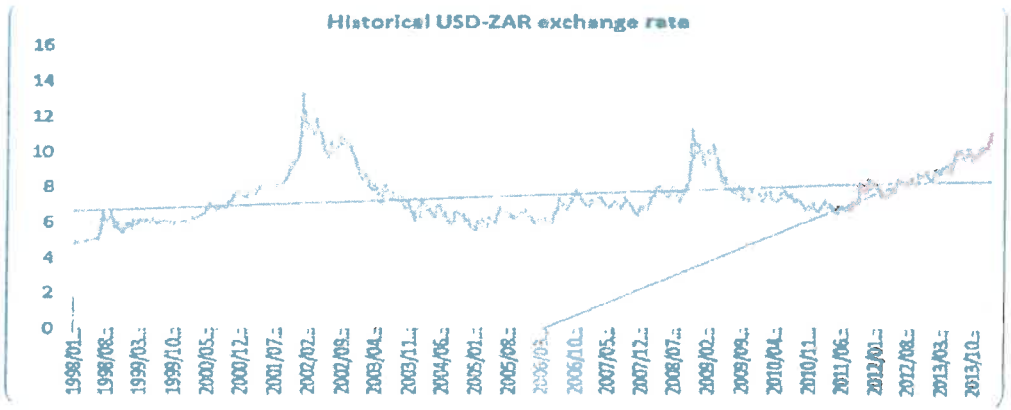


32. In addition the ZAR currency is one of the most volatile and fragile currencies in the world. This view is substantiated by the ZAR currency being termed as one of the "fragile five" by economists and financial markets (refer diagram below).

33. Business Day reported on 18 March 2014 that the Rand is in for a "Rocky ride" for the rest of the year (Refer article "Rocky Ride forecast for 'still to expensive' Rand)

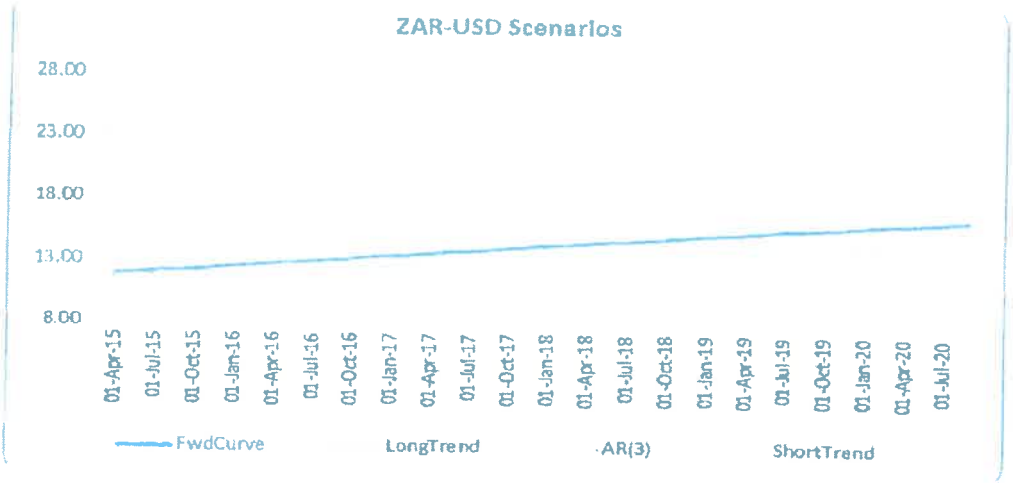
34. The generally held consensus view is that due to the twin deficit of the RSA budget and the current account, and the weak economic outlook supports Rand devaluation in the medium to long term.

Table 4



35. A historical regression analysis conducted by Regiments Capital indicates that the ZAR currency is on a trend of devaluation as indicated in Table 4 above.

Table 5



36. In addition Regiments Capital conducted various currency trend scenarios as indicated in Table 5 above. All scenarios indicate a general devaluation in ZAR over the medium term.

37. The imminent risk of the Ukraine crisis and its impact on emerging markets also had an impact on the decision to fix the exchange rate exposure.

38. In addition the delivery schedule for the locomotives, of 18 months, also impacts the cost of hedging as the length of the exposure impacts the costs. The longer the period the higher the premium paid due to unknown outcomes in the future.

39. Alternative methods, such as call and put option structures, to reduce cost and mitigate against forex exposure risk were explored in conjunction with Regiments Capital including methods in which Transnet would participate in any possible upside in Rand movements. These methods were evaluated from a cost benefit perspective and consequently the FEC route proved most beneficial and practical to mitigate forex risk.

40. In addition the accounting treatment of options was not optimal as per opinion obtained from KPMG as it would result in the creation of an embedded derivative.

41. The cost to hedge this exposure was obtained from banks by the suppliers. This was then vetted by Transnet Treasury and Regiments Capital for reasonability. They both found the rates and cost to be acceptable.

42. Consequently the 3.1 % per £ in Table 1 above is reasonable.

Locomotive Specification and other Factors including Localisation

43. As a result of the decision taken to award the 360 electric locomotive contract and the 240 electric locomotive contract as part of the 1064 tender process, to CSR and Bombardier Transportation respectively, made these two OEM's the biggest suppliers of electric locomotives to Transnet.

44. Strategically this supported the decision to create a competitor to Mitsui for the build of electric locomotives for the Coal Line to positively impact the total life cycle cost of locomotives deployed on the Coal line (as motivated in the original business case).

45. This required certain additional modifications and variations to be made to the existing 20 E locomotive specification to achieve the heavy haul requirements for the Coal Line.

46. A strategic decision was taken at a Transnet level that TE should be enabled to eventually become an OEM of locomotives. This procurement process was used as a catalyst to facilitate this strategy.

47. This procurement event was subject to the 90/10 PPPFA adjudication requirements which would result in an approximate premium of 10 % being acceptable to National Treasury for localisation and other strategic imperatives including competition.

48. The discount negotiated offsets a portion of the cost of the scope change.

49. Consequently the additional 10 % per C in table 1 above is justified and is reasonable.

50. The contracted locomotive price is based on the above factors as well as the general outcome of the negotiation process.

Escalation of Input Costs

51. Given the size, magnitude and risk tolerance of the Company due to MDS execution, cash flow certainty is of paramount importance when trying to plan over a long term horizon.

52. This ensures that the company is able to manage its key financial metrics such as gearing, cash interest cover and the A/B ratio (required by rating agencies).

53. In addition credit rating agencies and bond holders both prefer conservative risk appetites and consequently would also support fixing our escalation exposure.

54. Careful consideration had to be given to accepting other risks such as labour, steel etc. and being exposed to market conditions.

55. Consequently it was decided to fix escalation for these input costs and gain certainty of cash flows.

56. Costs associated with fixing these input costs are largely driven by market sentiment at the time of contracting such as the items mentioned below.

57. Labour unrest and strikes in the platinum sector has put significant pressure on forward looking labour costs. As indicated earlier Transnet is subject to an 8.5 % wage adjustment for the 2014/15 financial year.

58. The contractor has also built a risk premium into their pricing for forward looking inflation, to cater for the unpredictable nature of the labour environment within South Africa and the risk associated with TE carrying out this additional *new* scope of work.

59. Statistics SA report that the headline CPI annual inflation rate in April 2014 was 6.1 %, further explained in the Business Day article "CPI Breaches Reserve bank target" dated 22 May 2014.

60. The SARB and National Treasury 2014 Budget Review forecasts CPI at 6.2 %, 5.9 % and 5.5 % for the years 2014, 2015 and 2016 respectively.

61. The MPC also is concerned about upward inflationary pressure on the economy as they have increased the Repo rate by 100 basis points recently in response to managing the upward inflationary pressures.

62. The high level of local content (60%) makes local indices more applicable to assess the cost of escalations going forward.

63. Applying the relevant proportion of each of the labour, material and other input costs which make up the basket of items required for the manufacture of the locomotives, would result in the net 7.7 % increase.

64. Hence a CPI of 6 % (which excludes a premium for risk) escalated for 18 months results in a 9 % increase, thus the 7.7 % per D in Table 1 above is reasonable.

65. Escalations of input costs have been verified by Transnet by using publicly available data and by Regiments Capital using their intellectual property methodology and techniques.

Contingencies

The contracted price of R 4.4 billion excludes the cost of any requirements for capital spares, variation orders and options (such as electronically controlled pneumatic braking and wire distributed power etc.) and as such an additional 10 % (R 440 million) has been added into the request for additional ETC for this (refer item G of Table 1 above).

FINANCIAL IMPLICATIONS:

66. The business need and rationale remains as indicated in the original business case submission approved by the Board.

67. The financial model for the Business Case has been updated for the following based on the signed contracts:

    a. Final pricing

    b. Revised cash flow profile for the capital investments

68. The updated NPV result is a positive NPV of R7 099 million at the new hurdle rate of 15.2 % and R10 702 million at the TFR WACC of 12.6 %. The NPV at the original hurdle rate of 18.56% was R4 201 million.

BUDGET IMPLICATIONS:

69. The investment is included in the 2014/15 seven year capital investment plan.

70. The contracted delivery schedule and cash flows have changed as compared to the investment included in the 2014/15 seven year capital investment plan.

71. In order to ensure that Transnet's approved key affordability limits (gearing and cash interest cover) are not breached, a capital prioritisation process will be undertaken, such that other investments which do not impact MDS volume targets would be deferred.

72. The difference between the January 2014 business case and the cash flows agreed with the contractor is illustrated in the Table 4 below:

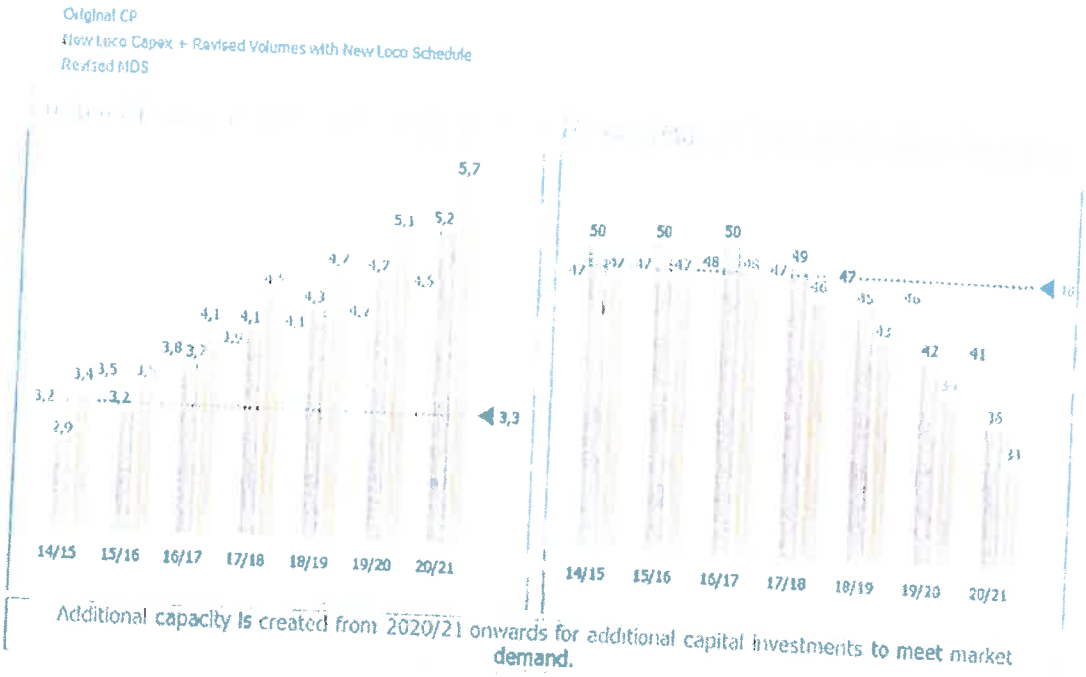
Table 4

	Rand Million				
	ETC	2013/14	2014/15	2015/16	2016/17
Business Case	**3 871**	343	1 737	1 439	352
Contracted	**4 840**	1320	1888	1 486	145
Difference	**-969**	-977	-151	-47	207

73. In order to secure quicker delivery of the locomotives to address the MDS volumes at risk, a larger advance payment (R 1.3 billion) had to be made to the contractor in the 2013/14 financial year. As confirmed by a letter received from the supplier this was required by the supplier in order to cover costs to ensure quicker delivery. The rationale as explained by the supplier was confirmed reasonable by Transnet's external auditors and was capitalised accordingly in the financial statements at 31 March 2014.

74. The impact of the locomotive acquisition on the 2014/15 corporate plan as well as the impact of the prioritisation process; updating for the change in volumes, revenue, EBITDA and capital due to the combination of the 100 electric

locomotives, 1064 locomotives and 60 Diesel locomotives contracts is reflected in the graph below:



Additional capacity is created from 2020/21 onwards for additional capital investments to meet market demand.

75. As can be seen from the graphs the initial two years of the 2014/15 Corporate Plan has been negatively impacted by the locomotive acquisitions.

76. However after the planned EBITDA and optimisation initiatives that have been factored into the model the ratios are within acceptable levels.

77. The initiatives identified to meet the Corporate Plan targets are detailed in Annexure A.

RISK MANAGEMENT:

78. In order to manage risks associated with this transaction a risk management framework is in the process of being developed.

79. A Locomotive Steering Committee has been set up to manage the operational issues associated with the locomotive acquisition and will address the following risks:

- Locomotive delivery
- The wagon build program
- Infrastructure requirements
- Operational readiness
- Commercial and Volumes

80. A socio economic monitor will be appointed to ensure socio economic benefits will be realised.

81. In order to mitigate against late delivery risk, a penalty regime capped at 10 % of the contract price has been agreed to with all bidders.

82. Escalation risk has been mitigated by fixing the price of the locomotives.

83. Forex risk has been mitigated by hedging the price of the locomotives by using the suppliers balance sheets.

84. All advance payments are secured by an on demand advance payment guarantee issued by a bank with a minimum long term credit rating of an A- Fitch rating or equivalent.

85. In order to mitigate against default of Supplier Development (SD) commitments, and SD penalty clause has been included in the supply agreements. An SD bond has also been obtained to cover risk against default.

86. CSR have agreed to provide a 24 month warranty on the locomotive as well as a 6 year warranty on the traction motor and a 12 month warranty on spares.

87. A liability cap of 15 % of the contract price is included in the supply agreement thereby limiting Transnet's exposure in the unlikely event of breach of contract by Transnet.

SOURCE OF INFORMATION AND REFERENCES:

88. Data quoted in the memo above has been sourced from:

- Statistics South Africa – release P0141
- Business Day 22 May 2014 – "CPI Breaches Reserve Bank target"
- Business Day 18 March 2014 – "Rocky Ride forecast for still too expensive Rand
- Reserve Bank and National Treasury 2014 Budget Review
- Regiments Capital (transaction advisory services)
- KMPG (accounting opinions)
- PWC (locomotive localisation opportunities for TE and South African Industry)

RECOMMENDATION:

89. It is recommended that:

a) the BOD take note that the main reasons for the increase in ETC is due to the exclusion of the following costs from the 24 January 2014 submission:

i. The cost of hedging for foreign exchange movements;
ii. The cost for future inflationary escalations;
iii. The cost of additional scope for Transnet Engineering (TE);
iv. The cost of changes in economic conditions (forex and inflation) between approval of the business case and award of the contract

b) the BOD approves an increase in the estimated total cost (ETC) for the acquisition of 100 equivalent Class 19E Dual Voltage Electric Locomotives for the Export Coal Line from R3.871 billion to R4.840 billion.

Recommended by:

Anoj Singh
Group Chief Financial Officer
Date: 22/05/14

Recommended by:

Siyabonga Gama
TFR Chief Executive
Date: 22/05/2014

Recommended by:

Brian Molefe
Group Chief Executive Officer
Date: 23.5.14.

TRANSNET
freight rail
A Division of Transnet SOC Limited

CAPITAL PROGRAM
LOCOMOTIVES

REPORT

New Coal line locomotive: 19E Equivalent

Summary

The need exists for additional Heavy Haul locomotives capable of working with existing Class19E locomotives on the Coal line. A technical proposal received from China Southern Rail offers a locomotive with almost the same characteristics as the Class 19E. The most significant difference between the two locomotives is the fact that the 19E locomotive is bogie controlled and the new proposed locomotive an axle controlled locomotive. Based on a study of the technical proposal received it is concluded that the offer can be considered for operation with the Class 19E locomotive on the Coal line.

Author: Program Manager
Capital Programme
F W Harris

14 March 2014

1.0 Introduction

Specification BBG 1510, rev 1 was compiled for the possible acquisition of a suitable Heavy Haul locomotive for use on the Coal line.

The main requirements/features can be summarised as follows:

1. Bo-Bo Locomotive configuration with axle mass limited to a maximum of 26 tons per axle.
2. Continuous Tractive Effort of 311kN at 34km/h at wheel tread with adhesion of 30% maximum.
3. Braking Effort of 251kN from 50km/h to 5km/h, Blended Braking System i.e. Regenerative and Rheostatic.
4. Locomotives to be fitted with ECPB/WDP and interoperable with class 19E locomotives.
5. Locomotives to be fitted with F type coupler, spring loaded coupler carrier plate and NC390 draw gear.
6. Dual Voltage, 25kV (AC)/3kV (DC) capability

2.0 CSR Technical Proposal

A Technical proposal was received from China Southern Rail (CSR) on 28 February 2014 in response to specification BBG 1510 and the main features of the offering are as follows:

1. Bo-Bo Locomotive configuration: 26 tons per axle.
2. Continuous Tractive Effort from 34 to 100kmh of 311kN.
3. Braking Effort of 240kN from 45kmh to 5kmh Blended Braking System.
4. Fitted with ECPB/WDP capability and interoperable with class 19E locomotives.
5. Locomotive bogie, body shell and traction motors redesigned for heavy haul application.
6. Dual Voltage, 25kV (AC)/3kV (DC) capability.

3.0 Traction Specialist's Feedback

Response to the CSR Technical Proposal:

Dr Robert Fröhling (Body structure, Bogie and Wheel Specialist): "I have no comments to add with respect to the car body and the bogie. As already captured in the technical proposal, the car body and bogie structure, as well as the bogie suspension elements, must be re-designed."

Mr Marthin Mulder (Train Dynamics Specialist): "240KN Braking Effort is fine, if CSR cannot increase without significant cost. The downgrade speed with ECP train is 50 km/h, but it can use train brakes to supplement the Regenerative braking if not enough available. Regenerative energy will be slightly smaller "wasted at the wheel / brake block interface"! Vacuum brakes not required."

Mr Trevor Downward (Senior Locomotive Specialist): "The difference would be class 19E maximum Regeneration per loco 3 MVA from 50 km/h & above and the Coal Line 20E 2.6 MVA from 50 km/h & above.

Saying this the Class 20E could narrow the gap, to the class 19E, to 2.7 MVA due to the superior efficiency and lower consumed power of the APU.

If they raised the CLass 20E to 251 kN at up to 50 km/h the present Brake Resistor Stack & Blowers would have to increase in capacity & space envelope and also not be interchangeable with the 95 x class 20E locomotives.

In Traction the class 19E locomotive is rated at 2.94 MW & this loco would be 3 MW.

Agree with you on the removal of the Exhauster."

4.0 Conclusion

Based on further discussions with the various specialists the conclusion is that the proposed offering from CSR can be considered as a suitable locomotive for Heavy Haul application that will be capable of working with the Class19E on the Coal line.

5.0 Attachments

1. Specification BBG 1510
2. CST Technical Proposal – 28 February 2014

REPORT 3(B) – EXHIBIT 15

EXHIBIT 15

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To:
Brian Molefe
Group Chief Executive

TRANSNET SOC Ltd.

Carlton Centre, 150 Commissioner Street,
Johannesburg, 2001

From:
Wang Pan
General Manager

CSR E-Loco Supply (Pty) Ltd.
1st Floor, China Construction Bank Building,
95 Grayston Drive, Sandton, 2196,
Johannesburg

Tel.: +27-10 007 1127
Cell: +27-72 562 5154
Fax: +27-86 599 7734
E-mail: alton@csrzelc.com

Date: 28th February, 2014
Our Ref.: TFR-100- CSR001

Subject: Supply of Additional 100 sets of 20E Dual Voltage Electric Locomotives for Transnet Freight Rail

Dear Mr. Brian Molefe,

Thank you very much for giving us an opportunity to provide a proposal to Transnet Freight Rail regarding supply of additional 100 sets of 20E Dual Voltage Electric Locomotives.

As the Special Purpose Vehicle (SPV) in South Africa established by CSR Zhuzhou Electric Locomotive Co., Ltd. (CSR ZELC), CSR E-Loco Supply (Pty) Ltd would like to give our proposal according to your RFP dated on 27th February, 2014.

This proposal includes Commercial Proposal as below and Technical Proposal (Please refer to Annex 1).

1 PRICE PROPOSAL

1.1 Price of Electric Locomotives

The calculation as follows is based on the base price of 20E locomotive we proposed on April 2012 (R 28,860,000.00/loco). After careful calculation according to technical proposal of 20E and the modification required, the fixed unit price is **R 49,158,426.00**, excluding VAT. The total price of 100 sets of 20E locomotive is **R 4,915,842,600.00**, excluding VAT.

Please note that this locomotive price excludes any spare parts, special tools and other options.

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Table 1 Price Calculation Information

No.	Description	Cost
1	Base price per locomotive excluding VAT in April 2012. *In which,*	R 28,860,000.00
1.1	*50% is USD, Exchange Rate: USD 1 = Rand 7.4*	USD 1,950,000.00
1.2	*50% is South African Rand*	R 14,430,000.00
2	*Exchange Rate impact up to February 2014 (7.4 to 10.9)*	R 6,825,000.00
3	Escalation for USD Part	R 4,299,102.00
4	Escalation for South African Part	R 4,625,495.00
5	Cost of steel material added	R 432,000.00
6	Cost of other changes such as: Traction blower power increase, heavy-duty bearings, axles, wheels, gears, pinions, cannon box, F-type coupler and draft gear	R 2,738,400.00
7	Hedging Cost	R 1,078,429.00
8	Duty	R 300,000.00
	Price per locomotive including escalation and hedging, excluding VAT	**R 49,158,426.00**
9	Options	
9.1*	ECPB+WDP	R 599,952.00

* This price is base price on April 2013. The price for these options is just for reference and will only be fixed after the design is frozen and approval of the supplier.

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Tel.: +27-10 007 1127 Fax: +27-86 599 7734

南车电力机车项目公司
CSR E-LOCO SUPPLY (PTY) LTD.

2 DELIVERY SCHEDULE

CSR E-Loco Supply (Pty) Ltd. proposes the followed four delivery schedule options:

	Option 1				Option 2				Option 3				Option 4			
	2014/2015		2015/2016		2014/2015		2015/2016		2014/2015		2015/2016		2014/2015		2015/2016	
	CSR	TE	CSR	TE	CSR	TE	CSR	TE	CSR	TE	CSR	TE	CSR	TE	CSR	TE
April			25	12			33	10			23	10			23	10
May			20	12				12				12				12
June								12				12				12
July												11				12
August																9
September																
October																
November																
December																
January																
February	2				2				2				2			
March	23	6			25	6			25	5			15	5		
Subtotal	25	6	45	24	27	6	33	34	27	5	23	45	17	5	23	55
Total	100				100				100				100			

Note:

1) The assumed effectiveness of Contract is expected 15th March 2014.
2) Regarding the option 2, CSR will provide TE with CKD components for all 30 locomotives to be assembled, some carbody and bogie frame could be considered to be manufactured by TE. The details will be discussed later.
3) Regarding the option 2, CSR will provide TE with CKD components for first 15 locomotives to be assembled.
4) Regarding the option 3, CSR will provide TE with CKD components for first 20 locomotives to be assembled.
5) Regarding the option 4, CSR will provide TE with CKD components for first 25 locomotives to be assembled.

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3 PAYMENT TERMS

Our updated price proposal is calculated based on the following payment conditions:

- 20% of the Contract Amount excluding VAT will be paid before the Contract comes into effectiveness.
- 75% of each contract locomotive excluding VAT will be paid after the locomotive is accepted.
- 2.5% of the contract locomotive value will be paid after the reliability target is achieved.
- 2.5% of the contract locomotive value will be paid after the availability target is achieved.

100% payment is required upon completion of each work and to be paid within 10 Business Days after receipt of the Tax Invoice.

4 SPARE PARTS AND SPECIAL TOOLS

The price and quantity of spare parts and special tools will be discussed after the design is frozen.

5 SECURITY BOND

CSR E-Loco Supply (Pty) Ltd will provide the Advance Payment Bond before Transnet pays it.

6 WARRANTY PERIOD

6.1 Warranty period of locomotive

CSR commits the warranty period of the locomotive is 24 month or at the time of **the achievement of 300,000 km** after the locomotive is accepted, whichever occurs first.

6.2 Warranty period of traction motor

The warranty period in respect of traction motor fitted to a Locomotive will be a period of 6 (six) years commencing on the Acceptance Date of that Locomotive.

6.3 Warranty period of spare parts

Each spare, including any traction motor not having been fitted to a Locomotive, will have a warranty period of 12 months after being placed in service by the Transnet Freight Rail or 15 months after Acceptance of that spare.

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7 SUPPLIER DEVELOPMENT

Building on the 20E locomotive programme, CSR proposes to dramatically increase manufacturing capacity in the South African rolling stock industry while developing local businesses and communities and putting its South African partners in a highly competitive position for further local and international supply and maintenance contracts.

The supplier development value is different according to different delivery schedule. The estimated supplier development value will be as follows:

Delivery Schedule	Option 1	Option 2	Option 3	Option 4
SD Value	43%	55%	61%	63%

Thank you very much.

Best regards

Wang Pan

Director of CSR E-Loco Supply (Pty) Ltd.