EXHIBIT BB4(f).1

YOUSUF ISMAIL LAHER

STATEMENT & ANNEXURES

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

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INDEX: EXHIBIT BB4(f).1

STATEMENT

I, the undersigned,

YOUSUF ISMAIL LAHER

do hereby state that:

1. I have been requested by the Commission to provide a statement in respect of the procurement and evaluation processes followed by Transnet in the awarding of certain high value tenders to specific entities where I was personally involved in such processes. Accordingly, this statement deals with the procurement process relating to the evaluation and awarding of the following tender and/or contract and matters relating thereto:

   1.1. Acquisition of the 1064 Diesel and Electric locomotives.

2. Arising from discussions held with members of the Commission's Investigation team I have set out below my recollection of events relating to abovementioned tenders and/or contracts.

3. The facts contained in this statement are both true and correct, and within my personal knowledge, unless the context provides otherwise. These events occurred many years ago. It is possible, even likely, that with the passage of time, my memory of actual detail is less than perfect.

INTRODUCTION

4. I am qualified as a Chartered Accountant.

5. I have been employed at Transnet since September 2005.

6. My current position is that of Executive Manager (Enterprise Wide Business Services) in the Finance department of Transnet Freight Rail (TFR).

7. During my employment at Transnet I held various positions within the Finance department, including positions in financial reporting, management reporting, working capital, payroll, procurement, operations finance, taxation and governance and compliance.

1064 Locomotive Tender

Business Case

8. I was not involved in the drafting of the business case for the proposed acquisition of the 1064 locomotives by Transnet.

9. I was also not involved in the process of obtaining the Estimated Total Cost (ETC) approval for the business case from the Transnet Board in 2013.

10. Obtaining the required ETC approval is understood to be part of a capital governance process handled by the Capital Governance department. Capital Governance was never my accountability or responsibility.

11. During the negotiation processes in respect of this tender in February 2014, I was told by Anoj Singh (Singh), Group Chief Financial Officer (GCFO) that the Board had approved the business case valued at R38.6bn, excluding forex hedging and other

escalations. An excerpt of the draft minutes of a special Board meeting held on 25 April 2013, approving the business case is attached hereto as **Annexure YL1.**

12. I only found out in 2018 that the business case calculations actually included forex hedging and other escalation costs which is contrary to what the Board minute recorded. At that point in time (2014) I did not know of this inaccuracy.

13. During the negotiation process I pointed out to Singh that the proposed transaction amount would exceed the amount of the ETC, which would require Board approval. Singh indicated that he would deal with it.

Preparation of Financial Evaluation Criteria

14. During 2012, I was requested by Lindiwe Mdletshe and Thamsanqa Jiyane from the Supply Chain Services (SCS) department to prepare financial evaluation criteria for the 1064 locomotive tender.

15. In preparation thereof, I consulted with members of the team that evaluated the acquisition of the 95 locomotive tender to identify difficult technical and other issues that they encountered during the evaluation process to assist me in preparing the evaluation criteria. I prepared a draft version of the proposed financial evaluation criteria and submitted it to SCS. The approval of the criteria was, in terms of the procurement process, to be obtained by SCS from the delegated authority.

16. The financial evaluation criteria consisted of a points scoring matrix for the following elements that would be evaluated:

    16.1. Price

    16.2. Total Cost of Ownership (TCO)

    16.3. Delivery Schedule

16.4. Payment Terms

16.5. RFP and Contractual Compliance

16.6. Financial Stability

Stage 2 Pre-qualification Evaluation of the Bids Received

17. The Cross Functional Evaluation Team: Finance (CFET Finance) appointed by TFR Chief Executive (CE), Siyabonga Gama to evaluate the bids for the supply of the 465 new diesel locomotives and the supply of the 599 new electric locomotives for pre-qualification, comprised of the following individuals, namely:

17.1. Zunaid Vally

17.2. Mohammed Moola

17.3. Thabo Seapi

17.4. Yousuf Laher (me)

18. The bids were to be evaluated against the predetermined evaluation criteria set out in clause 5.2 of the RFP part 2 (**Annexure YL2**), which are:

18.1. Agreement to the terms and conditions of the Parent Company Guarantee in the format supplied.

18.2. Agreement to the terms and conditions of the Advance Payment Guarantee in the format supplied.

18.3. Agreement to the Performance bond requirements and Performance bond terms and conditions in the format supplied.

18.4. A minimum warranty period of 2 years for the loco, 6 years for the traction motor and 1 year for spares after Defects Liability Period.

18.5. A minimum long term credit rating of A- (Fitch Ratings or equivalent) and the issuer should be pre-agreed with Transnet, for the companies' bankers that will be providing the guarantees.

18.6. The financial stability of the tenderer by reviewing critical ratios of the latest available financial statements.

19. The CFET Finance prepared two separate pre-qualification evaluation reports, dated 31 July 2013, detailing the results of the evaluations performed in respect of the supply of the 465 new diesel locomotives and the 599 new electric locomotives. Copies of the two reports are attached as **Annexures YL3 and YL4** respectively.

20. In summary, the reports concluded that except for Bidder 3 in the 599 electric tender, all remaining bidders that made this stage of the evaluation met the pre-qualification requirements of this and qualified for the next stage of the evaluation.

21. As part of the reports issued in July 2013 for this stage of the evaluation, the following matters were escalated for the attention of the 1064 Locomotive Steering Committee:

21.1. Some bidders' financial statements used for the evaluation were not signed off by auditors. The test for administrative responsiveness was an SCS function and not within the scope of the CFET Finance team. The CFET Finance recommended that this be closed off between the SCS team and the Steering Committee.

21.2. Bidder 3 in the 599 electric tender provided intermediate parent company financial statements but did not provide consolidated financial statements of its ultimate holding company and this bid could therefore not be evaluated.

22. The CFET Finance prepared a further report in respect of Bidder 3, dated 4 September 2013. A copy of this report is attached as **Annexures YL5**. This report was prepared because the CFET Finance were requested by SCS to conduct an evaluation of Bidder 3 after Bidder 3 submitted its ultimate holding company consolidated financial statements to SCS.

Stage 6 Evaluation of the Bids Received

23. The CFET Finance appointed to evaluate the bids in stage 6 of the evaluation process, namely to determine the scoring of qualifying bidders comprised of the following individuals, namely:

    23.1. Zunaid Vally

    23.2. Thabo Seapi

    23.3. Tsitsi Tlaletsi

    23.4. Mohammed Moola

    23.5. Danie Smit

    23.6. Yousuf Laher (me)

24. The relevant elements of the bids to be evaluated against the predetermined evaluation criteria were as follows:

    24.1. Price

    24.2. Total Cost of Ownership

    24.3. Delivery Schedule

    24.4. Payment Terms

24.5. RFP and Contractual Compliance

24.6. Financial Stability

25. We were given the criteria by SCS and we were told that this financial evaluation criteria was approved by the Board.

26. A sense of urgency was communicated by SCS and we were requested to complete the evaluation as soon as possible.

27. The CFET Finance prepared two separate evaluation reports, dated 10 December 2013, detailing the results of the evaluations performed in respect of the supply of the 465 new diesel locomotives and the 599 new electric locomotives, both of which were addressed to Jiyane, the CPO. Copies of the two reports are attached as **Annexures YL6 and YL7** respectively.

28. The evaluation was conducted in a boardroom at TFR's offices in Parktown. Access to this room was restricted. Access was controlled by SCS. Computers were provided for the evaluation by SCS. Only the financially relevant bidder files were provided to CFET Finance. Refer page 4 of the CFET Finance evaluation reports 2013 for more detail.

29. The CFET Finance escalated the following matters for the approval by the Steering Committee, as summarized on pages 26 (YL6) and 25 (YL7) of the reports, namely:

29.1. Approval of the price evaluation criteria on the basis of excluding hedging and escalation costs.

29.2. Approval of all assumptions used for scoring as outlined in the report.

29.3. Approval of the TCO scenario to be used in the evaluation.

29.4. Approval of the price methodology provided to the CFET Finance for evaluation purposes to exclude the impact of TE on price.

30. The exclusion of certain items presented certain risks which we highlighted in the body of the report and under the section titled "Overall Risks". The report requested that these risks must be communicated to the Steering Committee and/or Transnet Board and considered prior to final contract award. In summary the risks highlighted were the following:

30.1. The "Price" evaluation criteria required hedging and escalation costs to be included. The CFET Finance were unable to evaluate on the basis of a fixed price including escalation and hedging costs due to the reasons as highlighted in the report on page 9 and 10. We advised SCS that we were thus not able to complete a proper evaluation. SCS in turn advised us that we should exclude these costs of escalation and hedging, from the price evaluation. This is dealt with in our report on page 10, where it records that we agreed to do so on the proviso that this change to the evaluation methodology be brought to the attention of the Steering Committee and Transnet Board for approval prior to the award of the contract. Thus the price evaluation was done based on the price excluding hedging and escalation costs for all bidders. Inclusion of hedging and escalation costs could have a significant impact on the final price.

30.2. The evaluation was conducted on the basis of a single supplier supplying the full batch of locomotives i.e. 599 for electric and 465 for diesel. The price of a locomotive would vary based upon the size of the batch contracted for. This must be considered should Transnet decide to place an order for a smaller batch of locomotives (by inference this would change the price and thus the method of evaluation).

30.3. The "Price" was normalized to exclude the cost of using Transnet Engineering (TE) as the main sub-contractor. The approval letter from the DPE required TE to be utilized as the main subcontractor. The price of utilizing TE could therefore have an impact on the final price and thus the evaluation results and this would need to be considered.

30.4. The delivery schedule could also have been impacted for bidders that submitted bids using TE as the main subcontractor versus those that submitted bids using private sub-contractors. This could have an impact on the final delivery schedule and thus the evaluation results and this would need to be considered.

30.5. The Steering Committee to consider the Total Cost of Ownership (TCO) on the various different scenarios presented in the report and the assumptions utilized to determine the financial evaluation scoring.

31. To preserve the confidentiality of the process, communication during this period was limited to members of the CFET Finance, CFET Technical, SCS, TIA and members of the Locomotive Steering Committee. Any clarifications with bidders were handled by SCS. The CFET Finance report, on the 599 electric tender, on page 13 refers to an instance where SCS decided that further clarity was required from a certain bidder. SCS together with a representative of the CFET Finance in the presence of TIA engaged this bidder in order to obtain this further clarity.

Best and Final Offer

32. On 27 December 2013 the Steering Committee approved that Best and Final Offers (BAFO) be obtained from the bidders. The CFET Finance was requested by SCS to conduct an evaluation on the price after BAFOs were received from bidders. SCS only

requested BAFO pricing from two bidders in the electric tender but from all four bidders in the diesel tender.

33. The BAFO evaluation results for the 465 and 599 locomotives were captured in memoranda from the CFET Finance to the 1064 Locomotive Steering Committee, dated 15 January 2014. The memoranda are attached as **Annexures YL8 and YL9**.

34. I do not know why SCS requested BAFO pricing from only two bidders in the electric tender. The CFET Finance were given the BAFO's received from bidders to evaluate, which it duly did. It is possible that other bidders could ask why they were not given an opportunity to also provide BAFO pricing.

Approval to Split the batches

35. I understand that on 17 January 2014, SCS made a submission to the Transnet Board. I was unaware at the time of the details of the submissions. We were later told that the Board had approved the evaluation processes and also approved the splitting of the batches for the 599 and 465 locomotives. I did not have sight of the approvals at that time, but some time thereafter.

   35.1. I attach hereto as **Annexures YL10 and YL11** copies of the approval memoranda from the GCE, Brian Molefe to the Transnet Board, dated 17 January 2014.

   35.2. I also attach hereto copies of excerpts of a special Board meeting held on 24 January 2014, confirming the splitting of the batches for the 599 ad 465 locomotives as **Annexures YL12 and YL13**.

36. The splitting of the batches would have had an impact on the price of the locomotives. This risk was communicated in the CFET Finance report dated 10 December 2013 as detailed in paragraph 29 above.

Negotiations

37. During February 2014, I was appointed together with Danie Smit (Deputy Treasurer – Middle Office) as part of the negotiating team to provide financial support to the co-chairpersons.

38. The negotiations were co-chaired by Singh, GCFO and Jiyane, TFR CPO.

39. I understood that the co-chairpersons would report to the sub-committee of the Locomotive Steering Committee. The sub-committee of the Locomotive Steering Committee would make the final decisions on matters negotiated including price.

40. Singh and Jiyane ran the overall negotiation process and reported back to the sub-committee of the Steering Committee.

41. The role of the Finance support team in the negotiations was to:

    41.1. Contribute in negotiations on financial related aspects.

    41.2. Explain or clarify financial related concepts and financial matters to bidders.

    41.3. Keep track of pricing based on the various bidder proposals.

    41.4. Provide information to and assist the legal team with any questions they may have during the contract drafting process.

42. The Finance support team's role did not include making any decisions on the final pricing of the locomotives. On occasion my role involved informing bidders during a negotiation session of decisions made by the steering committee as communicated to us by Singh.

43. The negotiation sessions were held at Webber Wentzel Attorneys' offices in Illovo during February and March 2014. The negotiation sessions were recorded (video and voice).

44. The negotiation sessions included representatives from Transnet Internal Audit (TIA), external legal counsel, internal legal counsel, SCS, the co-chairpersons as well as the Finance support team.

45. We were advised by Singh and Jiyane that the negotiation process must be completed with urgency and an initial deadline of two weeks was put forward. The process eventually took about four to six weeks.

46. We were handed a draft negotiation mandate by SCS, attached hereto as **Annexure YL14**. The draft negotiation mandate covered the following aspects to be negotiated:

46.1. Pricing – deferral of delivery schedule

46.2. Base Price – escalation risk indices

46.3. Base Price – foreign exchange impacts

46.4. Base Price – Impact of TE

46.5. Capital Acquisition Costs - Set up Costs

46.6. Cost of maintenance interventions included in TCO model

46.7. Payment schedule

46.8. Extended Warranty

46.9. Options

46.10. Base Price

46.11. Break Pricing – reduce risk and cost under breach

46.12. Batch Pricing

47. The negotiation process primarily entailed offers by the bidders, and responses to such offers by Transnet. For the most part, the Transnet responses were communicated through the co-chairpersons, but other members of Transnet's negotiating team also responded directly to bidders during the sessions.

48. We were told by Singh that Regiments was appointed to conduct the detailed financial calculations related mainly to forex hedging costs, warranty bond benchmarking, deferral cost benchmarking and escalation costs, which were to be used by us in the negotiation process as a benchmark. Calculations for escalations and forex hedging costs were done by Regiments as the appointed specialists and transaction advisors. We would provide relevant financial information from the bidders, such as price, delivery terms, payment terms and warranty terms to Regiments to conduct the calculations in the background. Regiments then provided the outcomes of their analysis to us on a regular basis.

49. During the negotiation team's caucuses, I raised the issue that escalation costs seemed too high. The finance support team also raised the concern of high escalation costs directly with the bidders during the negotiation sessions.

50. I raised my concerns about the price escalations with Singh. His response was to advise me that bidders had built a risk premium into their pricing to cater for the unpredictable nature of future costs, which is not unreasonable. He explained that it is a negotiation process on final price and in the context of the negotiations; it is the final

overall price that is important. He explained that the pricing was acceptable in light of the rigorous negotiation process and the risk the bidders were willing to accept.

51. During one caucus I raised with Singh and Jiyane the issue that the original bid price per unit must be retained by bidders even though batch sizes were reduced. I pointed out that if not, it would mean that their prices may be higher than other unsuccessful bidders who could had given lower prices for a smaller batch. Singh and Jiyane disagreed and Jiyane said that the bidders were not evaluated on smaller batch sizes. He said all bidders were requested to provide breakpoint pricing, and were not evaluated on smaller batch pricing and that no bidders provided pricing for a smaller batch.

52. During the same caucus I also asked Singh and Jiyane whether TFR should not have gone out to all bidders pre-award to ask for a price based on a 50 % batch. Jiyane responded that it wasn't known that the batch size would be 50 %. A copy of the recording of this conversation is available. It is possible that the other bidders could have quoted a lower price for the reduced batch size.

53. In light of the seniority, expertise, experience and ability of Singh and Jiyane, I deferred to their explanations and judgement on the issues that I had raised.

54. The impression I gained during the negotiations was that, the co-chairpersons negotiation tactic was very much focused on the overall price and not as focused on the detailed elements that made up the price, such as for example escalation, batch pricing etc. Even though the detailed elements may have been spoken about at various times during the negotiations it appeared not to be Singh and Jiyane's main focus. The effect of this was that as much as these components were self-standing components of the negotiations, in the end, it was overall price that the chairpersons focused on. The sub-committee made the final decision on pricing.

Final Consolidation

55. In 2014, post the negotiation process, I was told by Singh to prepare a final consolidation of the pricing numbers based upon the submissions from the bidders.

56. Singh handed me the principle elements of items he would like included in a memorandum, detailing the reasons why the price had increased from the 1064 business case submission. He also explained to me the detail of the format in which he wanted the numbers presented. I attach hereto the notes in Singh's handwriting on a Webber Wentzel Attorneys notepad as **Annexure YL15.** Singh requested that I type these into the draft of the memorandum prepared by the Transnet Group Capital department.

57. I pointed out to Singh that I was not involved in the business case process and would not know how the numbers in the business case were arrived at and as such could not do the reconciliation from the business case numbers to the final contracted numbers.

58. Singh was integrally involved in the business case process and explained to me the reasons for the increase in price from the business case to the final contracted price based on his knowledge of the business case and the final contracted pricing.

59. He also required that the memorandum contain an explanation of the price increases from BAFO stage to final pricing. This calculation was compiled based on information from bidders and included in the memorandum as table 2.

60. I received a draft of the memorandum from Niresh Budhai from the Transnet Group Capital department. I typed the updates to the memorandum as required by Singh. On numerous occasions, over a period of approximately one to two months he edited the memorandum and told me to type up his edits (refer some of the handwritten notes attached as **Annexure YL15**). I trusted his knowledge and complied with his instruction

to me to include his edits in the memo. A copy of this memorandum dated 23 May 2014 is attached to this statement as **Annexure YL16**.

61. In 2018, I was advised by MNS Attorneys that the Transnet Board was misled into believing that the business case, ETC excluded costs related to forex hedging and other escalations.

62. As stated earlier in this statement, I was not involved in the business case process. In 2014, I was told by Singh that the Board approved the business case ETC at R38.6bn, excluding forex and escalations.

63. I only found out in 2018 that the business case ETC calculations actually included forex and escalation costs, contrary to contents of that Board minute dated 25 April 2013.

64. I reiterate that at that point in time (2014) I did not know of this inaccuracy.

65. The memorandum from Brian Molefe to the Transnet Board, dated 23 May 2014, requested approval for the increase of the ETC from R38.6bn to R54.5bn. Paragraph 23 of the memorandum outlines the following main reasons for the request for the increase in ETC of R15.9bn:

    65.1. Escalations from the approved business case to award date (backward looking).

    65.2. Forex from the approved business case to award date (backward looking).

    65.3. Additional scope of work allocated to Transnet Engineering (TE) for the strategy to enable TE to eventually transform to an Original Equipment Manufacturer (OEM) of locomotives (strategic).

65.4. The cost of reducing the batch size (strategic and risk mitigation).

65.5. The cost of future escalations over the life of the contract (forward looking and risk mitigation).

65.6. The cost of fixing forex exposure over the life of the contract (forward looking and risk mitigation).

65.7. Contingencies related to variation orders, options (such as electronically controlled pneumatic braking and wire distributed power etc.) and capital spares.

Request to reconcile the business case numbers to the final pricing in January 2018

66. In January 2018, Mohammed Moola (Executive Manager Finance Capital Program) and I received a request from the then GCFO, Garry Pita via the TFR CFO, (Ms Galeni) to confirm whether the business case pricing included or excluded forex hedging and escalation costs. Upon consulting with Francis Callard (ex-Transnet employee), who was key in the original business case calculations, in January 2018 and reviewing the business case calculations, Moola and I concluded that the business case calculations actually did include forex and hedging costs and that the recommendation within the R38.6bn business case submitted to the Board in April 2013 (that the ETC excluded these costs), was incorrect as the financial model and detail within the business case indicates that the ETC is inclusive of forex hedging and escalations.

67. We were also requested to recalculate the ETC in the business case adjusted for factors we are now aware of, i.e. the contracted delivery period, the relevant exchange rates, the BAFO pricing etc.

68. Callard was requested to conduct this calculation as he was key in the original business case calculations and the calculations were complex.

69. Callard's results revealed an adjusted business case value of R40,457bn for the acquisition of the 1064 locomotives, excluding the impact of using TE as the main sub-contractor and excluding the impact of reducing the batch size. Version 7 of the calculations is attached hereto as **Annexure YL17**.

70. Based on these calculations, the business case ETC would be R45,8bn, should the impact of using TE as a sub-contractor and the impact of reducing the batch size be included. This was R3,747bn lower than the final contracted price. This was communicated to Pita.

Relocation of assembly facilities to Durban

71. In June 2015, I was instructed by Singh to review proposals relating to the proposed move of the assembly facilities of two OEMs, namely Bombardier and CNR from Koedoespoort in Gauteng to Durban with specific reference to the relocation costs involved. Copies of the two proposal are attached as **Annexures YL18 and YL19**.

72. My comments on these proposals and my concerns from a financial point of view were articulated in email correspondence, dated 21 June 2015 and 22 June 2015 respectively. The emails, which are attached as **Annexure YL20** were addressed to the Singh, Jiyane, Pita, Silinga from Transnet Legal and Mdletshe.

73. Some of the pertinent concerns raised in my email regarding the CNR proposal included:

73.1. Increases of approximately 7.2 % attributed to material costs seemed excessive.

73.2. The incremental cost of procurement does not relate to the move to Durban. This should not be charged. The 9 % interest seemed excessive.

73.3. The cost of this technical support should have been included in the original price and thus seemed unjustified.

73.4. On-site service by technicians should have been included in the original price. R31.5m for travel and relocation seemed excessive.

73.5. The cost of shelving seemed excessive.

73.6. The cost for additional forklifts seemed unjustified.

73.7. Monthly labour inflation costs seemed unjustified and seemed double counted

73.8. Contingency risk of 4 % and risk provision of 9 % is unexplained and seemed to be additional profit. This seemed excessive.

74. I received a revised CNR proposal on 23 June 2015 from SCS. I reviewed the revised proposal and responded on 25 June 2015 that the proposal has not changed from the previous submission except for a new offer on payment terms. A copy of this proposal is attached as **Annexure YL21** and a copy of my response thereto is attached as **Annexure YL22**.

75. Some of the pertinent concerns raised in my email regarding the BT proposal included:

75.1. BT do not provide a detailed costing of each element that makes up the additional cost and that this should be requested.

75.2. The BT cost information is limited and does not allow for a detailed analysis of their costing.

76. Thereafter, I did not receive a further proposal from BT to review.

77. I was requested to attend a meeting with one of the bidders thereafter to explain my concerns. My concerns were not addressed by the bidder.

78. I was not involved in the process thereafter.

YOUSUF ISMAIL LAHER

DATE: 15/04/2019

ANNEXURE YL 1

EXCERPT FROM THE MINUTES OF THE GROUP EXECUTIVE COMMITTEE MEETING NO. 13/3 HELD ON 22 APRIL 2013 AT 08:30 IN ROOM 4623, CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG

"5.3 **TFR: Acquisition of 1064 locomotives (ETC R38.6bn)**

RESOLVED that the Committee recommended that the Board approves the business case for the acquisition of 1064 locomotives for TFR's General Freight Business at an estimated total cost of R38.6bn as per Corporate Plan (excluding potential effects from forex hedging, forex escalation and other price escalations). 13/3/2"

YIL-023

Office of **Ayanda Ceba,** Group Company Secretary

TRANSNET

TO WHOM IT MAY CONCERN

CERTIFIED EXCERPT FROM THE DRAFT MINUTES OF THE SPECIAL MEETING OF THE TRANSNET BOARD OF DIRECTORS NO.13/3 HELD ON 25 APRIL 2013 AT 14:00 IN BOARDROOM 4623, 46TH FLOOR, CARLTON CENTRE, JOHANNESBURG

"6.1 **Procurement of 1064 locomotives for the TFR General Freight Business**

RESOLVED that the Board approved the following:

- The business case for the acquisition of the 1064 locomotives for TFR's General Freight Business at an estimated cost of R38.6bn as per the Corporate Plan (excluding potential effects from forex hedging, forex escalation, and other price escalations). 13/3/4"

Certified a true excerpt.

ANCeba

AYANDA CEBA
Group Company Secretary
Transnet SOC Ltd
Date: 26 April 2013

Transnet SOC Ltd
Registration Number
1990/000900/30

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ANNEXURE YL 2

TRANSNET FREIGHT RAIL

an Operating Division of **TRANSNET SOC LTD**

(Registration No. 1990/000900/30)

PART 2

REQUEST FOR PROPOSAL [RFP]

FOR THE SUPPLY OF 599 NEW DUAL VOLTAGE ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB)

RFP NUMBER:	TFRAC-HO-8608
CLOSING DATE:	26 February 2013
CLOSING TIME:	10:00 am
BID VALIDITY PERIOD:	30 September 2013

COMPULSORY BRIEFING SESSION:

A compulsory briefing session will be held at the following venue:

Time	:	10:00 am
Date	:	14 December 2012
Venue	:	Transnet Freight Rail, School of Rail Campus Esselenpark Campus Main Hall No.1 P91 Road (Modderfontein Road off R25) Kaalfontein Kempton Park Johannesburg

PLEASE NOTE CHANGE IN VENUE

SCHEDULE OF BID DOCUMENTS

RFP ANNEXURES:

ANNEXURE F – FINANCIAL TOTAL COST OF OWNERSHIP (TCO) MODEL

ANNEXURE F (i) - FINANCIAL TOTAL COST OF OWNERSHIP (TCO) MODEL- ENERGY MODEL

ANNEXURE G – SUPPLIER DEVELOPMENT VALUE SUMMARY

ANNEXURE I – DRAFT SUPPLY AGREEMENT (to be issued during the tender process)

ANNEXURE K – LOCOMOTIVE SPECIFICATION – MASTER

ANNEXURE K (i) – LOCOMOTIVE SPECIFICATION – SUMMARY OF CHANGES

ANNEXURE M - B-BBEE PREFERENCE POINTS CLAIM FORM

ANNEXURE N - FURTHER RECOGNITION CRITERIA (CURRENT)

ANNEXURE N (i) - FURTHER RECOGNITION CRITERIA (FUTURE)

ANNEXURE O – BILL OF MATERIALS

RFP FOR THE SUPPLY OF
599 NEW DUAL VOLTAGE ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB)

NOTICE TO BIDDERS

1. INTRODUCTION

This RFP is being issued in parts. This document constitutes Part 2 and will address aspects such as evaluation criteria, evaluation methodology, weightings, TCO models and designated components/ activities.

Responses to this RFP [hereinafter referred to as a **Proposal** or **Proposals** or **Bid**] are requested from companies, close corporations or enterprises [hereinafter referred to as an **Entity** or **Respondent** or **Bidder**] to supply the aforementioned requirement(s) to Transnet.

Should a conflict arise between information submitted under Part 1 and Part 2, Part 2 information will supersede any information communicated previously.

2. TRE SUB-CONTRACTING

Participation of TRE in this locomotive procurement process will be prescribed and further details will follow after the issuance of Part 2 of RFP.

3. SUPPLIER DEVELOPMENT

Supplier Development Proposal/ initiative as referred to in Section 1 clause 6 of Part 1 means a binding commitment to Supplier Development deliverables including a detailed narrative thereof made by respondents which will be incorporated as a term of the contract.

3.1. BILL OF MATERIALS

The Respondents are further required to complete the Bill of Materials [BOM], Annexure O, as part of the Supplier Development Bid document submission. Respondents should clearly indicate areas of opportunity where there is a potential for local component purchase or local supplier development as part of their Supplier Development Bid Document in the areas of local purchase, fabrication, assembly and repair and maintenance. Respondents must indicate Yes ["Y"] or No ["N"] in the appropriate box indicating whether a potential opportunity exists or not. The Respondent must indicate the corresponding "National Value Add" [expressed in ZAR] and a detailed description of the localisation potential in the comment box.

4. FURTHER RECOGNITION CRITERIA (FRC)

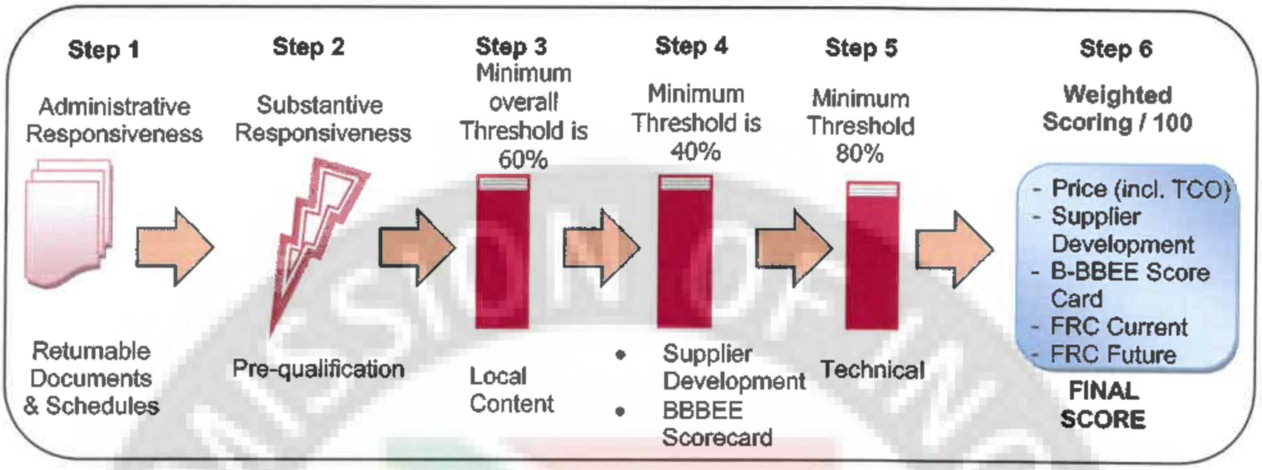
Transnet encourages its suppliers to constantly strive to improve their B-BBEE rating. Whereas Respondents will be allocated points in terms of a preference point system based on its B-BBEE scorecard to be assessed as detailed in Section 1, Clause 7, in addition to such scoring, further points will be allocated to Respondents score based on "Further Recognition Criteria" on an ascending scale. Points for FRC (Current) will be allocated based on the extent to which the Respondent's current ownership, management control and employment equity meets or exceeds certain targets. FRC (Future) will be calculated based on the extent to which the Respondent commits to meet, sustain and/or exceed the minimum compliance targets with its proposed compliance target to be achieved during the contract period.

All the respondents must complete and return the FRC claim forms for FRC (Current) and FRC (Future) attached hereto as Annexure N & N (i) respectively.

RFP FOR THE SUPPLY OF
599 NEW DUAL VOLTAGE ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB)

5. EVALUATION METHODOLOGY AND CRITERIA

Transnet will utilise the following methodology and criteria in selecting a preferred Bidder, if so required:



5.1. STEP ONE – TEST FOR ADMINISTRATIVE RESPONSIVENESS

The test for administrative responsiveness will include the following:

EVALUATION CRITERIA	RFP REFERENCE
• whether the bid has been lodged on time	*Page 1 of Part 2*
• whether all returnable documents and/or schedules [where applicable] were completed and returned by the closing date and time	*Section 4 of RFP Part 1 and RFP Part 2*
• whether the bid documentation has been duly signed by the Respondent.	*Section 4 of RFP 1 and RFP Part 2*

The test for administrative responsiveness [Step One] must be passed for a Respondent's Proposal to progress to [Step Two] for further pre-qualification

5.2. STEP TWO – TEST FOR SUBSTANTIVE RESPONSIVENESS TO RFP

The test for substantive responsiveness to this RFP will include the following:

EVALUATION CRITERIA	RFP REFERENCE
• whether the bid contains a priced offer	*Section 2 clause 3.1 and Section 3 clause 1.8 of Part 1*
• Entity's financial stability: Financial Statements The financial statement submitted by respondents will be reviewed to determine whether the bidder meets the minimum requirements for financial stability set by	*Section 3 of Part 1 and Clause 4.1/4.2 of Part 2*

Transnet, in addition the following must be adhered to: 1. Agreement to the terms & conditions of the Parent Company Guarantee in the format supplied; 2. Agreement to the terms & conditions of the Advance Payment Guarantee in the format supplied; 3. Agreement to the Performance bond requirements & Performance bond terms & conditions in the format supplied; 4. A minimum warranty period of 2 years for the loco, 6 years for the traction motor and 1 year for spares after Defects Liability Period; and 5. A minimum long term credit rating of A- [Fitch Ratings or equivalent] and the issuer should be pre-agreed with Transnet, for the companies bankers that will be providing the guarantees.	
• whether any other pre-qualification criteria set by Transnet, have been met	*Section 1 clauses 2.2 and 13.3* *Page 1 and Section 4 of Part 1– validity period as amended by page 1 of Part 2* *Section 8, General Bid Conditions clause 19* *Section 10 of Part 1* *Section 2, clause 3* *Annexure G (Supplier Development Value Summary) as amended in Part 2 and Section 17 of Part 1*
• whether the bid materially complies with the scope and/or specification given	*Section 2 of Part 1 and Annexure K*
• whether all material terms and conditions stated in the bid document have been met	*All Sections*

The test for substantive responsiveness [Step Two] must be passed for a Respondent's Proposal to progress to [Step Three] for further evaluation.

5.3. STEP THREE – LOCAL CONTENT

Respondents to provide a Local Content declaration as requested in the following Annexures of Part 1:

Annexure A: Declaration Certificate for Local Production and Content [FORM SBD 6.2] and

Annexure C: Local Content Declaration: Summary Schedule.

The test for a minimum threshold of 60% for Local Content and designated components/ activities threshold [Step Three] must be passed for a Respondent's Proposal to progress to [Step Four] for further evaluation.

5.4. STEP FOUR –SUPPLIER DEVELOPMENT AND B-BBEE SCORECARD

Respondents to provide written declarations as requested in the following Annexures:

5.4.1. B-BBEE Scorecard:

PRE-QUALIFICATION CRITERION	RFP REFERENCE
Current status evaluated according to the valid B-BBEE Verification scorecard	*Section 1 clause 7 of Part 1 & Preference Points Claim Form, Annexure M of Part 2*

5.4.2. Supplier Development Bid Document and Supplier Development Value Summary:

PRE-QUALIFICATION CRITERIA	RFP REFERENCE
Supplier Development Bid Document: 1. Investment in Plant 2. Technology Transfer/ Sustainability 3. Down-stream Supplier Development 4. Skills Development 5. Job Creation/ Preservation 6. Small Business Promotion	*Annexure G as amended in Part 2*

The test for meeting the B-BBEE and SUPPLIER DEVELOPMENT threshold of 40% [Step Four] must be passed for a Respondent's Proposal to progress to [Step Five] for further evaluation.

5.5. STEP FIVE – TEST MINIMUM THRESHOLD OF 80% FOR TECHNICAL CRITERIA

Technical Criteria:

EVALUATION CRITERIA	SUB-WEIGHTS
Performance	7.6%
Electrical	28.3%
Mechanical	32.2%
Control	13.4%
Other	18.6%
Total	**100%**

The following Scoring Matrix will be used to evaluate Technical

For each clause, scoring shall be done on the following basis	
Full Compliance	2
Partial Compliance	1
Non- Compliance	0

CLAUSE ABBREVIATION	CLAUSE TYPE	WEIGHT	WEIGHT EXPLANATION	SCORING MATRIX
DES	Desirable	3	Desirable feature that may Improve locomotive performance or improve Safety, Operability, Maintainability, Availability, Reliability (SOMAR)	0-2
ESS	Essential	6	Requirements that have been deemed essential because the analysis conducted by TFR indicated that these requirements are necessary to deliver locomotives that meet TFR's performance requirements.	0-2
MAN	Mandatory	10	Requirements that are mission critical to TFR	2 or disqualification

EXAMPLE OF EVALUATION CALCULATION:

EXAMPLE OF EVALUATION CALCULATION:			
DESIRABLE CLAUSE	**WEIGHT**	**SCORE**	**RESULT**
ABCD	3	2	6

Technical Disqualifying/Non-responsive Criteria

- 100% technical compliance is required for all **mandatory** items. Failure to comply with the mandatory requirements **will** lead to disqualification.
- 100% technical response is required for all **essential** items. Failure to respond to all essential items (by indicating whether or not the Respondent complies or does not comply with these essential items) may lead to disqualification.

The minimum threshold of 80% for [Step Five] evaluation criteria must be met or exceeded for a Respondent's Proposal to progress to [Step Six] for final evaluation.

5.6. STEP SIX – FINAL WEIGHTED SCORING

a) **Price (Including TCO): Weight 60%**

EVALUATION CRITERIA	RFP REFERENCE
• Price including Total Cost of Ownership	*Annexure F & F (i) of Part 2*

b) **Supplier Development: Weight 20%**

EVALUATION CRITERIA	RFP REFERENCE
Supplier Development Bid Document:	*Annexure G as amended in Part 2*

1. Investment in Plant	
2. Technology Transfer/ Sustainability	
3. Down-stream Supplier Development	
4. Skills Development	
5. Job Creation/ Preservation	
6. Small Business Promotion	
Investment in Plant	

c) **Broad-Based Black Economic Empowerment criteria 20%**

EVALUATION CRITERIA	WEIGHT	RFP REFERENCE
• Current Scorecard • Further Recognition Criteria (Current) • Further Recognition Criteria (Future)	*10%* *5%* *5%*	*Section 1 clause 7 & Preference Points Claim Form, Annexures M, N & N (i) of Part 2*

5.7. SUMMARY: EVALUATION THRESHOLD AND WEIGHTINGS

PRE-QUALIFICATION EVALUATION CRITERIA	MINIMUM THRESHOLD
Local content and Component/ Activity	60% and as stipulated in Annexure C
Supplier Development and B-BBEE	40%
Technical	80%

EVALUATION CRITERIA	FINAL WEIGHTED SCORES
Price (incl. TCO)	60%
Supplier Development	20%
B-BBEE – Score Card Further Recognition Criteria (Current) Further Recognition Criteria (Future)	10% 5% 5%
TOTAL SCORE:	**100%**

Note: Transnet reserves the right to conduct post-tender negotiations with the preferred Bidder/s

6. ADJUDICATION USING A POINT SYSTEM

- The bidder obtaining the highest number of total points in terms of Step 6 of the evaluation methodology will be awarded the contract, unless there are objective criteria which justify the award of the contract to a bidder other than the bidder obtaining the highest number of points.
- Points scored will be rounded off to 2 [two] decimal places.
- In the event of equal points scored, the bid will be awarded to the bidder scoring the highest number of preference points for B-BBEE.

However, when two or more bids have scored equal points including equal preference points for B-BBEE, the successful bid will be the one scoring the highest score for technical.

RFP FOR THE SUPPLY OF
599 NEW DUAL VOLTAGE ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB)

7. RETURNABLE DOCUMENTS AND SCHEDULES

7.1. MANDATORY RETURNABLE DOCUMENTS AND SCHEDULES:

A list of mandatory returnable documents was issued with Part 1 of the bid document. However the documents listed below is a consolidated list of all mandatory documents that have to be submitted with the bid response.

Respondents are required to submit the following returnable documents and schedules with their responses. All Sections, as indicated in the footer of each page, must be signed, stamped and dated by the Respondent. Please confirm submission of these mandatory documents and schedules by so indicating (YES/NO) in the table below:

RETURNABLE DOCUMENTS & SCHEDULES	SUBMITTED (Yes/No)
SECTION 1 : Notice to Bidders	
ANNEXURE A: Declaration Certificate For Local Production And Content [Form SBD 6.2]	
ANNEXURE C: Local Content Declaration: Summary Schedule **(as issued in Part 2)**	
ANNEXURE N: Further Recognition Criteria (Current)	
ANNEXURE N (i): Further Recognition Criteria (Future)	
SECTION 2 : Background, Overview and Scope of Requirements	
ANNEXURE K : Locomotive Specifications **(as amended in Part 2)**	
SECTION 3 : Financial Offer & Other Pertinent Information	
ANNEXURE F : Financial Total Cost of Ownership (TCO) Model	
ANNEXURE F (i): Financial Total Cost of Ownership (TCO) Model – Energy model	
Financial statements for the preceding 3 years	
SECTION 17: Supplier Development Initiatives	
ANNEXURE G : Supplier Development Value Summary **(as amended in Part 2)**	
ANNEXURE O: Bill of Materials	

Failure to provide all the above-referenced mandatory returnable documents by the closing date and time will result in a Respondent's disqualification. Respondents are therefore urged to ensure that all these documents are returned with their Proposals.

7.2. ESSENTIAL RETURNABLE DOCUMENTS AND SCHEDULES

Respondents are required to submit the following returnable documents and schedules with their responses. All Sections, as indicated in the footer of each page, must be signed, stamped and dated by the Respondent. Please confirm submission of these essential documents and schedules by so indicating (YES/NO) in the table below:

RETURNABLE DOCUMENTS & SCHEDULES	**SUBMITTED (Yes/No)**
SECTION 1 : Notice to Bidders	
ANNEXURE D: Imported Content Declaration: Supporting Schedule to Annexure C **(as issued in Part 2)**	
ANNEXURE E: Local Content Declaration: Supporting Schedule to Annexure C **(as issued in Part 2)**	
ANNEXURE M: B-BBEE Preference Points Claim Form	
SECTION 4 : Proposal Form	
SECTION 5 : Vendor Application Form	
- Original cancelled cheque or bank verification of banking details	
- Certified copies of IDs of shareholder/directors/members [as applicable]	
- Certified copy of Certificate of Incorporation [CM29/CM9 name change]	
- Certified copy of share certificates [CK1/CK2 if CC]	
- Entity's letterhead	
- Original VALID Tax Clearance Certificate	
- Certified copy of VALID VAT Registration Certificate [SA companies only]	
- Certified copy of VALID Company Registration Certificate	
- VALID B-BBEE Verification Certificate [Large Enterprises and QSEs]	
- VALID B-BBEE Certificate from Auditor, Accounting Officer or SANAS accredited verification agency [EMEs]	
- Joint Ventures – the Incorporated JV/ Consortium/s must submit a VALID B-BBEE certificate in their registered name.	
Unincorporated joint ventures must obtain a consolidated VALID B-BBEE Certificate as if they were a group structure, provided that such a consolidated B-BBEE Certificate is prepared for this venture.	
- Audited Financial Statements for previous 3 years	
SECTION 6 : Signing Power - Resolution of Board of Directors	
SECTION 7 : Certificate of Acquaintance with RFP Documents	
SECTION 8 : General Bid Conditions – Goods	
ANNEXURE J – General Bid Conditions Goods	

ANNEXURE YL 3

Locomotive tender pre-qualification evaluation for the supply of 465 new diesel locomotives

Report of the Cross Functional Evaluation Team (Finance)

M.M TD

30 July 2013

Mr Thamsanqa Jiyane

General Manager (CPO - TFR)

Locomotive tender pre-qualification evaluation for the supply of 465 new diesel locomotives

Report of the Cross Functional Evaluation Team (Finance)

Purpose of Report

The purpose of this report is to provide the finance teams objectives, scope, findings and recommendations of the pre-qualification evaluation for the 465 Diesel Locomotive tender.

Objective

The objective of the pre-qualification evaluation was to determine which bidders would meet the minimum pre-qualification evaluation criteria requirements per stage 2 of the RFP, in order to proceed to stage 3 of the tender evaluation.

Scope

The Scope of our review was limited to evaluating the following in terms of the stage 2 of the RFP:

With reference to the RFP Part 2 for 465 Diesel Locomotives specifically clause 5.2 (refer extract below):

1. Agreement to the terms & conditions of the Parent Company Guarantee in the format supplied;
2. Agreement to the terms & conditions of the Advance Payment Guarantee in the format supplied;
3. Agreement to the Performance bond requirements & Performance bond terms & conditions in the format supplied;
4. A minimum warranty period of 2 years for the loco, 6 years for the traction motor and 1 year for spares after Defects Liability Period and
5. A minimum long term credit rating of A- [Fitch Ratings or equivalent] and the issuer should be pre-agreed with Transnet, for the companies' bankers that will be providing the guarantees.

M.M TD

YIL-036

6. The financial stability of the tenderer by reviewing critical ratios of the latest available financial statements

The SCS team only made relevant financial files available to the finance team. These files were limited to information required for the pre-qualification evaluation.

Background

Transnet issued an RFP for the acquisition of 465 diesel locomotives as estimates show that TFR has a shortage of locomotives. In addition to this shortage, TFR intends to increase volumes within the next 7 years. TFR also has a need to modernise and upgrade its current fleet of diesel locomotives as part of the fleet is in need of replacement. As a result of the above, TFR has a requirement to procure new locomotives in the short, medium and long term.

The aim of the RFP was to elicit bids from locomotive suppliers for the proposal to supply locomotives (the Locomotives) in such a way so as to contribute sufficient tractive effort to support TFR's growing General Freight traffic projections in the most cost effective manner.

A Cross Function Evaluation Team (Finance) "(CFET - (Finance)" was requested to assist in the evaluation of the financial and related elements of the tender submissions.

Finance team

The following finance personnel were appointed by the TFR CEO as the CFET (Finance) and were involved in the evaluation:

Yousuf Laher – Executive Manager, Finance

Zunaid Vally – Executive Manager, Finance

Mohammed Moola – Senior Manager, Finance

Thabo Seapi – Senior Manager, Finance

Bidder files and CD's available

SCS ensured that all relevant bidder files were made available to the financial team each day. These files remained in the control of SCS for the duration of the pre-qualification evaluation. Any notes or other documents used by the finance team during evaluation sessions were also taken away by SCS at the end of each day.

M.M TD

Declarations of Interest / conflicts

All finance team members completed and signed their declarations as required by SCS before commencement of the evaluation. No finance team member declared any interest in the bidders or declared any material conflict of interest.

Transnet Internal Audit involvement

TIA was present at evaluations sessions as requested by SCS to ensure good corporate governance.

Methodology for Financial Stability Scoring

Scoring of points was completed using the set predetermined criteria and weightings for the financial stability evaluation. The procedure for scoring was done jointly by all members in the presence of SCS and TIA based on consensus agreement between the finance team members.

The financial stability scoring was prepared specifically for stage 6 of the evaluation. In order to tailor this scoring for stage 2, which requires a minimum scoring requirement for the prequalification, the team reviewed the scoring methodology and by consensus agreed to a minimum scoring for each ratio and thereby the overall minimum points required of 18 out of 40.

Yousuf Laher was a key person in the development of the evaluation model in conjunction with SCS. He outlined to the remaining finance team members the procedure and methodology of scoring.

Findings

1. Items 1 to 3 of Scope above - PCG, APG and Warranty Bond (Guarantees)

   a. During the course of our evaluation we have identified that most bidders do not agree entirely to the terms and conditions of the guarantees in the "format supplied". These bidders would like to change certain of the terms and conditions. Only one of the bidders complied fully to the RFP requirement.

   b. Specifically some of the bidders would like to "sign off" before Transnet can call on the guarantee. Which in our view materially changes the terms and conditions of the Guarantee as this can no longer be construed as a "call" guarantee.

M.M TD

c. Although those bidders would like to change some of the terms and conditions they are agreeable to enter into the guarantees.

d. In order to determine whether the bidders would move onto the next phase considering the above, because strictly speaking this would mean that these bidders would not qualify, we decided to consult with TFR General Counsel, Mr Kenneth Diedricks, to advise as to the way forward. An extract of the legal advice provided by Kenneth is reflected below:

From: Kenneth Diedricks Transnet Freight Rail JHB
Sent: 15 May 2013 03:05 PM
To: Lindiwe Mdletshe Transnet Freight Rail JHB; Thamsanqa Jiyane Transnet Freight Rail JHB
Cc: Siyabonga Gama Transnet Freight Rail JHB
Subject: RE: 465 Locomotives Clarification - Finance pre-qualification

Hi Lindiwe

I had another look at the requirements. Although the requirement says agreement with the terms and conditions, it does not clearly state that a bidder will be excluded if they suggest another form. This ambiguity will cause problems if we now want to disqualify them.

In addition, I seem to recall that we advised during clarification that this issue will be negotiated during negotiation stage.

My legal advice is therefore that we allow them through to the next round.

Regards

Kenneth

From: Kenneth Diedricks Transnet Freight Rail JHB
Sent: 15 May 2013 02:51 PM
To: Lindiwe Mdletshe Transnet Freight Rail JHB; Thamsanqa Jiyane Transnet Freight Rail JHB
Cc: Siyabonga Gama Transnet Freight Rail JHB (Gama.Siyabonga@transnet.net)
Subject: RE: 465 Locomotives Clarification - Finance pre-qualification

Hi Lindiwe

Strictly speaking, the RFP calls for agreement to the terms and conditions in the format supplied and does not allow for any amendments or other suggestions, so therefore the bids should not be allowed to proceed to the next step. You will however have a situation were you only sit with one bid which does not allow for cost effective and competitive tendering in line with what the Constitution requires.

M.M TD

We can therefore apply the letter of the RFP or justify why we accepted the bids despite them not fully complying with the pre-qualification criteria.

I would suggest, to avoid the situation where only one bidder goes through and we do not get the best price, we allow the bidders through on this score and negotiate the final form of the PCG and APG.

Regards

Kenneth

e. As noted by TFR General Counsel above, the bidders should be allowed to move on to the next stage.

2. <u>Items 4 of Scope above – Warranty</u>

a. All tenderers met the minimum warranty requirements.

3. <u>Item 5 of Scope above – Minimum long term credit rating</u>

a. None of the tenderers changed the clause of the draft supply agreement requesting that the APG and Warranty Bond must be obtained from an institution with a minimum credit rating requirement. It was thus assumed that all tenderers agreed to obtain the guarantees from an institution with Transnet's minimum credit rating requirements, when required to do so.

b. It cannot be reasonably expected that the tenderers would be able to identify and secure the issuer of the bonds at the point of tender submission. This would be carried out at the contracting and negotiation phase of the tender.

c. Thus, all tenderers met the minimum long terms credit rating requirement.

M.M TD

YIL-038

4. Item 6 of the scope above – Financial stability

a. The RFP clarification wording issued states the following "The financial statements of the ultimate parent company that will be providing the PCG (Parent Company Guarantee) must be provided." The intention of this clarification was to ensure that TFR would be able to receive the PCG from the ultimate parent company of tenderers.

b. The following eight pre -determined ratios were used as the pre-qualification criteria for financial stability relating to the ultimate parent company financial statements:

- Gearing
- Liquidity
- Profitability
- Minimum guarantees
- Return on Assets
- Return on Equity
- Interest cover
- Cash generated from operating activities (Value)

c. Initially three of the four tenderers provided financial statements for the ultimate parent company whilst the other one (Bidder 2) only provided the financial statements for the immediate parent company (not the ultimate parent company). The RFP clarification wording issued states the following "The financial statements of the ultimate parent company that will be providing the PCG (Parent Company Guarantee) must be provided." As such based on advice from SCS a "post tender closing" clarification request was issued to all bidders. Bidder 2 provided the financial statements of its ultimate parent company following this clarification request process. Accordingly the financial stability evaluation was performed using this ultimate parent company's financial statements.

d. The test for administrative responsiveness is performed by the SCS team and is not within the scope of the Finance team's evaluation. We have thus assumed that the financial statements provided to the Finance team by SCS

M.M TD

would have passed the administrative responsiveness test. We would however like to point out that three of the tenderers (Bidders 2, 3 & 4) did not provide a copy of the "signed" audited financial statements. Bidder 3 referred to their website for a copy of the signed financial statements. We could not find a copy of the signed auditors report on the website of Bidder 3. A copy of the signed versions was requested through a clarification process with the bidders. Even after the clarification process, the bidders still submitted unsigned copies of the financial statements. We therefore utilised the unsigned copies of the financial statements provided by the SCS team to evaluate financial stability. It should be noted that these bidders are large international companies whose financial statements are publically published, which provided a level of comfort that these were audited financial statements however we recommend that the steering committee close this issue with the SCS team.

e. Bidders 1 and 2 initially only submitted the December 2011 financial statements. A process of "post tender closing" clarification was initiated by SCS in order to obtain the latest available financial statements for all bidders for the pre- qualification evaluation. Through this process of clarification the latest financial statements for Bidders 1 & 2 were utilised for the evaluation.

f. Bidder 1 met the minimum financial stability requirements based on the December 2012 financial statements however they would not have met the requirements if the December 2011 financial statements were utilised.

g. Bidder 2 met the financial stability requirements based on the December 2012 financial statements of the ultimate parent company. Bidder 2 would not have met the minimum financial stability requirements based on the December 2012 financial statements of the immediate parent company. Bidder 2 would have met the minimum financial stability requirements had the December 2011 financial statements of the immediate parent company been utilised.

h. Bidder 1, 2, 3 and 4 met the minimum financial stability requirements.

M.M TD

Conclusion

Based on the assumptions and findings outlined in the paragraphs above the following tenderers would move on to the next stage:

- Bidders 1, 2, 3 and 4.

31/7/13
Yousuf Laher
Executive Manager, Finance

31/7/13
Zunaid Vally
Executive Manager, Finance

31/7/2013
Thabo Seapi
Senior Manager, Finance

31/7/2013
Mohammed Moola
Senior Manager, Finance

Conclusion

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Zunaid Vally
Executive Manager, Finance

31/7/2013
Thabo Seapi
Senior Manager, Finance

31/7/2013
Mohammed Moola
Senior Manager, Finance

Original copy duly received ; 01 Aug 2013

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YIL-040

ANNEXURE YL 4

Locomotive tender pre-qualification evaluation for the supply of 599 new electric locomotives

Report of the Cross Functional Evaluation Team (Finance)

M.M

TD

31 July 2013

Mr Thamsanqa Jiyane

General Manager (CPO - TFR)

Locomotive tender pre-qualification evaluation for the supply of 599 new electric locomotives

Report of the Cross Functional Evaluation Team (Finance)

Purpose of Report

The purpose of this report is to provide the finance teams objectives, scope, findings and recommendations of the pre-qualification evaluation for the 599 electric locomotives tender.

Objective

The objective of the pre-qualification evaluation was to determine which bidders would meet the minimum pre-qualification evaluation criteria requirements per stage 2 of the RFP, in order to proceed to stage 3 of the tender evaluation.

Scope

The Scope of our review was limited to evaluating the following in terms of the stage 2 of the RFP:

With reference to the RFP Part 2 for 599 electric locomotives specifically clause 5.2 (refer extract below):

1. Agreement to the terms & conditions of the Parent Company Guarantee in the format supplied;
2. Agreement to the terms & conditions of the Advance Payment Guarantee in the format supplied;
3. Agreement to the Performance bond requirements & Performance bond terms & conditions in the format supplied;
4. A minimum warranty period of 2 years for the loco, 6 years for the traction motor and 1 year for spares after Defects Liability Period and
5. A minimum long term credit rating of A- [Fitch Ratings or equivalent] and the issuer should be pre-agreed with Transnet, for the companies' bankers that will be providing the guarantees.

M.M

TD

6. The financial stability of the tenderer by reviewing critical ratios of the latest available financial statements

The SCS team only made relevant financial files available to the finance team. These files were limited to information required for the pre-qualification evaluation.

Background

Transnet issued an RFP for the acquisition of 599 electric locomotives as estimates show that TFR has a shortage of locomotives. In addition to this shortage, TFR intends to increase volumes within the next 7 years. TFR also has a need to modernise and upgrade its current fleet of electric locomotives as part of the fleet is in need of replacement. As a result of the above, TFR has a requirement to procure new locomotives in the short, medium and long term.

The aim of the RFP was to elicit bids from locomotive suppliers for the proposal to supply locomotives (the Locomotives) in such a way so as to contribute sufficient tractive effort to support TFR's growing General Freight traffic projections in the most cost effective manner.

A Cross Function Evaluation Team (Finance) "(CFET - (Finance)" was requested to assist in the evaluation of the financial and related elements of the tender submissions.

Finance team

The following finance personnel were appointed by the TFR CEO as the CFET (Finance) and were involved in the evaluation:

Yousuf Laher – Executive Manager, Finance

Zunaid Vally – Executive Manager, Finance

Mohammed Moola – Senior Manager, Finance

Thabo Seapi – Senior Manager, Finance

Bidder files and CD's available

SCS ensured that all relevant bidder files were made available to the financial team each day. These files remained in the control of SCS for the duration of the pre-qualification evaluation. Any notes or other documents used by the finance team during evaluation sessions were also taken away by SCS at the end of each day.

M.M

TD

Declarations of interest /conflicts

All finance team members completed and signed their declarations as required by SCS before commencement of the evaluation. No finance team member declared any interest in the bidders or declared any material conflict of interest.

Transnet Internal Audit involvement

TIA was present at evaluations sessions as requested by SCS to ensure good corporate governance.

Methodology for Financial Stability Scoring

Scoring of points was completed using the set predetermined criteria and weightings for the financial stability evaluation. The procedure for scoring was done jointly by all members in the presence of SCS and TIA based on consensus agreement between the finance team members.

The financial stability scoring was prepared specifically for stage 6 of the evaluation. In order to tailor this scoring for stage 2, which requires a minimum scoring requirement for the prequalification, the team reviewed the scoring methodology and by consensus agreed to a minimum scoring for each ratio and thereby the overall minimum points required of 18 out of 40.

Yousuf Laher was a key person in the development of the evaluation model in conjunction with SCS. He outlined to the remaining finance team members the procedure and methodology of scoring.

Findings

1. Items 1 to 3 of Scope above - PCG, APG and Warranty Bond (Guarantees)

   a. During the course of our evaluation we have identified that most bidders do not agree entirely to the terms and conditions of the guarantees in the "format supplied". These bidders would like to change certain of the terms and conditions. Only two of the bidders complied fully to the RFP requirement.

   b. Specifically some of the bidders would like to "sign off" before Transnet can call on the guarantee. Which in our view materially changes the terms and conditions of the Guarantee as this can no longer be construed as a "call" guarantee.

M.M TD

YIL-043

c. In addition to the above, Bidder 5 indicated that they would want the PCG to be capped at a maximum of 20 % of the value of the contract price.

d. Although bidders would like to change some of the terms and conditions they are agreeable to enter into the guarantees.

e. In order to determine whether the bidders would move onto the next phase considering the above, because strictly speaking this would mean that these bidders would not qualify, we decided to consult with TFR General Counsel, Mr Kenneth Diedricks, to advise as to the way forward. An extract of the legal advice provided by Kenneth is reflected below:

From: Kenneth Diedricks Transnet Freight Rail JHB
Sent: 15 May 2013 03:05 PM
To: Lindiwe Mdletshe Transnet Freight Rail JHB; Thamsanqa Jiyane Transnet Freight Rail JHB
Cc: Siyabonga Gama Transnet Freight Rail JHB
Subject: RE: 465 Locomotives Clarification - Finance pre-qualification

Hi Lindiwe

I had another look at the requirements. Although the requirement says agreement with the terms and conditions, it does not clearly state that a bidder will be excluded if they suggest another form. This ambiguity will cause problems if we now want to disqualify them.

In addition, I seem to recall that we advised during clarification that this issue will be negotiated during negotiation stage.

My legal advice is therefore that we allow them through to the next round.

Regards

Kenneth

From: Kenneth Diedricks Transnet Freight Rail JHB
Sent: 15 May 2013 02:51 PM
To: Lindiwe Mdletshe Transnet Freight Rail JHB; Thamsanqa Jiyane Transnet Freight Rail JHB
Cc: Siyabonga Gama Transnet Freight Rail JHB (Gama.Siyabonga@transnet.net)
Subject: RE: 465 Locomotives Clarification - Finance pre-qualification

Hi Lindiwe

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Strictly speaking, the RFP calls for agreement to the terms and conditions in the format supplied and does not allow for any amendments or other suggestions, so therefore the bids should not be allowed to proceed to the next step. You will however have a situation were you only sit with one bid which does not allow for cost effective and competitive tendering in line with what the Constitution requires.

We can therefore apply the letter of the RFP or justify why we accepted the bids despite them not fully complying with the pre-qualification criteria.

I would suggest, to avoid the situation where only one bidder goes through and we do not get the best price, we allow the bidders through on this score and negotiate the final form of the PCG and APG.

Regards

Kenneth

f. As noted by TFR General Counsel above, the bidders should be allowed to move on to the next stage.

g. The RFP clarification wording issued to all bidders states the following "The financial statements of the ultimate parent company that will be providing the PCG (Parent Company Guarantee) must be provided." During the course of the pre-qualification evaluation we noted that the RFP clarification wording could possibly be subject to different interpretations of what could constitute the ultimate parent company. As such based on advice from SCS the 1st and 2nd "post tender closing" clarification requests were issued to bidders

h. Based on these further clarification requests all bidders with the exception of Bidder 3 complied with the request by either providing the consolidated financial statements of the ultimate parent company within the group or indicating that they have already done so.

i. Bidder 3 submitted a company structure which indicates the ultimate parent company within the group as well as financial statements for this company. The financial statements of the indicated ultimate holding company by Bidder 3 is not a consolidated set of financial statements as was required by the post tender clarification request. The financial statements indicate that this company is itself 100% owned by another entity where consolidation takes place. Taking this into consideration as well as the submitted structure we are of the view that the indicated ultimate holding company by Bidder 3 is not necessarily the ultimate holding company within the Bidder 3 group of

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companies. It is our view that Bidder 3 has provided the structure of a sub group within the wider group.

j. Therefore based on the financial statements and the group company structure submitted by Bidder 3 it appears to us that the PCG will not be issued by the ultimate parent company of Bidder 3.

2. Items 4 of Scope above – Warranty

a. All tenderers met the minimum warranty requirements.

3. Item 5 of Scope above – Minimum long term credit rating

a. None of the tenderers changed the clause of the draft supply agreement requesting that the APG and Warranty Bond must be obtained from an institution with a minimum credit rating requirement. It was thus assumed that all tenderers agreed to obtain the guarantees from an Institution with Transnet's minimum credit rating requirements, when required to do so.

b. It cannot be reasonably expected that the tenderers would be able to identify and secure the issuer of the bonds at the point of tender submission. This would be carried out at the contracting and negotiation phase of the tender.

c. Thus, all tenderers met the minimum long terms credit rating requirement.

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4. Item 6 of the scope above – Financial stability

a. The RFP clarification wording issued to all bidders states the following "The financial statements of the ultimate parent company that will be providing the PCG (Parent Company Guarantee) must be provided." The intention of this clarification was to ensure that TFR would be able to receive the PCG from the Ultimate parent company of the tenderers.

b. The following eight pre -determined ratios were used as the pre-qualification criteria for financial stability relating to the ultimate parent company financial statements:

- Gearing
- Liquidity
- Profitability
- Minimum guarantees
- Return on Assets
- Return on Equity
- Interest cover
- Cash generated from operating activities (Value)

c. Initially five of the seven tenderers provided financial statements for the ultimate parent company. The evaluation for these bidders was completed based on these ultimate parent company financial statements and all 5 of these bidders met the financial stability requirements.

d. One tenderer (Bidder 2) initially only provided the financial statements for the immediate parent company (not the ultimate parent company). The clarification wording issued states the following "The financial statements of the ultimate parent company that will be providing the PCG (Parent Company Guarantee) must be provided." As such based on advice from SCS the 1st and 2nd "post tender closing" clarification requests were issued to bidders. Bidder 2 provided the financial statements of its ultimate parent company following this clarification request process. Accordingly the financial stability evaluation was performed using this ultimate parent company's financial statements of Bidder 2. Bidder 2 would meet the financial stability requirements based on the ultimate parent company's financial statements. Bidder 2 would also have met the financial stability requirements had the financial statements of the immediate parent company been utilised.

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e. One tenderer (Bidder 3) did not initially provide financial statements of its ultimate parent company. Based on advice from SCS the 1st "post tender closing" clarification request was issued. Through the 1st "post tender clarification" process the financial statements of the immediate parent company (not the ultimate parent company) was received. Bidder 3 confirmed that this immediate parent company would issue the parent company guarantee (PCG). Bidder 3 also indicated that they were amenable to issue the PCG from their ultimate parent company. A 2nd "post tender clarification" process was initiated by SCS to clarify this matter.

f. Based on the 2nd 'post tender closing clarification' process Bidder 3 submitted a company structure which indicates the ultimate parent company within the group as well as financial statements for this company. The financial statements of the indicated ultimate holding company by Bidder 3 is not a consolidated set of financial statements as was required by the 2nd post tender clarification request. The financial statements indicate the fact that this company is itself 100% owned by another entity where consolidation takes place. Taking this into consideration as well as the submitted structure we are of the view that the indicated ultimate holding company by Bidder 3 is not necessarily the ultimate holding company within the Bidder 3 group of companies. It is our view that Bidder 3 has provided the structure of a sub group within their wider group and therefore consolidated financial statements should be available but has not been submitted.

g. Therefore based on the financial statements and the group company structure submitted by Bidder 3 we do not have a submitted set of consolidated financial statements for Bidder 3 with which to conduct a financial stability evaluation.

h. The financial statements of the intermediate holding company provided by Bidder 3 through the 1st and 2nd "post tender clarification" process were not consolidated financial statements (thus not incorporating amongst others the South African entity tendering) however this is allowed by the laws of the country governing this entity. These financial statements disclosed that the consolidated financial statements would be found within the ultimate parent company's financial statements. We initially chose not to evaluate the financial statements of the intermediate holding company of Bidder 3 as these financials statements were unconsolidated and thus incomplete. These are unconsolidated financial statements and are not a true reflection of the financial standing of this intermediate holding company. For information purposes and based on a request from SCS we evaluated the financial statements of this intermediate holding company. Based on this evaluation

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this intermediate holding company would not meet the minimum financial stability requirements.

For information purposes and on the assumption that this bidders consolidated financial statements would at least include the financial results of the South African company tendering we conducted an evaluation of the South African company's financial statements. We also considered that from a risk perspective, in the event that anything goes wrong with this deal, as TFR we would first look to recover losses from the South African company before pursuing the parent company, thus we conducted this alternative evaluation. If the financial statements of the South African company was utilised to conduct the evaluation then Bidder 3 would meet the financial stability requirements.

Based on paragraphs e, f, g, h, above the finance evaluation team was unable to conduct a financial evaluation on Bidder 3 and referred this matter to the steering committee for further guidance and recommended that the steering committee consider issuing a further clarification to Bidder 3.

i. The steering committee considered the matter and decided that Bidder 3 should be disqualified as being non responsive, considering that two clarification requests were already issued to Bidder 3 regarding this matter. A copy of the decision from the steering committee is appended hereto as Annexure A.

j. The latest available financial statements of the tenderers were utilised even though initially the period of the financial statements did not coincide for all tenderers e.g.: in some cases the December 2011 financial statements were submitted whereas in others the December 2012 financial statements were submitted. In light of the fact that submissions were made by the 30 April 2013 it was assumed that where 2012 financial statements were not submitted these were not available at the time of submission. Through the 1st "post tender clarification" process initiated by SCS the latest audited financial statements were requested from bidders 4 and 6 and these were utilised for the evaluation.

k. Bidder 6 initially only submitted the December 2011 financial statements and Bidder 4 only initially submitted the December 2010 financial statements. A

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process of "post tender clarification" was initiated by SCS in order to obtain the latest available financial statements for all bidders for the pre-qualification evaluation. Through this process of clarification the latest financial statements for Bidders 4 & 6 were utilised for the evaluation. Bidder 4 & 6 would meet the minimum financial stability requirements based on the December 2012 financial statements however they would not have met the requirements if the December 2011 financial statements for Bidder 6 and the December 2010 financial statements for Bidder 4 was utilised.

l. It should be noted that one of the tenderers (Bidder 7) did not initially state which of the two main consortium members will be providing the PCG and provided the latest financial statements for both main consortium member's ultimate parent companies. Accordingly we evaluated both ultimate Parent companies separately and both met the minimum financial stability requirements. Through a process of clarification this bidder has clarified which parent company would provide the PCG.

m. Bidder 2's financial statements for the immediate parent company in English were not signed off by an auditor however the foreign language versions was signed off by auditors. Bidder 2's financial statements for the ultimate parent company received through the 2nd clarification process were not signed, however it should be noted that this bidder is a large international company whose financial statements are publically published, which provided a level of comfort that these were audited financial statements. As the test for administrative responsiveness is performed by the SCS team and is not within the scope of the Finance team's evaluation we have thus assumed that all the financial statements provided to the Finance team by SCS would have passed the administrative responsiveness test. We recommend that the steering committee close this issue with the SCS team.

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Conclusion

Based on the findings above the following tenderers would move on to the next stage:

- Bidders 1, 2, 4, 5, 6 and 7

Based on the decision from the steering committee as referred to in paragraph i the following tenderer would not move on to the next stage:

- Bidder 3

- Due to the non-availability of consolidated financial statements for Bidder 3, the finance evaluation team was unable to conduct a financial evaluation on Bidder 3 and referred this matter to the steering committee for further guidance and recommended that the steering committee consider issuing a further clarification to Bidder 3. The steering committee considered the matter and decided that Bidder 3 should be disqualified as being non responsive, considering that two clarification requests were already issued to Bidder 3. A copy of the decision from the steering committee is appended hereto as Annexure A.

31/7/13
Yousuf Laher
Executive Manager, Finance

31/7/13
Zunaid Vally
Executive Manager, Finance

31/7/2013
Thabo Seapi
Senior Manager, Finance

31/7/2013
Mohammed Moola
Senior Manager, Finance

Annexure A.

Conclusion

Based on the findings above the following tenderers would move on to the next stage:

- Bidders 1, 2, 4, 5, 6 and 7

Based on the findings above a conclusion could not be reached on the following tenderer:

- Bidder 3

- Due to the non-availability of consolidated financial statements for Bidder 3, the finance evaluation team was unable to conduct a financial evaluation on Bidder 3 and refer this matter to the steering committee for further guidance and recommend that the steering committee consider issuing a further clarification to Bidder 3.

- Based on last request to all bidders this will be classified as non-responsive and therefore bidder 3 needs to be disqualified.

Yousuf Laher
Executive Manager, Finance

Zunaid Vally
Executive Manager, Finance

Thabo Seapi
Senior Manager, Finance

Mohammed Moola
Senior Manager, Finance

Conclusion

Based on the findings above the following tenderers would move on to the next stage:

- Bidders 1, 2, 4, 5, 6 and 7

Based on the decision from the steering committee as referred to in paragraph i the following tenderer would not move on to the next stage:

- Bidder 3

- Due to the non-availability of consolidated financial statements for Bidder 3, the finance evaluation team was unable to conduct a financial evaluation on Bidder 3 and referred this matter to the steering committee for further guidance and recommended that the steering committee consider issuing a further clarification to Bidder 3. The steering committee considered the matter and decided that Bidder 3 should be disqualified as being non responsive, considering that two clarification requests were already issued to Bidder 3. A copy of the decision from the steering committee is appended hereto as Annexure A.

31/7/13
Yousuf Laher
Executive Manager, Finance

31/7/13
Zunaid Vally
Executive Manager, Finance

31/7/2013
Thabo Seapi
Senior Manager, Finance

31/7/2013
Mohammed Moola
Senior Manager, Finance

Original copy duly Received. 01 Aug 2013

ANNEXURE YL 5

COMMISSION OF INQUIRY INTO STATE CAPTURE

YIL-050

Locomotive tender pre-qualification evaluation for the supply of 599 new electric locomotives

Report of the Cross Functional Evaluation Team (Finance) relating to Bidder 3

TD

4 September 2013

Mr Thamsanqa Jiyane

General Manager (CPO - TFR)

Locomotive tender pre-qualification evaluation for the supply of 599 new electric locomotives

Report of the Cross Functional Evaluation Team (Finance) relating to Bidder 3

Purpose of Report

The purpose of this report is to provide the results of the pre-qualification financial evaluation of Bidder 3.

Objective & Scope

It should be noted that the contents including the scope, objective and methodology remain as per the previous report. This report provides the results of the evaluation of Bidder 3 following the subsequent receipt of the consolidated financial statements of the ultimate holding company of Bidder 3.

Background & Findings

Reference is made to our report dated 31 July 2013 and our conclusion therein, an extract of which is below:

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- *"Bidder 3*

Due to the non-availability of consolidated financial statements for Bidder 3, the finance evaluation team was unable to conduct a financial evaluation on Bidder 3 and referred this matter to the steering committee for further guidance and recommended that the steering committee consider issuing a further clarification to Bidder 3. The steering committee considered the matter and decided that Bidder 3 should be disqualified as being non responsive, considering that two clarification requests were already issued to Bidder 3. A copy of the decision from the steering committee is appended hereto as Annexure A."

Our financial evaluation report dated 31 July 2013 was issued on the basis of the Intermediate parent company financial statements. As noted above our recommendation was for the steering committee to obtain further clarification from Bidder 3 as we were aware that these were not the consolidated financial statements of the ultimate holding company of Bidder 3. Based on the decision of the steering committee SCS advised Bidder 3 that they were deemed non responsive. Bidder 3 subsequently issued a letter on the 12th of August 2013 clarifying what they believed to be a miscommunication and confirmed that they would issue the PCG in the name of the ultimate holding company as originally required by TFR. Bidder 3 also provided the consolidated financial statements of the ultimate holding company. We were thereafter requested by SCS to conduct an evaluation on the basis of the consolidated financial statements of the ultimate holding company. The evaluation was conducted using the financial statements supplied by SCS, these financial statements were unsigned and we would recommend that SCS pick this up as part of their administrative responsiveness check.

Conclusion

The results of our evaluation on the consolidated financial statements of the ultimate parent company of Bidder 3, read together with our report dated 31 July 2013, reveal that Bidder 3 would move on to the next stage.

4/9/13

Yousuf Laher
Executive Manager, Finance

4/9/13

Zunaid Vally
Executive Manager, Finance

Thabo Seapi
Senior Manager, Finance

4/9/2013

Mohammed Moola
Senior Manager, Finance

Original copy duly recieved
04/09/20

ANNEXURE YL 6

FINAL REPORT APPROVED

Locomotive tender evaluation for the supply of 599 new electric locomotives for the General Freight Business

Report of the Cross Functional Evaluation Team (Finance)

TO

M.N

10 December 2013

Mr Thamsanqa Jiyane

General Manager (CPO – TFR)

Locomotive tender evaluation for the supply of 599 new electric locomotives for the General Freight Business

Report of the Cross Functional Evaluation Team (Finance)

Purpose of Report

The purpose of this report is to detail the finance team's objectives, scope, assumptions, risks and findings from the stage 6 evaluation for the 599 electric Locomotive tender.

Our understanding is that the contents of this report will be used as a basis for communication to the 1064 locomotive steering committee and the TFR Chief Executive.

Objective

The objective of the stage 6 evaluation was to determine the scoring that each bidder would obtain based upon the approved evaluation criteria for this stage.

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Background

Transnet issued an RFP for the acquisition of 599 electric locomotives as was outlined in the locomotive deployment plan to ensure that TFR would be in a position to provide the required capacity in support of the MDS. TFR also has a need to modernise and upgrade its current fleet of locomotives as part of the fleet is in need of replacement. As a result of the above, TFR has a requirement to procure new locomotives in the short, medium and long term.

The aim of the RFP was to elicit bids from locomotive suppliers for the proposal to supply electric locomotives (the Locomotives) in such a way so as to contribute sufficient tractive effort to support TFR's growing General Freight traffic projections in the most cost effective manner.

A Cross Function Evaluation Team (Finance) "(CFET (Finance)" was requested to assist in the evaluation of the financial and related elements of the tender submissions. Predetermined criteria, scoring and associated weightings (which were approved by the relevant authority – Transnet Board) was provided to the members of the finance team as the basis for the stage 6 financial evaluation.

Finance team

The following finance personnel were appointed by the TFR Chief Executive as the CFET (Finance) and were involved in the evaluation:

Yousuf Laher – Executive Manager, TFR Finance

Danie Smit – Deputy Treasurer Middle Office - Transnet Group Treasury

Zunaid Vally – Executive Manager, TFR Finance

Thabo Seapi – Senior Manager, TFR Finance

Mohammed Moola – Senior Manager, TFR Finance

Tsietsi Tlaletsi – Debt Manager, Transnet Group Treasury

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Briefing session and bidders included in stage 6

The Supply Chain Services (TFR) ("SCS") team in the presence of Transnet Internal Audit ("TIA") briefed certain members of the team on the first day of the evaluation. The following aspects were mentioned to the CFET (Finance) in this briefing:

- The technical team required the base price to be normalised based on various options that were requested to be included as part of the locomotive technical specification;
- Six of the seven bidders made it to stage 6 and as such these six had to be evaluated as part of this stage of the evaluation. After subsequent discussions at the steering committee we were advised by SCS that as bidder 6 did not provide any technical information around a Co-co locomotive and TFR's requirement was for 599 Co-co locomotives, bidder 6 should be excluded from stage 6 of the evaluation. As such we did not conclude our evaluation of bidder 6 as there was no need to further evaluate.

The finance team were not provided with any information relating to the other bidders excluded from the 1st five rounds of the evaluation.

Bidder files, Laptop computers and CD's made available

SCS ensured that all relevant bidder files were made available to the CFET (Finance) each day. Only the relevant files were made available to the CFET (Finance).

These files remained in the control of SCS for the duration of the tender evaluation. At no point during the evaluation period were any files, documents or notes removed from the boardrooms where the evaluations were being performed. All notes, documents or spread sheets generated by the CFET (Finance) during evaluation sessions remained in the boardroom where the evaluation was conducted.

Certain technical files which contained financial information relative to the option pricing were reviewed for further information and clarity on the pricing evaluation. The reason for reviewing the technical files was as a result of bidders providing the detailed explanations and submissions for certain aspects of the price in the technical files. These files were again only reviewed in the presence of the SCS and TIA personnel.

SCS provided laptop computers with which to conduct the evaluation. All workings were conducted on these laptop computers. These laptop computers were never removed by the finance team from the boardrooms where the evaluation took place. These laptop computers remained in the possession of SCS when not in use by the finance team. CD's returned by bidders with the relevant financial information required for the evaluation was loaded onto some of these laptop computers. These laptop computers were used in the presence of the SCS and TIA personnel.

All backups of files on these laptops were kept by SCS on hard disks in a safe location.

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Declarations of interest /conflicts

All CFET (Finance) members completed and signed their declarations of interest as required by SCS before the commencement of the evaluations on a regular basis. No CFET (Finance) member declared any interest in the bidders or declared any conflict of interest throughout the evaluation period.

Scope

The scope of our review was limited to evaluating the following in terms of stage 6 of the RFP and the approved evaluation criteria for this stage. As advised by SCS, the percentages and criteria listed below are the predetermined criteria as specified by the Transnet Board.

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT
		100.00%	60.00%
1	Price	30.00%	18.00%
2	Total Cost Of Ownership (TCO)	20.00%	12.00%
3	Delivery Schedule (DS)	25.00%	15.00%
4	Payment Terms (PT)	10.00%	6.00%
5	RFP & Contractual Compliance (CC)	10.00%	6.00%
6	Financial Stability (FS)	5.00%	3.00%
	TOTAL SCORE	100.00%	60.00%

There were no changes to the predetermined criteria apart from the following which requires approval of the Steering Committee and the Transnet Board:

- The "Price" evaluation criteria required hedging costs and escalations to be included. This was changed to evaluate on the basis of price excluding hedging costs and escalations (refer to the detailed explanations in the report below).

The detailed scoring criteria and scoring results are included as part of Annexure A.

- Based on a Steering Committee decision we were informed by SCS that our scope should be limited to the evaluation of 599 Co-co locomotives only.
- With regard to the pricing of options we were provided a list of options from CFET (Technical) for the purpose of including these items into the base price. Our scope was limited to including the prices as provided by the bidders for these technical options into the base price. We did not have access to technical files to verify that the responded technical scope included these options or not.

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Technical team involvement

At certain stages during the evaluation the CFET (Finance) requested, through SCS, assistance from the technical team around aspects of:

1. The request to "normalise" the base price;
2. Conducting an evaluation of the energy models submitted as part of the TCO evaluation;
3. Reviewing the scheduled and unscheduled maintenance elements of the TCO model for reasonability.

Details of this assistance are summarised below:

1. Request to normalise the base price

   As part of the request to normalise the base price, a schedule was provided to the CFET (Finance) of items that the CFET (Technical) advised were required. In these instances, the CFET (Finance) were advised:

   - That certain bidders had provided these items as "options" in their submissions and;
   - Other bidders had indicated availability of the "options", however, the CFET (Technical) were not clear as to whether these items were appropriately costed, quoted and included in the price.

   The schedule submitted gave indications of what the CFET (Technical) expected to be done by the CFET (Finance). The detailed schedule is included as "Annexure B" of this report. In summary the following process was followed:

   - Adjust the price of the relevant bidders where bidders were not consistent in including the cost of the item in their base price;
   - Obtain pricing, for those "items" included in the schedule, from bidders who had not submitted quotes and
   - Effectively the CFET (Finance) were required to "normalise" the base price submissions for appropriate comparison between the bidders for those options that the CFET (Technical) believed must be included in the price.

   Two members of the technical team (Chris Uys and Elvis Tshivilinge) were made available to discuss and clarify the base price "normalisation" issues. These discussions took place in the presence of SCS and TIA.

   Subsequent to the initial phase of the evaluation, clarity questions were submitted to the bidders regarding the requirements of the detailed schedule (Annexure B) from the CFET (Technical).

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The CFET (Finance) used the responses received from bidders on clarification questions to conclude on the final 'Normalised Base Price'.

2. Evaluation of energy models

Five members of the technical team (Devendran Govender, Winfried Mors, Trevor Downing, Justice Ngwenyama and Chris Uys) were made available to conduct the energy model evaluation. The energy model was designed by CFET (Technical) and was fully evaluated by CFET (Technical) without the involvement of CFET (Finance). CFET (Finance) incorporated the results of the energy model evaluation into the stage 6 TCO model financial evaluation.

3. Review of the scheduled and unscheduled maintenance regimes within the TCO models as submitted by bidders

The CFET (Finance) found numerous inconsistencies in the manner in which bidders chose to complete the scheduled and unscheduled maintenance portions of the TCO model. The CFET (Finance) recommended that the CFET (Technical) review the models for reasonability with the purpose of allowing the CFET (Technical) to guide the CFET (Finance) in making decisions to score the TCO models submitted as well as to guide the CFET (Finance) in their deliberations as to whether the models submitted would actually meet the requirements to be scored fairly amongst bidders.

Four members of the technical team (Devendran Govender, Frikkie Harris, Eugene Russouw, Chris Uys) were made available to conduct a review of the scheduled and unscheduled maintenance regimes as supplied by bidders for reasonability.

Transnet Internal Audit involvement

TIA was present at evaluations sessions as requested by SCS to ensure good corporate governance. KPMG, Sekela Xabiso and Nkonki incorporated are the outsourced service provider of the Internal Audit function for Transnet.

We noted during our evaluation that KPMG were the auditors of one of the bidders.

This matter was reported to the SCS representatives present. We were advised that the process of evaluation must continue with TIA continuing to perform the oversight role for good governance.

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Methodology of scoring

Scoring of points was completed using the set predetermined criteria and weightings for each section of the financial evaluation.

The process for scoring, checking and evaluating the short-listed bidders was done jointly by all members of the CFET (Finance) in the presence of SCS and TIA. All results submitted were based on consensus agreement amongst all the CFET (Finance). Yousuf Laher was a key person in the development of the evaluation model and RFP requirements, in conjunction with SCS. He outlined to all members of the CFET (Finance) the processes, procedures and methodology of scoring.

Meetings held

During the course of the evaluation, all meetings were held in the presence of SCS and TIA. These included meetings with the following parties:

- Technical (the purpose of these was to clarify issues that pertained to the technical options that required normalisation of the base price, to brief the technical team in preparation of their review of the TCO model and to receive input from the technical team around the energy model);
- Legal (the purpose of these was to advise and assist the legal representative during the contractual compliance evaluation);
- Meetings with CPO (the purpose of these meetings was mainly to provide the CPO with an update on the progress of the financial evaluation process and to obtain guidance on certain matters that required interpretation or clarification related to the RFP or other sections (Technical/SD of the evaluation).

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Results of scoring

1. Price

The result of the "Price" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
			1	2	3	4	5	6	7
[redacted]									

<u>Price Evaluation Criteria (Escalations and hedging costs)</u>

- The Board approved evaluation criteria supplied to the CFET (Finance) indicated that the price evaluation must be done on the basis of the price including foreign exchange hedging costs and escalations;
- The CFET (Finance) was unable to evaluate on the basis of a fixed price including escalations and hedging costs (refer explanations in the sections below);
- The price evaluation was therefore done based on the price excluding hedging and escalation costs for all bidders. The risk impact of this is outlined in the "Overall Risks" section of this report;

<u>Escalations</u>

- The RFP requested bidders to submit a price in line with the following options:
    - Fixed pricing;
    - Escalation based pricing;
    - Indexation formula's used in pricing calculations;

  Most bidders chose the option of providing prices based on either escalation or indexation based pricing. Most of the bidders did not offer a fixed price as was required by the Board approved evaluation criteria in order to conduct the evaluation;

- It was noted that bidders provided various differing escalation regimes that were not comparable to normalise a 'Base' price over the period of the locomotive supply contract;
- Some bidders were not willing to provide fixed pricing (including escalation) over the delivery period due to the risks involved for them in this type of a pricing mechanism;

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Hedging Costs

- The wording of the RFP with regard to foreign exchange hedging costs was subject to interpretation in that bidders were recommended (but not required) to provide a price including hedging costs;

- The RFP stipulated that TFR would prefer a Rand based contract and that the bidders must submit the cost of hedging and a hedging strategy. Although some bidders did provide the cost of hedging, they stated clearly that appropriate hedging strategies will be discussed and agreed upon at the contract award stage. In addition as part of their RFP response some bidders provided the cost of hedging whereas other bidders did not submit the cost of hedging;

- Through a process of clarification and in order to ensure that hedging costs were excluded from their 'Base' price, all bidders were requested to confirm whether their 'Base' prices quoted excluded foreign exchange hedging costs and if these were included to then provide the quantum thereof. Bidders were also requested to provide us with an estimated cost of hedging whether included in the Base price or not;

- As the cost of hedging will most likely change due to exchange rates fluctuating between evaluation and final contract signature date, and because the cost of hedging will in any case be base-lined, checked for reasonability by Transnet Treasury, and agreed to on the date of contract signature, it would be more appropriate to exclude the cost of hedging from the evaluation at this point;

- An important point to note is that none of the bidders indicated that they were unwilling to enter into a foreign exchange hedging arrangement with TFR at the time of contract signature;

Final agreed evaluation methodology (escalation & hedging costs)

- In order to proceed with the price evaluation on a consistent and fair basis, the CFET (Finance) agreed, after consultation with SCS, that it would be more appropriate to exclude escalations and hedging costs from the price evaluation and thereby attain a more normalised price for evaluation purposes. This was agreed to with SCS on the proviso that this change to the evaluation methodology be brought to the attention of the Steering Committee and Transnet Board for approval prior to the award of the contract;

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Normalising the "Base" Price for evaluation

Technical Options

- The 'Base' price, as submitted by all bidders was normalised for the "technical option" items as requested by the technical evaluation team. Refer "Annexure B" which contains a list of all option items that were normalised;

- The provisioning of ECP/WDP and RDP was a mandatory requirement per the technical specifications. Based on our discussions with CFET (Technical), all bidders have confirmed, in the technical response that they fully complied with this requirement. It was therefore concluded that all bidders had included the cost of provisioning in their base price and no adjustment to this item was required for evaluation purposes;

- The cost of either ECP/WDP or RDP was included in the base price, as the CFET (Technical) have advised that it is probable that this option would be exercised. We were advised by the GM Logistics Integrator (Pragasen Pillay) as to the number of ECP/WDP, RDP or ECP/WDP/RDP combination that must be applied over the fleet. (refer Annexure B for allocation and associated cost of this split);

- All bidders included the provisioning of ECP/WDP or RDP into their price. None of the bidders included the equipment cost in their base price. Based on the advice from CFET (Technical) we therefore included the equipment cost of ECP/WDP and RDP for all the bidders onto their base price for the purpose of normalising the base price;

Rebasing the price for foreign exchange differences

- The RFP did not indicate the date that bidders should use to convert foreign exchange as part of the imported content of their price. As such bidders made their own assumptions and each used a rate and date of their choice. The result of this is that a comparison of base prices with different dates and rates would be inconsistent. In order to normalise the price for changes due to foreign exchange differences and movements since RFP closing date, the CFET (Finance) normalised the prices based on exchange rates as at 11th November 2013 (USD/ZAR 10.37, EUR/ZAR 13.91, JPY/ZAR 0.10457). As a consequence bidders were requested in a clarity question to confirm their foreign currency components included in their 'Base' price. These foreign currency components were converted at spot rates on the 11th of November 2013 for the purpose of comparing prices between bidders;

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Using TE as a main subcontractor

- The RFP part 2 dictates as follows "participation of TRE in this locomotive procurement process will be prescribed". In terms of the evaluation governance process CFET (Finance) does not have access to 'Supplier Development' files. As such CFET (Finance) assumed that all bidders have provided pricing based on the utilisation of TE as the main subcontractor;

- SCS however advised CFET (Finance) that the Supplier Development files submitted by Bidders indicated that Bidder 3 & Bidder 7 did not specify the use of TE as the main subcontractor and that this could have a potential price adjustment implication. SCS also mentioned that bidders were likely to make different assumptions in the use of TE as a main subcontractor including the percentage that would be subcontracted. These assumptions which were not specified by TFR in the RFP process could differ significantly between bidders. Accordingly SCS subsequently decided to obtain clarity from bidders on this matter;

- SCS in conjunction with the TFR CE and Transnet GCE and GCFO decided that clarity should only be obtained from those bidders who included TE as a main subcontractor. The clarity request was to establish what proportion of the bidder's price related to the use of TE;

- Accordingly the methodology provided to the CFET (Finance) was that all bidders should be evaluated excluding the use of TE as a main subcontractor in order to normalise the base on which to evaluate price;

- Based on this decision clarity responses were only issued to Bidder 1, Bidder 2 and Bidder 5 (those bidders who indicated the use of TE as a subcontractor);

- Clarity responses were received from these bidders who indicated the impact on price and the new bid price for 599 COCO locomotives if TE was not used as subcontractor. The summary of these responses is as follows:

    - Bidder 1 provided the required information as requested and indicated that the impact of not using TE as a subcontractor would be a decrease in price of R 1 905 514;

    - Bidder 5 provided the required information and indicated that there would be no impact on the bid price per locomotive if TE was not used as a subcontractor;

    - Bidder 2 provided the required information, however we noted that their new submitted bid price excluding TE as a subcontractor did not reconcile to their original bid price. The difference noted was R 2 010 000 per

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locomotive. This posed a risk to the evaluation of the price and the CFET (Finance) subsequently consulted with SCS to explain the concern as the impact of this difference was significant in relation to the final scoring on price;

- It was subsequently decided by SCS that further clarity from Bidder 2 was required to understand this difference. SCS together with a representative of the finance team and in the presence of TIA engaged Bidder 2 telephonically on the evening of the 4 December 2013 to discuss this un-reconciled difference;

- Bidder 2 indicated that the difference related to a 'Discount' offered on the original price. It was then mentioned to Bidder 2 that this was not what the clarity had sought and that their new bid price should not reflect in anyway further discounts offered by them at this stage. Subsequent to this telephonic conversation Bidder 2 submitted a new clarity. It was however noted that this clarity seemed to have reflected the 'Discount' into the TE portion of the new bid price. Bidder 2 originally submitted a reduction in price due to TE portion of R 3 480 000 per locomotive and the subsequent submission from them indicated it to be R 5 490 000 per locomotive;

- CFET (Finance) then further engaged SCS to provide guidance on this issue as we were unable to determine the appropriate way forward. The main concern from the CFET (Finance) was the uncertainty of whether or not Bidder 2 may have subsequently included this 'Discount' portion of R 2 010 000 into their price thereby having the potential impact of unfairly prejudicing other bidders in the evaluation process;

- The CFET (Finance) was advised by SCS that based on discussions with the GCE and the GCFO that the evaluation should proceed on the basis excluding this potential discount and as such the CFET (Finance) utilised a reduction in price of R 3 480 000 for the evaluation;

- The CFET (Finance) subsequently completed the evaluation on this basis;

* In summary the impact of excluding TE from the normalised base price is as follows:

Bidder 1	Bidder 2	Bidder 3	Bidder 4	Bidder 5	Bidder 6	Bidder 7
-1 905 514	-3 480 000	0	n/a	0	n/a	0

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- The normalised pricing used for evaluation purposes of all bidders (capital acquisition cost) excluding TE as the main subcontractor i.e. using private sector as the main subcontractor is summarised as per the table below;

Bidder 1	Bidder 2	Bidder 3	Bidder 4	Bidder 5	Bidder 6	Bidder 7
32 833 423	34 716 188	46 301 906	n/a	38 091 755	n/a	33 695 001

Assumptions used for pricing

Other than as noted above the following additional assumptions were used by the CFET (Finance) in the price evaluation:

- Where the import content percentage was not supplied by bidders as part of their pricing proposal and or clarification then the local content declaration form as supplied by bidders was used to obtain the imported content;

- The RFP requested break point pricing for batches of locomotives. As the TFR requirement is for 599 locomotives, the CFET (Finance) used the pricing provided by bidders for 599 locomotives to conduct the evaluation;

- The price of a standard list of capital spares and spare parts was requested as part of the RFP, to be included in the acquisition cost of the locomotive. Where bidders added additional items to this list of capital spares and spare parts then these items were excluded for evaluation purposes in order to ensure that the bidders were evaluated on the standard list thereby ensuring the evaluation was performed on an "like for like" basis. In instances where a bidder did not provide a price for a capital spare or spare part as per the standard list, then an average price of the remaining bidders was used to ensure that a realistic comparison was achieved;

- The Bonus points for Value Added services were not assessed. The main factor for this decision is that this item was not clearly defined in the RFP and the technical team had no view of the requirement of "value add" aspects and the technical team was not allowed to have access to the financial files. Therefore the finance team could not assess value added services.

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ANNEXURE YL 7

YIL-068

FINAL REPORT APPROVED

Locomotive tender evaluation for the supply of 465 new diesel locomotives for the General Freight Business

Report of the Cross Functional Evaluation Team (Finance)

TD

10 December 2013

Mr Thamsanqa Jiyane

General Manager (CPO – TFR)

Locomotive tender evaluation for the supply of 465 new diesel locomotives for the General Freight Business

Report of the Cross Functional Evaluation Team (Finance)

Purpose of Report

The purpose of this report is to detail the finance team's objectives, scope, assumptions, risks and findings from the stage 6 evaluation for the 465 Diesel Locomotive tender.

Our understanding is that the contents of this report will be used as a basis for communication to the 1064 locomotive steering committee and the TFR Chief Executive.

Objective

The objective of the stage 6 evaluation was to determine the scoring that each bidder would obtain based upon the approved evaluation criteria for this stage.

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Background

Transnet issued an RFP for the acquisition of 465 diesel locomotives as was outlined in the locomotive deployment plan to ensure that TFR would be in a position to provide the required capacity in support of the MDS. TFR also has a need to modernise and upgrade its current fleet of diesel locomotives as part of the fleet is in need of replacement. As a result of the above, TFR has a requirement to procure new locomotives in the short, medium and long term.

The aim of the RFP was to elicit bids from locomotive suppliers for the proposal to supply diesel locomotives (the Locomotives) in such a way so as to contribute sufficient tractive effort to support TFR's growing General Freight traffic projections in the most cost effective manner.

A Cross Function Evaluation Team (Finance) "(CFET (Finance)" was requested to assist in the evaluation of the financial and related elements of the tender submissions. Predetermined criteria, scoring and associated weightings (which were approved by the relevant authority – Transnet Board) was provided to the members of the finance team as the basis for the stage 6 financial evaluation.

Finance team

The following finance personnel were appointed by the TFR Chief Executive as the CFET (Finance) and were involved in the evaluation:

Yousuf Laher – Executive Manager, TFR Finance

Danie Smit – Deputy Treasurer Middle Office - Transnet Group Treasury

Zunaid Vally – Executive Manager, TFR Finance

Thabo Seapi – Senior Manager, TFR Finance

Mohammed Moola – Senior Manager, TFR Finance

Tsietsi Tlaletsi – Debt Manager, Transnet Group Treasury

Briefing session and bidders included in stage 6

The Supply Chain Services (TFR) ("SCS") team in the presence of Transnet Internal Audit ("TIA") briefed certain members of the team on the first day of the evaluation. The following aspects were mentioned to the CFET (Finance) in this briefing:

- The technical team required the base price to be normalised based on various options that were requested to be included as part of the locomotive technical specification;
- All four bidders have made it to stage 6 and as such they all have to be evaluated as part of this stage of the evaluation;

Bidder files, Laptop computers and CD's made available

SCS ensured that all relevant bidder files were made available to the CFET (Finance) each day. Only the relevant files were made available to the CFET (Finance).

These files remained in the control of SCS for the duration of the tender evaluation. At no point during the evaluation period were any files, documents or notes removed from the boardrooms where the evaluations were being performed. All notes, documents or spread sheets generated by the CFET (Finance) during evaluation sessions remained in the boardroom where the evaluation was conducted.

Certain technical files which contained financial information relative to the option pricing were reviewed for further information and clarity on the pricing evaluation. The reason for reviewing the technical files was as a result of bidders providing the detailed explanations and submissions for certain aspects of the price in the technical files. These files were again only reviewed in the presence of the SCS and TIA personnel.

SCS provided laptop computers with which to conduct the evaluation. All workings were conducted on these laptop computers. These laptop computers were never removed by the finance team from the boardrooms where the evaluation took place. These laptop computers remained in the possession of SCS when not in use by the finance team. CD's returned by bidders with the relevant financial information required for the evaluation was loaded onto some of these laptop computers. These laptop computers were used in the presence of the SCS and TIA personnel.

All backups of files on these laptops were kept by SCS on hard disks in a safe location.

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Declarations of interest /conflicts

All CFET (Finance) members completed and signed their declarations of interest as required by SCS before the commencement of the evaluations on a regular basis. No CFET (Finance) member declared any interest in the bidders or declared any conflict of interest throughout the evaluation period.

Scope

The scope of our review was limited to evaluating the following in terms of stage 6 of the RFP and the approved evaluation criteria for this stage. As advised by SCS, the percentages and criteria listed below are the predetermined criteria as specified by the Transnet Board.

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT
		100.00%	60.00%
1	Price	30.00%	18.00%
2	Total Cost Of Ownership (TCO)	20.00%	12.00%
3	Delivery Schedule (DS)	25.00%	15.00%
4	Payment Terms (PT)	10.00%	6.00%
5	RFP & Contractual Compliance (CC)	10.00%	6.00%
6	Financial Stability (FS)	5.00%	3.00%

There were no changes to the predetermined criteria apart from the following which requires approval of the Steering Committee and the Transnet Board:

- The "Price" evaluation criteria required hedging costs and escalations to be included. This was changed to evaluate on the basis of price excluding hedging costs and escalations (refer to the detailed explanations in the report below).

The detailed scoring criteria and scoring results are included as part of Annexure A.

With regard to the pricing of options we were provided a list of options from CFET (Technical) for the purpose of including these items into the base price. Our scope was limited to including the prices as provided by the bidders for these technical options into the base price. We did not have access to technical files to verify that the responded technical scope included these options or not.

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Technical team involvement

At certain stages during the evaluation the CFET (Finance) requested, through SCS, assistance from the technical team around aspects of:

1. The request to "normalise" the base price;
2. Conducting an evaluation of the energy models submitted as part of the TCO evaluation;
3. Reviewing the scheduled and unscheduled maintenance elements of the TCO model for reasonability.

Details of this assistance are summarised below:

1. <u>Request to normalise the base price</u>

   As part of the request to normalise the base price, a schedule was provided to the CFET (Finance) of items that the CFET (Technical) advised were required. In these instances, the CFET (Finance) were advised:

   - that certain bidders had provided these items as "options" in their submissions and;
   - Other bidders had indicated availability of the "options", however, the CFET (Technical) were not clear as to whether these items were appropriately costed, quoted and included in the price.

   The schedule submitted gave indications of what the CFET (Technical) expected to be done by the CFET (Finance). The detailed schedule is included as "Annexure B" of this report. In summary the following process was followed:

   - Adjust the price of the relevant bidders where bidders were not consistent in including the cost of the item in their base price;
   - Obtain pricing, for those "items" included in the schedule, from bidders who had not submitted quotes and
   - Effectively the CFET (Finance) were required to "normalise" the base price submissions for appropriate comparison between the bidders for those options that the CFET (Technical) believed must be included in the price.

   Two members of the technical team (Chris Uys and Elvis Tshivilinge) were made available to discuss and clarify the base price "normalisation" issues. These discussions took place in the presence of SCS and TIA.

   Subsequent to the initial phase of the evaluation, clarity questions were submitted to the bidders regarding the requirements of the detailed schedule (Annexure B) from the CFET (Technical).

The CFET (Finance) used the responses received from bidders on clarification questions to conclude on the final 'Normalised Base Price'.

2. Evaluation of energy models

   Five members of the technical team (Devendran Govender, Winfried Mors, Trevor Downing, Justice Ngwenyama and Chris Uys) were made available to conduct the energy model evaluation. The energy model was designed by CFET (Technical) and was fully evaluated by CFET (Technical) without the involvement of CFET (Finance). CFET (Finance) incorporated the results of the energy model evaluation into the stage 6 TCO model financial evaluation.

3. Review of the scheduled and unscheduled maintenance regimes within the TCO models as submitted by bidders

   The CFET (Finance) found numerous inconsistencies in the manner in which bidders chose to complete the scheduled and unscheduled maintenance portions of the TCO model. The CFET (Finance) recommended that the CFET (Technical) review the models for reasonability with the purpose of allowing the CFET (Technical) to guide the CFET (Finance) in making decisions to score the TCO models submitted as well as to guide the CFET (Finance) in their deliberations as to whether the models submitted would actually meet the requirements to be scored fairly amongst bidders.

   Four members of the technical team (Devendran Govender, Frikkie Harris, Eugene Russouw, Chris Uys) were made available to conduct a review of the scheduled and unscheduled maintenance regimes as supplied by bidders for reasonability.

Transnet Internal Audit involvement

TIA was present at evaluations sessions as requested by SCS to ensure good corporate governance. KPMG, Sekela Xabiso and Nkonki incorporated are the outsourced service provider of the Internal Audit function for Transnet.

We noted during our evaluation that KPMG were the auditors of two of the bidders.

This matter was reported to the SCS representatives present. We were advised that the process of evaluation must continue with TIA continuing to perform the oversight role for good governance.

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Methodology of scoring

Scoring of points was completed using the set predetermined criteria and weightings for each section of the financial evaluation.

The process for scoring, checking and evaluating the short-listed bidders was done jointly by all members of the CFET (Finance) in the presence of SCS and TIA. All results submitted were based on consensus agreement amongst all the CFET (Finance). Yousuf Laher was a key person in the development of the evaluation model and RFP requirements, in conjunction with SCS. He outlined to all members of the CFET (Finance) the processes, procedures and methodology of scoring.

Meetings held

During the course of the evaluation, all meetings were held in the presence of SCS and TIA. These included meetings with the following parties:

- Technical (the purpose of these was to clarify issues that pertained to the technical options that required normalisation of the base price, to brief the technical team in preparation of their review of the TCO model and to receive input from the technical team around the energy model);
- Legal (the purpose of these was to advise and assist the legal representative during the contractual compliance evaluation);
- Meetings with CPO (the purpose of these meetings was mainly to provide the CPO with an update on the progress of the financial evaluation process and to obtain guidance on certain matters that required interpretation or clarification related to the RFP or others sections (Technical/SD of the evaluation).

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SECTION 9 : Certificate of Acquaintance with Draft Supply Agreement	
ANNEXURE I – Draft Supply Agreement	
SECTION 10 : RFP Declaration Form	
SECTION 11 : Breach of Law	
SECTION 13 : Supplier Code of Conduct	
SECTION 14 : Certificate of attendance of Site Meeting / RFP Briefing	
SECTION 15: Certificate of Acquaintance with Specifications and Drawings	
SECTION 16 : Non-Disclosure Agreement	
ANNEXURE H : Non-Disclosure Agreement	

Failure to provide all the above-referenced essential returnable documents may result in a Respondent's disqualification. Respondents are therefore urged to ensure that all these documents are returned with their Proposals. Transnet in its sole discretion may afford Respondents a further opportunity to submit these essential returnable documents.

ANNEXURE YL 8

YIL-078

ANNEXURE B

Transnet SOC Ltd. Registration Number 1990/000900/30

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freight rail

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MEMORANDUM

TO : 1064 Locomotive Steering Committee

FROM : The Cross Functional Evaluation Team (CFET) (Finance)

DATE : 15 January 2014

SUBJECT : **465 DIESEL LOCOMOTIVES – RESULTS OF 'BEST AND FINAL OFFER' RESPONSES**

PURPOSE:

1) The purpose of this memo is to provide the Steering Committee with an update of the evaluation results based on the 'Best and Final Offer's (BAFO)' received;

BACKGROUND:

2) On 27 December 2013 the 1064 Steering Committee issued a memo (Attached Annexure A) to the CFET Finance requesting that a 'Best and Final Offer' letter be issued to all Bidders;

3) Responses from Bidders were received on 10 January 2014;

BUDGET IMPLICATIONS:

4) There are no budget implications applicable to this memo;

FINANCIAL IMPLICATIONS:

Outcome of responses received:

5) The table below outlines the BAFO prices as provided by the Bidders:

	Bidder 1	Bidder 2	Bidder 3	Bidder 4
BAFO Evaluated price	R30 455 335	R30 320 728	R40 244 313	R27 159 485
Previous Evaluated price	R44 232 853	R33 254 876	R42 761 272	R27 493 481
Difference	R13 777 518	R2 934 148	R2 516 959	R333 996

Note: A reconciliation of the BAFO price submitted and the previous price used for evaluation is attached hereto (Annexure B)

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6) Bidder 1's BAFO price was reduced by R13.8 million (31%). This is a significant reduction from the original price offer;

7) Bidder 1 did not provide confirmation of the foreign currency content applicable to the new BAFO price. This information was requested from the Bidders as any reduction in offer prices could change the proportion of the foreign currency content to the new price. The other 3 Bidders provided this information as requested. A further clarification letter was therefore issued to Bidder 1 in order to obtain this information. The response from Bidder 1 was to make reference back to the tender documents of 30 April 2013. Accordingly we reverted back to the foreign content amounts provided on the original price offer (Appendix E of the original tender submission) and applied the same percentage allocation to the BAFO price for the purposes of completing the evaluation. It should be noted that this percentage does not tie in to the local content % declaration. Any change in the foreign content percentage in relation to the new BAFO price could have a significant impact on the ranking as Bidder 1 and Bidder 2's final scoring are almost the same (0.8 points difference);

8) Bidder 3 in their response indicated their concern around the integrity of the tender process. An extract from their response letter dated 9 January 2014 is quoted below:

"*(Please note that with respect to TFR's request that bidders provide a quotation "using subcontractors of (their) choice not Transnet Engineering"; we trust that this does not allow a bidder who did not previously offer a non-Transnet Engineering option to now amend their bid to include a new "private sector" offer. If this is the case we are concerned that this could jeopardize the integrity of the tender process)*";

9) Some bidders included additional SD related proposals in their response. We advised SCS of these items for further consideration;

10) This memorandum must be read in conjunction with the CFET (Finance) report dated 10th December 2013;

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CONCLUSION:

11) The updated evaluation results are reflected below:

[illegible]

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER 1	BIDDER 2	BIDDER 3	BIDDER 4
1	Price	30.00%	18.00%	6.00	6.00	0.00	10.00
2	Total Cost Of Ownership (TCO)	20.00%	12.00%	4.00	0.00	0.00	4.00
3	Delivery Schedule (DS)	25.00%	15.00%	4.00	6.00	4.00	8.00
4	Payment Terms (PT)	10.00%	6.00%	10.00	10.00	8.00	8.00
5	RFP & Contractual Compliance (CC)	10.00%	6.00%	6.75	6.75	7.00	7.50
6	Financial Stability (FS)	5.00%	3.00%	2.38	3.00	3.25	2.38
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

12) Bidder 4 still has the highest overall points scoring. The final scoring for Bidder 1 and Bidder 2 is almost the same (0.8 points difference).

SUBMITTED BY:

Mr. Mohammed Moola
Senior Manager: TFR
Date: 15/1/2014

Mr. Danie Smit
Deputy Treasurer Middle Office: Group Treasury
Date: 2014/01/15

15/1/14
Mr. Yousuf Laher
Executive Manager: TFR
Date:

Mr. Thabo Seapi
Senior Manager: TFR
Date: 15/01/2014

Mr. Zunaid Vally
Executive Manager: TFR
Date:

Mr. Tsietsi Tlaletsi
Debt Manager: Group Treasury
Date: 15/1/2014

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Annexure B

Reconciliation between BAFO (Best and Final Offer) submitted in January 2014 and prices used for evaluation as per December 2013 report

	Bidder 1	Bidder 2	Bidder 3	Bidder 4
BAFO price per loco as submitted by bidder	28 134 189	26 900 000	32 780 000	24 311 700
Add adjustments for items to reconcile to price per Annexure F:	483 282	548 193	2 375 033	34 141
Special tooling	22 787		23 724	31 875
Engineering support				
Capital Spares	442 830	532 721	487 918	
Consumables			1 756 452	2 666
Spares holding	27 585	15 472	74 380	
Setup cost				
Insurance			2 834	
Rounding	-90		-1	
Customs				
Forex Hedging				
Price per loco submitted as per annex F, before the impact adjustments and options	28 617 371	27 448 193	35 054 033	24 345 841
Adjustments to normalise:				
Deduct Schedule 8 capital spares	-	-126 401	-	-
Add spares not included	41 012	-	26 801	497 257
Deduct Forex hedging	-	-100 000	-	-
Sub Total 1 (Amended BAFO Price excluding impact of hedging and escalations)	28 658 383	27 222 192	35 080 [illegible]	24 843 098
Add Options	498 098	196 388	1 039 627	881 342
Sub Total 2 - Amended BAFO Price with options included (Capital acquisition cost)	29 156 481	27 418 580	36 120 626	25 724 440
Impact of re-basing for foreign exchange movements	1 308 844	2 702 139	4 123 787	1 435 045
Sub Total 3 (Amended BAFO Total price before TE adjustment)	30 465 325	30 120 719	40 244 313	27 159 485
Impact of not using TE as the main sub-contractor	-	-	-	-
BAFO - Price used for evaluation	30 465 325	30 120 719	40 244 313	27 159 485
Price used for evaluation before BAFO	44 232 850	33 254 876	42 761 272	27 493 481
Difference	13 777 525	3 134 148	2 516 959	333 996
Made up of:				
Discount on price	12 375 831	2 480 163	2 091 000	266 800
Forex change due to Import content and rate changes	1 401 857	431 985	425 959	67 196

Note: 1. The BAFO prices requested from bidders was without the use of TE as a subcontractor.
Therefore the impact of using TE as main subcontractor is simply being factored into the latest BAFO price.

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ANNEXURE YL 9

YIL-083

ANNEXURE C

Transnet SOC Ltd.
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1990/000900/30

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TRANSNET
freightrail

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MEMORANDUM

www.transnet.net

TO : 1064 Locomotive Steering Committee

FROM : The Cross Functional Evaluation Team (CFET) (Finance)

DATE : 15 January 2014

SUBJECT : **599 ELECTRIC LOCOMOTIVES – RESULTS OF 'BEST AND FINAL OFFER' RESPONSES**

PURPOSE:

1) The purpose of this memo is to provide the steering committee with an update of the results of the 'Best and Final Offer (BAFO)' response from Bidders 1 and 2;

BACKGROUND:

2) On 27 December 2013 the 1064 steering committee issued a memo (Attached Annexure A) to the CFET Finance requesting that a 'Best and Final Offer' letter be issued to Bidders 1 and 2;

3) Responses from Bidders 1 and 2 were received on 10 January 2014;

BUDGET IMPLICATIONS:

4) There are no budget implications applicable to this memo;

FINANCIAL IMPLICATIONS:

Outcome of responses received:

5) The table below outlines the BAFO prices as provided by the Bidders 1 and 2:

		Bidder 1	Bidder 2
	BAFO Evaluated price	R32 377 762	R32 462 295
	Previous Evaluated price	R32 833 423	R34 716 188
	Difference	R455 661	R2 253 893

Note: A reconciliation of the BAFO price submitted and the previous price used for evaluation is attached hereto (Annexure B)

M.M

TD

16.

6) Bidder 1 did not provide a BAFO price. Bidder 1 provided a confirmation of the foreign currency content percentage applicable to the price. We used this percentage to update the evaluated price;

7) Bidder 2 provided a new BAFO price as well as a new foreign currency content amount. Both of these were used to update the evaluated price;

8) Bidder 1 included some additional SD related proposals in their response. We advised SCS of these items.

9) This memorandum must be read in conjunction with the CFET (Finance) report dated 10th December 2013.

SUBMITTED BY:

Mr. Mohammed Moola
Senior Manager: TFR
Date: 15/1/2014

Mr. Danie Smit
Deputy Treasurer Middle Office: Group Treasury
Date: 2014/01/15

15/1/14
Mr. Yousuf Laher
Executive Manager: TFR
Date:

Mr. Thabo Seapi
Senior Manager: TFR
Date: 15/01/2014

Mr. Zunaid Vally
Executive Manager: TFR
Date:

~~Mr. Tsietsi~~ Tlaletsi
Debt Manager: Group Treasury
Date: 15/1/2014

17

Annexure B

Reconciliation between BAFO (Best and Final Offer) submitted in January 2014 and prices used for evaluation as per December 2013 report

	[redacted]	[redacted]
BAFO price per loco as submitted by bidder	[illegible]	28 890 000
Add adjustments for items to reconcile to price per Annexure F:	1 821 465	636 007
Special tooling	3 762	34 789
Engineering support		
Capital Spares	491 240	402 918
Consumables	45 302	
Spares holding	27 405	198 300
Setup cost		
Insurance		
Rounding		
Forex Hedging	1 253 756	
Price per loco submitted as per annex F, before the impact adjustments and options	30 870 981	29 526 007
Adjustments to normalise:		
Deduct Schedule 8 capital spares	-16 390	-122 648
Deduct Forex hedging	-1 253 756	-
Sub Total 1 (Amended BAFO Price excluding impact of hedging and escalations)	29 600 835	29 403 360
Add Options	1 256 001	1 262 187
Sub Total 2 - Amended BAFO Price with options included (Capital acquisition cost)	30 856 836	30 665 546
Impact of Re-basing (foreign exchange movements)	1 518 926	1 796 749
Sub Total 3 (Amended BAFO Total price before TE adjustment)	32 377 762	32 462 295
Impact of not using TE as the main sub-contractor		
BAFO - Price used for evaluation	32 377 762	32 462 295
Price used for evaluation before BAFO	32 833 423	34 716 188
Difference	455 661	2 253 893
Made up of:		
Discount on price	-	2 010 000
Forex change due to import content and rate changes	455 661	243 893

Note: 1. The BAFO prices requested from bidders was without the use of TE as a subcontractor.
Therefore the impact of using TE as main subcontractor is already being factored into the initial BAFO price.

2. Bidder 1 did not provide BAFO price but provided the foreign currency component percentage which was used to update the rebasing of foreign portion of the price.
3. Bidder 2 provided a new BAFO price and a new foreign currency component percentage. These were used to update the price.

M.M

TB

ANNEXURE YL 10

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TRANSNET

MEMORANDUM

www.transnet.net

To: Transnet Board of Directors

From: Mr. Brian Molefe, Group Chief Executive, SOC Ltd

Date: 17 January 2014

SUBJECT: REQUEST FOR APPROVAL TO NEGOTIATE AND AWARD OF BUSINESS TO THE SHORT LISTED TENDERERS FOR THE SUPPLY OF 599 (COCO) NEW DUAL VOLTAGE LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB)

PURPOSE:

1) The purpose of this memo is to;

- Provide an update to Transnet Board of Directors (TBOD) the progress on the tender evaluation process;
- Note and approve the tender evaluation process from step 1 up to step 6 to the Transnet Board of Directors (TBOD);
- Approve the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business;
- Delegate all necessary powers to the Group Chief Executive to sign, approve and conclude all necessary documents to give effect to the above resolutions and
- Note that the above resolutions are subject to recommendation of the Board Disposals and Acquisitions Committee to be held on 24 January 2014.

BACKGROUND:

2) On the 19 April 2012, the TBOD approved the procurement of 599 Electric locomotives subject to Section 54 PFMA approval.

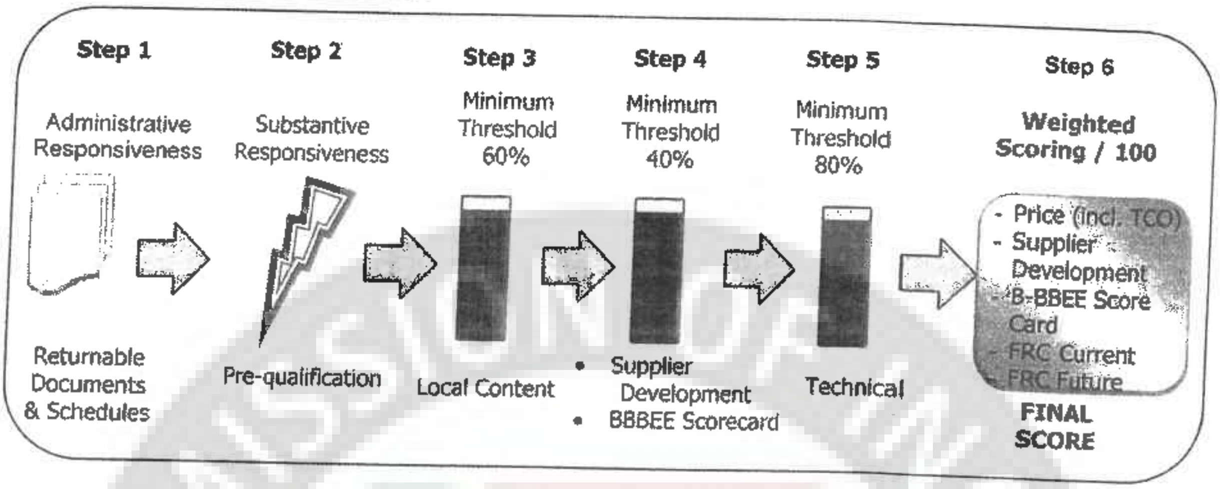
3) Section 54 PFMA approval, from the Minister of the Department Public Enterprises was obtained by the Company and the TBOD has been advised accordingly. All the queries raised by the Minister have been responded to by the Company.

4) The RFP document and draft contract have been reviewed internally at TFR and Group as well as by an external law firm.

5) RFP No TFRAC-HO-8608 for the supply of 599 New Dual Voltage Electric Locomotives for the General Freight Business (GFB) closed on the 30 April 2013. Seven (7) proposals were received from tenderers.

6) The TBOD approved evaluation methodology was to follow a 6 step evaluation process as indicated in the diagram below:

Evaluation Methodology



7) The following evaluation criteria was used to evaluate:

7.1 Step 1– Test for Administrative Responsiveness:

a. Whether the bid has been lodged on time

b. Whether all returnable documents and/or schedules [where applicable] were completed and returned by the closing date and time

c. Whether the bid documentation has been duly signed by the Respondent.

7.2 Step 2 – Test for Substantive Responsiveness:

a. Whether the bid contains a priced offer;

b. Financial Stability:

Accordingly the following eight pre-determined ratios were used for the pre-qualification criteria for financial stability relating to the financial statements:

- Gearing
- Liquidity
- Profitability
- Minimum guarantees
- Return on Assets
- Return on Equity
- Interest cover
- Cash generated from operating activities (Value)

c. Guarantees:

- Agreement to the terms & conditions of the Parent Company Guarantee in the format supplied;
- Agreement to the terms & conditions of the Advance Payment Guarantee in the format supplied;
- Agreement to the Performance bond requirements & Performance bond terms & conditions in the format supplied;
- A minimum warranty period of 2 years for the loco, 6 years for the traction motor and 1 year for spares after Defects Liability Period; and
- A minimum long term credit rating of A- [Fitch Ratings or equivalent] and the issuer should be pre-agreed with Transnet, for the companies' bankers that will be providing the guarantees.

d. Whether any other pre-qualification criteria set by Transnet, have been met;

e. Whether the bid materially complies with the scope and/or specification given and

f. Whether all material terms and conditions stated in the bid document have been met

8) Cross Functional Evaluation Team (CFET) was appointed to conduct the evaluation on behalf of the Company and this team comprised members from Technical, Finance, Legal and Supplier Development departments of Group and TFR.

9) A Locomotive Steering Committee (LSC) established to govern the evaluation and award process on behalf of the TBOD. LSC was chaired by the GCE and its membership also comprised the GCFO; CE TFR, legal, procurement, TIA.

10) A sub-committee of the LSC was established to deal with the very confidential and detailed matters of the evaluation process and this committee comprised the GCE; GCFO and CE TFR.

11) The CFET reported its findings to this subcommittee for consideration.

12) All seven (7) tenderers were then evaluated according to the above criteria.

13) After subsequent clarifications the Cross Functional Evaluation Team (CFET) completed step 1 (Administrative Responsiveness) and step 2 (Substantive Responsiveness) on all bids received.

14) On completion of step 2 (Substantive Responsiveness) evaluations which included financial pre-qualification, all seven (7) tenderers met the minimum requirements and qualified to progress to step 3 (Local Content) for further evaluation;

15) On the 25 July 2013, Transnet Internal Auditors (TIA) reviewed step 2 (financial pre-qualifications).

16) On approval from the GCE (recommendation for step 1 and step 2 and to proceed with step 3 and step 4 concurrently), the CFET proceeded with step 3 (Local Content). The minimum threshold of 60% is required for tenderers to proceed to step 4 (Technical Evaluations) of the evaluations.

17) On completion of step 3 (Local Content) evaluations, all seven (7) tenderers met the minimum Local Content specific threshold of 60% and TIA reviewed the Local Content results.

18) On the 7 August 2013, the GCE approved the recommendation for step 3 (Local Content) and that the CFET start with step 5 (Technical) concurrently with step 4 (Supplier Development/ B-BBEE Scorecard).

19) The CFET then proceeded with the evaluation of the Supplier Development and BBBEE Scorecard of the seven (7) tenderers in the presence of TIA. The following criteria were used to evaluate step 4:

19.1 B-BBEE Scorecard:
Current status evaluated according to the valid B-BBEE Verification scorecard

19.2 Supplier Development Bid Document:

a. Investment in Plant
b. Technology Transfer/ Sustainability
c. Down-stream Supplier Development
d. Skills Development
e. Job Creation/ Preservation
f. Small Business Promotion

20) On completion of step 4 (Supplier Development and BBBEE Scorecard) evaluations, all seven (7) tenderers met the minimum Supplier Development and BBBEE Scorecard threshold of 40% and TIA reviewed the Supplier Development and BBBEE Scorecard results.

21) On the 18 September 2013, the GCE approved the recommendation for step 4 (Supplier Development/ B-BBEE Scorecard).

22) Technical team commenced with Step 5 (Technical) evaluations and the following scoring matrix was used to evaluate Step 5:

22.1 For each Essential or Desirable requirement, scoring was done on the following basis

a. Full Compliance 2
b. Partial Compliance 1
c. Non-Compliance 0

22.2Mandatory requirement clauses are not scored; (Full compliance to ALL the mandatory requirements is mandatory)

a. Full Compliance - full compliance to all mandatory clauses is mandatory.
b. Partial Compliance - tender disqualification
c. Non- Compliance - tender disqualification

23) The office of the Chief Operating Officer of TFR made a recommendation that TFR would standardize on the Co Co locomotive configuration for TFR operations.

24) As this decision was not made when the tender was issued the tender called for both Co Co and Bo Bo proposal requests to be submitted.

25) The GCE on recommendation of the TFR CE approved the Co Co configurations for TFR operations and as consequence the tenders were then evaluated on this basis.

26) The CFET then proceeded with the evaluation of step 5 (Technical) of the seven (7) tenderers in the presence of TIA.

Ranking and final scores for 599 Electric Co Co locomotives

Ranking	Tender Number	Final Score
1	Tenderer 2 (T2)	96.5%
2	Tenderer 1 (T1)	96.0%
3	Tenderer 7 (T7)	95.9%
4	Tenderer 5 (T5)	92.1%
5	Tenderer 3 (T3)	89.8%

27) The following tenderers did not meet the technical Requirements.

Ranking	Tender Number	Final Score
DSQ	Tenderer 4 (T4)	69.6%
N/A	Tenderer 6 (T6)	0.0%

- T4 did not comply with all the MANDATORY/ disqualifying clauses.
- T6 only submitted a Bo-Bo locomotive proposal and was not scored.

28) On completion of step 5 (Technical) TIA reviewed the results.

29) The GCE then approved the shortlisting of the tenderers that have met the technical threshold of 80%.

30) The CFET (Finance) found numerous inconsistencies in the manner in which bidders chose to complete the scheduled and unscheduled maintenance portions of the TCO model. The CFET (Finance) recommended that the CFET (Technical) review the models for reasonability with the purpose of allowing the CFET (Technical) to guide the CFET (Finance) in making decisions to score the TCO models submitted as well as to guide the CFET (Finance) in their deliberations as to whether the models submitted would actually meet the requirements to be scored fairly amongst bidders.

31) A few members of the technical team were made available to conduct a review of the scheduled and unscheduled maintenance regimes as supplied by bidders for reasonability. It emerged that the models required normalising and the CFET could not change the models on behalf of the tenderers.

32) The CFET recommended that the scheduled and unscheduled maintenance be excluded from the evaluations of the TCO model.

33) The GCE approved the exclusion of the scheduled and unscheduled maintenance from the evaluations of the TCO model.

DISCUSSION:

34) The last step of the evaluation consists of 5 elements namely:

   a. Price (including TCO),
   b. Supplier Development,
   c. BBBEE Scorecard
   d. Further Recognition Criteria Current and
   e. Further Recognition Criteria Future

35) The results of the step 6 evaluations are summarised on the tables below:

	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**

MOTIVATION FOR AWARD OF BUSINESS:

36) Apart from the fact that T1 and T2 scored the highest points. Their proposals also offer the following benefit to Transnet:

- Local Content committed by both tenderers is higher than the stipulated threshold of 60%, commitment for T1 is 69.83% and Tenderer 2 commitment is 68.20%;
- T1 and T2 scored the highest points on technical evaluations.
- Supplier Development commitment for T1 is 77.5 % and T2 is 80.75%.
- Delivery Schedule is close to what Transnet requirements.

37) However the pricing of the locomotives posed a commercial exposure for Transnet and also the National Treasury concern of not paying excessive premiums as outlined in the PPPFA guidelines of premiums not being more that 11% by the use of the 90/10 evaluation criteria.

38) In order to mitigate the commercial exposure for Transnet and further reduce any potential premium on the transaction the GCE requested that the CFET request the best and final offer from the two highest scoring tenderers.

39) The other tenderers be informed that Transnet is engaging with the shortlisted tenderers.

40) The outcome of the best and final offer is as follows:

- T1 offered to increase procurement to small businesses by R50 million and technology transfer through skills development training and support by R10 million. In addition they offered a R455 000 reduction in price per locomotive based on a revised foreign currency content percentage.
- T2 offered a discount of R 2.25 million 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.

MOTIVATION FOR SPLIT OF BUSINESS AWARDED

41) The original MDS volumes as promised in the corporate plan are significantly at risk.

42) This is due to lack of tractive effort at TFR due to the delays in the award of this tender mainly due to the PPPFA issues experienced.

43) In order to not further increase this risk it is suggested that more than one supplier be used to supply the required locomotive to reduce delivery risk and enhance our ability to meet MDS volume targets.

44) We recommend that two suppliers be used to manufacture the required locomotives.

45) This view is supported by the following reasons:

   a. Promotes standardization of the locomotive fleet to ensure TCO is minimized
   b. Allows for critical mass that would enable successful negotiations on price and other critical commercial terms and conditions
   c. Allows for critical mass that would promote localization and programmatic procurement
   d. Allows for flexibility in supplier options in future as it prevents monopoly behavior
   e. Reduces the legal risk of the transaction and
   f. Reduces the overall contract risk of the transaction due to unforeseen circumstances.

46) We further believe that the above will be achieved by a 60% allocation to T2 and a 40% allocation to T1 of the contracted locomotives.

47) This split is motivated by the following:

   a. As mentioned above delivery risk is of paramount importance due to MDS volumes.
   b. T2 has demonstrated their ability to deliver on schedule by delivering the first prototype on time and the next 10 locomotives are also on schedule. These locomotives form part of the 95 locomotive contracts.
   c. This provides comfort that T2 has the ability to deliver and reduces delivery risk.
   d. T1 has not done work for Transnet in the recent past and has no track record with Transnet.

CONCLUSION

48) TIA has reviewed and approved all steps in the evaluation process – refer annexure A for TIA full report.

49) Shortlist the award of business to T1 and T2 for the supply of 599 electric locomotives subject to successful contract negotiations.

50) Split the award of business to the above suppliers by a 60% allocation to T2 and a 40% allocation to T1 of the contracted locomotives subject to a performance clause in the contract.

RECOMMENDATION

51) It is recommended that the TBOD to:

- Notes the update on the progress of the tender evaluation process;
- Note and approve the tender evaluation process from step 1 up to step 6 to the Transnet Board of Directors (TBOD);
- Approve the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business as contained in paragraphs 49 and 50;
- Delegate all necessary powers to the Group Chief Executive to sign, approve and conclude all necessary documents to give effect to the above resolutions and
- Note that the above resolutions are subject to recommendation of the Board Disposals and Acquisitions Committee to be held on 24 January 2014.

RECOMMENDED BY:

Mr. Thamsanqa Jiyane
Chief Procurement Officer: Transnet Freight Rail
Date: 20/01/14

~~Mr. Lucky Mabokela~~ Ms Mmathabo Sukati
Transnet Internal Auditor
Date:

SUPPORTED BY:

Mr. Siyabonga Gama
Chief Executive: Transnet Freight Rail
Date: 2014 · 01 · 20

Mr. Anoj Singh
Chief Financial Officer: Transnet SOC Ltd
Date: 21/01/14 ·

RECOMMENDED BY:

Mr. Brian Molefe
Group Chief Executive: Transnet SOC Limited
Date: 21 · 1 · 14 ·

APPROVED/ NOT APPROVED BY:

Mr. Mafika Mkwanazi
Chairman: Transnet Board of Directors
Date:

1064 Locomotives	TCO/PRICE/SD/BBBEE/FRC	04 January 2014- Request for BAFO Issued	17 January 2014-Finalised BAFO workings	Audit Rating	Audit Observation
Electric	5	2	2 bidders	3	Satisfactory
Diesel	4	4	4 bidders	3	Satisfactory

Notes:

1. Three electric bidders were unsuccessful and were informed by Transnet on the 04 January 2014.

TIA Recommendations:

1. **Evaluation and FRM overall Gateway report classification**

The results of the gateway review indicate that the Evaluation Stage of the tender was successfully concluded and no residual risks existed which would have an impact on the next stages of the tender process.

TIA HVT provides reasonable assurance that the process followed for the Evaluation Gateway was compliant with the High Value Tender Methodology. This assurance rating is based on the fact that matters raised by TIA that could have had a potential impact on the efficiency of the process under review were satisfactorily resolved by Transnet Freight Rail.

On the basis of the above, the process undertaken has been classified as "satisfactory" (see definitions below).

2. **Board Approval**

The above actions are subject to Board of Directors approval. This report is intended solely for the information and use of the 1064 Steering Committee and Board Acquisition and Disposal Council and any other Governance structures.

Mr Lucky Lesiba Mabokela
Director
Transnet Internal Audit

Definitions

The tables below give the definitions for the Overall Report Classifications and Observation Classifications. The classifications are based on TIA's view of the gateway process under review and by definition involves the application of judgement which takes into account both **subjective** and **objective** issues.

Overall report classifications

Satisfactory	Requires improvement	Unsatisfactory
▪ The results of real-time assurance at each stage of the High Value Tender (HVT) Gateway review process indicate **full/ sufficient compliance** to the High Value Tender Methodology and/or PPM to mitigate and/or manage those risks to which the process under review is exposed. Indicative matters likely to give rise to an satisfactory rating are: ▪ No significant compliance weaknesses in the key gateway activities ▪ Satisfactory compliance to laws and regulations (e.g. PFMA) and/or guidelines set out in the PPM (as amended). ▪ Where the need for minor improvements; to the HVT gateway process were noted, TIA recommendations have been taken into account by the OD. ▪ TIA was fully engaged in the HVT Gateway process review. Only **level 3** observations identified or **level 2** observations which are not pervasive in nature.	▪ The results of real-time assurance at each stage of the High Value Tender (HVT) Gateway review process indicate **incomplete/ limited non-compliance** to the High Value Tender Methodology and/or PPM to mitigate and/or manage those risks to which the process under review is exposed. Indicative matters likely to give rise to an **requires improvement** rating are: ▪ Limited compliance weaknesses in key gateway activity ▪ Limited non-compliance to laws and regulations (e.g. PFMA) and/or guidelines set out in the PPM (as amended). ▪ TIA was **partially engaged** in the HVT Gateway process review (e.g. only a review of the SPP and/or request for proposal instead of being involved in the cross functional sourcing team key meetings). ▪ All critical recommendations made by TIA **have not been fully taken** into account and implemented by the OD. ▪ **Level 1** observations identified, but resolved through the required engagement and escalations protocols at the conclusion of the gateway stage. ▪ **Level 2 and 3** observations identified.	▪ The results of real-time assurance at each stage of the High Value Tender (HVT) Gateway review process indicate **non-compliance** to the High Value Tender Methodology and/or PPM to mitigate and/or manage all/key risks to which the process under review is exposed. Indicative matters likely to give rise to an **unsatisfactory rating** are: ▪ Several significant compliance weaknesses (breakdown) in the overall **key gateway** activities Actions likely to bring the Transnet Group name into disrepute. ▪ **Significant** noncompliance to laws and regulations (e.g. PFMA) and/or **guidelines set out** in the PPM (as amended). ▪ Level 1 **observations which** have not been resolved through the required **engagement** and escalations protocols at the conclusion of the gateway stage. ▪ TIA was **not involved** at all in the HVT Gateway process review. ▪ All critical TIA **recommendations** have not been taken into account and implemented by the OD.

Definitions (cont'd)

Observation classifications

Level 3	Level 2	Level 1
• Failure to achieve gateway activities which are not material to the Group/Operating Division which for example entail "Housekeeping" matters that require management action in the normal course of business.	• Failure to complete **less significant** gateway activities with the potential to cause financial loss, or result in operational, regulatory or reputational impact, for the tender under review across the Group/Operating Division indicating a material deviation from the HVT Methodology/PPM.	• Failure to complete significant **gateway** activities with the potential to cause material **financial loss**, or result in **material operational, regulatory** or **reputational** impact, for the **tender** under review across the Group/Operating Division indicating a material **deviation** from the HVT Methodology/PPM.

ANNEXURE YL 11

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TRANSNET

MEMORANDUM

www.transnet.net

To: Transnet Board of Directors

From: Mr. Brian Molefe, Group Chief Executive, SOC Ltd

Date: 17 January 2014

SUBJECT: REQUEST FOR APPROVAL TO NEGOTIATE AND AWARD OF BUSINESS TO THE SHORT LISTED TENDERERS FOR THE SUPPLY OF 465 NEW DIESEL LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB)

PURPOSE:

1) The purpose of this memo is to;

- Provide an update to Transnet Board of Directors (TBOD) on the progress of the tender evaluation process;
- Note and approve the tender evaluation process from step 1 up to step 6 to the Transnet Board of Directors (TBOD);
- Approve the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business;
- Delegate all necessary powers to the Group Chief Executive to sign, approve and conclude all necessary documents to give effect to the above resolutions and
- Note that the above resolutions are subject to recommendation of the Board Disposals and Acquisitions Committee to be held on 24 January 2014.

BACKGROUND:

2) On the 19 April 2012, the TBOD approved the procurement of 465 Diesel locomotives, subject to Section 54 PFMA approval.

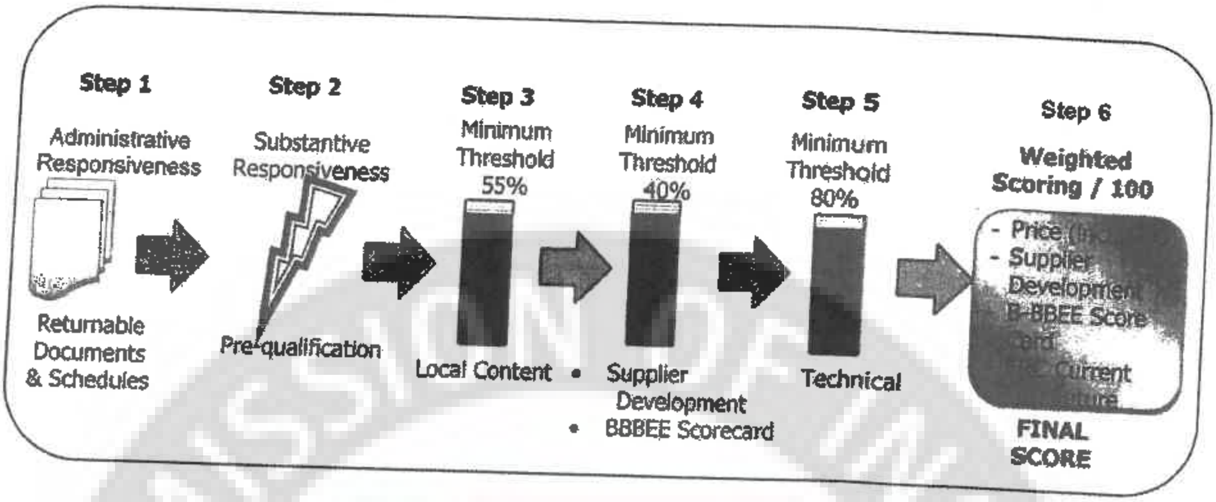
3) Section 54 PFMA approval from the Minister of the Department of Public Enterprises was obtained by the Company and the TBOD has been advised accordingly. All the queries raised by the Minister have been responded to by the Company.

4) The RFP document and draft contract have been reviewed internally at TFR and Group as well as by an external law firm.

5) RFP No TFRAC-HO-8609 for the supply of 465 New Diesel Locomotives for the General Freight Business (GFB) closed on the 30 April 2013. Four (4) proposals were received from tenderers.

6) The TBOD approved evaluation methodology was to follow a 6 step evaluation process as indicated in the diagram below;

Evaluation Methodology



7) The following evaluation criteria was used to evaluate:

7.1 Step 1– Test for Administrative Responsiveness:

a. Whether the bid has been lodged on time
b. Whether all returnable documents and/or schedules [where applicable] were completed and returned by the closing date and time
c. Whether the bid documentation has been duly signed by the Respondent.

7.2 Step 2 – Test for Substantive Responsiveness:

a. Whether the bid contains a priced offer;
b. Financial Stability:
   Accordingly the following eight pre-determined ratios were used for the pre-qualification criteria for financial stability relating to the financial statements:
   - Gearing
   - Liquidity
   - Profitability
   - Minimum guarantees
   - Return on Assets
   - Return on Equity
   - Interest cover
   - Cash generated from operating activities (Value)
c. Guarantees:
   - Agreement to the terms & conditions of the Parent Company Guarantee in the format supplied;
   - Agreement to the terms & conditions of the Advance Payment Guarantee in the format supplied;
   - Agreement to the Performance bond requirements & Performance bond terms & conditions in the format supplied;
   - A minimum warranty period of 2 years for the loco, 6 years for the traction motor and 1 year for spares after Defects Liability Period; and

- A minimum long term credit rating of A- [Fitch Ratings or equivalent] and the issuer should be pre-agreed with Transnet, for the companies' bankers that will be providing the guarantees.

d. Whether any other pre-qualification criteria set by Transnet, have been met;
e. Whether the bid materially complies with the scope and/or specification given and
f. Whether all material terms and conditions stated in the bid document have been met

8) A Cross Functional Evaluation Team (CFET) was appointed to conduct the evaluation on behalf of the Company and this team comprised members from Technical, Finance, Legal and Supplier Development departments of Group and TFR.

9) A Locomotive Steering Committee (LSC) was established to govern the evaluation and award process on behalf of the TBOD. LSC was chaired by the GCE and its membership also comprised the GCFO; CE TFR, legal, procurement, TIA.

10) A sub-committee of the LSC was established to deal with the very confidential and detailed matter of the evaluation process and this committee comprised the GCE; GCFO and CE TFR.

11) The CFET reported its findings to this subcommittee for consideration.

12) All four (4) tenderers were then evaluated according to the above criteria.

13) After subsequent clarifications the Cross Functional Evaluation Team (CFET) completed step 1 (Administrative Responsiveness) and step 2 (Substantive Responsiveness) on all bids received.

14) On completion of step 2 (Substantive Responsiveness) evaluations which included financial pre-qualification, all four (4) tenderers met the minimum requirements and qualified to progress to step 3 (Local Content) for further evaluation;

15) On the 25 July 2013, Transnet Internal Auditors (TIA) reviewed step 2 (financial pre-qualifications) and signed off on the process.

16) On approval from the GCE (recommendation for step 1 and step 2 and to proceed with step 3 and step 4 concurrently), the CFET proceeded with step 3 (Local Content). The minimum threshold of 55% is required for tenderers to proceed to step 4 (Technical Evaluations) of the evaluations.

17) On completion of step 3 (Local Content) evaluations, all four (4) tenderers met the minimum Local Content specific threshold of 55%.

18) TIA reviewed the Local Content results and signed off on the process.

19) On the 7 August 2013, the GCE approved the recommendation for step 3 (Local Content) and that the CFET start with step 5 (Technical) concurrently with step 4 (Supplier Development/ B-BBEE Scorecard).

20) The CFET then proceeded with the evaluations for Supplier Development and BBBEE Scorecard of the four (4) tenderers in the presence of TIA. The following criteria were used to evaluate step 4:

20.1 B-BBEE Scorecard:
Current status evaluated according to the valid B-BBEE Verification scorecard

20.2 Supplier Development Bid Document:

a. Investment in Plant
b. Technology Transfer/ Sustainability
c. Down-stream Supplier Development
d. Skills Development
e. Job Creation/ Preservation
f. Small Business Promotion

21) On completion of step 4 (Supplier Development and BBBEE Scorecard) evaluations, all four (4) tenderers met the minimum Supplier Development and BBBEE Scorecard threshold of 40% and TIA reviewed the Supplier Development and BBBEE Scorecard results.

22) On the 19 August 2013, the GCE approved the recommendation for step 4 (Supplier Development/ B-BBEE Scorecard).

23) On the 22 August 2013 the Technical team commenced with Step 5 (Technical) evaluations and the following scoring matrix was used to evaluate Step 5:

20.3 For each Essential or Desirable requirement, scoring was done on the following basis

a. Full Compliance 2
b. Partial Compliance 1
c. Non-Compliance 0

23.2 Mandatory requirement clauses are not scored; (Full compliance to ALL the mandatory requirements is mandatory)

a. Full Compliance - full compliance to all mandatory clauses is mandatory.
b. Partial Compliance - tender disqualification
c. Non- Compliance - tender disqualification

24) The CFET then proceeded with the evaluation of step 5 (Technical) of the four (4) tenderers in the presence of TIA.

Ranking and final scores for 465 Diesel Co-Co Locomotives Ranking

Ranking	Tender Number	Final Score
1	Tenderer 2 (T2)	95.6%
2	Tenderer 1 (T1)	92.9%
3	Tenderer 3 (T3)	86.2%
4	Tenderer 4 (T4)	86.1%

25) All tenderers met the minimum threshold of 80% and complied with all the MANDATORY requirements in specification.

26) On completion of step 5 (Technical) TIA reviewed the results.

27) On the 04 November 2013, the GCE then approved the shortlisting of the tenderers that have met the technical threshold of 80%.

28) The last step of the evaluation consists of 5 elements namely:
    a. Price (including TCO),
    b. Supplier Development,
    c. BBBEE Scorecard
    d. Further Recognition Criteria Current and
    e. Further Recognition Criteria Future

29) The CFET (Finance) found numerous inconsistencies in the manner in which bidders chose to complete the scheduled and unscheduled maintenance portions of the TCO model. The CFET (Finance) recommended that the CFET (Technical) review the models for reasonability with the purpose of allowing the CFET (Technical) to guide the CFET (Finance) in making decisions to score the TCO models submitted as well as to guide the CFET (Finance) in their deliberations as to whether the models submitted would actually meet the requirements to be scored fairly amongst bidders.

30) Members of the technical team were made available to conduct a review of the scheduled and unscheduled maintenance regimes as supplied by bidders for reasonability. It emerged that the models required normalising and the CFET could not change the models on behalf of the bidders.

31) The CFET recommended that the scheduled and unscheduled maintenance be excluded from the evaluations of the TCO model.

32) The GCE approved the exclusion of the scheduled and unscheduled maintenance from the evaluations of the TCO model.

33) The results of the step 3 evaluations **before** the best and final offer are summarised on the table below:-

	WHAT IS BEING MEASURED	WEIGHT	T1	T2	T3	T4
1	BBBEE SCORECARD	10.00	6.00	0.00	10.00	9.00
2	SD	20.00	13.23	16.12	14.36	13.34
3	Further Recognition Criteria (Current)	5.00	0.60	0.36	1.90	1.31
4	Further Recognition Criteria (Future)	5.00	1.44	0.99	1.32	1.98
5	Price (Total Cost of Ownership (TCO) excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation)	60.00	17.48	16.65	13.35	37.13
	TOTAL SCORE	100.00	38.75	34.12	40.93	62.76

DISCUSSION:

34) The above results were recommended by the CFET to the subcommittee however, the subcommittee raised concerns regarding the pricing of the bids received. There was a concern with the outcomes on the table above as the price for the second highest scoring tenderer was more than 10% higher than that of the lowest technically acceptable price.

35) This was a concern to the subcommittee due to the commercial exposure for Transnet that this may potentially represent and also the National Treasury concern of not paying excessive premiums as outlined in the PPPFA guidelines of premiums not being more that 11% by the use of the 90/10 evaluation criteria.

36) The CFET was requested to investigate the reasons for the above concerns and following further clarifications from tenders concluded that the base price of locomotives were too high.

37) The GCE approved a decision that all the tenderers must be requested to submit a best and final commercial offer to see if the above concerns will be mitigated.

38) The above decision was made after consultation with the Chairman of the BOD; Chairman of BADC and TIA.

39) The request for the best and final commercial offer provided a better outcome as all the tenderers submitted better prices and the price differences are less than 13% before negotiations and the CFET is confident that the price after negotiations will be within the allowed premium.

40) The final results of the step 6 evaluations **after** the best and final offer are summarised on the table below :-

	WHAT IS BEING MEASURED	WEIGHT	T1	T2	T3	T4
1	BBBEE SCORECARD	**10.00**	6.00	0.00	10.00	9.00
2	SD	**20.00**	13.23	16.12	14.36	13.34
3	Further Recognition Criteria (Current)	**5.00**	0.60	0.36	1.90	1.31
4	Further Recognition Criteria (Future)	**5.00**	1.44	0.99	1.32	1.98
5	Price (Total Cost of Ownership (TCO) excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation)	**60.00**	20.48	19.65	13.35	37.13
	TOTAL SCORE	**100.00**	**41.75**	**37.12**	**40.93**	**62.76**

MOTIVATION FOR AWARD OF BUSINESS

41) Apart from the fact that T4 and T1 scored the highest points. Their proposals also offer the following benefits to Transnet:

- Local Content both tenderers committed higher than in requirement, commitment for T1 is 61.13% and T4 commitment is 55.55% against a stipulated threshold of 55%;
- T1 scored 92.9% technical evaluations compared to the stipulated 80%.
- Supplier Development commitment for T1 is 66.15% and T4 commitment is 66.7% against a threshold of 40%;
- T4 proposed the best delivery schedule of all the tenderers;
- T1 and T4 provided the best TCO in terms of the elements which were considered at the end.
- While the scoring for T1 and T3 seems very close the price for T3 is 32% higher than price offered by T1.

MOTIVATION FOR SPLIT OF BUSINESS AWARDED

42) The original MDS volumes as promised in the corporate plan are significantly at risk due to lack of tractive effort at TFR.

43) This is due to the delays in the award of this tender mainly due to the PPPFA issues experienced.

44) In order to not further increase this risk it is suggested that more than one supplier be used to supply the required locomotive to reduce delivery risk and enhance our ability to meet MDS volume targets.

45) We recommend that two supplier be used to manufacture the required locomotives.

46) This view is supported by the following reasons:

a. Promotes standardization of the locomotive fleet to ensure TCO is minimized
b. Allows for critical mass that would enable successful negotiations on price and other critical commercial terms and conditions
c. Allows for critical mass that would promote localization and programmatic procurement
d. Allows for flexibility in supplier options in future as it prevents monopoly behavior
e. Reduces the legal risk of the transaction and
f. Reduces the overall contract risk of the transaction due failure by any supplier to fulfil its contractual obligations.

47) We further believe that that above will be achieved by a 50/50 split of the contracted locomotives.

48) This split is motivated by the following reasons:

a. There is a growing risk of very high dependency on T4 due to previous locomotive transactions.
b. This is may lead to and promotion of monopolistic environment and will reduce Transnet's ability to mitigate TCO over the long term.
c. Allocating 50% to T1 will allow this risk to be mitigated.
d. Also will promote localization and SD as there will be critical mass for T1
e. Delivery risk on T1 will be mitigated as T4 has demonstrated in the past to delivery ahead of schedule.

CONCLUSION

49) TIA has reviewed and approved all steps in the evaluation process – **refer annexure A for their full TIA report.**

50) Shortlist the award of business to T4 and T1 for the supply of 465 diesel locomotives subject to successful contract negotiations.

51) Split the award of business to the above suppliers on a 50% (T4) and 50% (T1) basis subject to performance clause in contract.

RECOMMENDATION

52) It is recommended that the TBOD:

- Notes the update on the progress on the tender evaluation process;
- Note and approve the tender evaluation process from step 1 up to step 6 to the Transnet Board of Directors (TBOD);
- Approve the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business as contained in paragraphs 50 and 51 to TBOD;
- Delegate all necessary powers to the Group Chief Executive to sign, approve and conclude all necessary documents to give effect to the above resolutions and
- Note that the above resolutions are subject to recommendation of the Board Disposals and Acquisitions Committee to be held on 24 January 2014.

RECOMMENDED BY:

Mr. Thamsanqa Jiyane
Chief Procurement Officer: Transnet Freight Rail
Date: 20/01/14

~~Mr. Lucky Mabokela~~ Ms Mmathabo Sukati
Transnet Internal Auditor
Date: 05/02/2014

SUPPORTED BY:

Mr. Siyabonga Gama
Chief Executive: Transnet Freight Rail
Date: 2014 · 01 · 27

Mr. Anoj Singh
Chief Financial Officer: Transnet SOC Ltd
Date: 21.01.14

RECOMMENDED BY:

Mr. Brian Molefe
Group Chief Executive: Transnet SOC Limited
Date:

APPROVED/ NOT APPROVED BY:

Mr. Mafika Mkwanazi
Chairman: Transnet Board of Directors
Date

YIL-109

Annexure A

To: Chairperson of the 1064 Steering Committee

From: Transnet Internal Audit

Date: 20 January 2014

Subject: 1064 Locomotives HVT and FRM Evaluation Report

Background:

TIA has been engaged in the High Value Tender review process for the Evaluation Stage of the Supply of 1064 New Locomotives for the General Freight Business (GFB) (TFRAC-HO-8608/9) Tender in line with the PPM and Tender Management Control Framework. The approach embodies the following elements:

1. Tightened HVT Methodology
2. Ensure full integration with the Corruption Risk (Forensic) management plan developed for the 1064 acquisition.

Executive Summary:

1064 HVT Process- Gateway	HVT Process	Report Status	TIA Report Classification
Gateway 1 – Demand review, development specification and business case development	(EY TIA) provided HVT support		
Gateway 2 - Acquisition	(EY TIA) provided HVT support	Provided by EY	Satisfactory
Gateway 3 - Evaluation	(SKX TIA) provided HVT support	Gateway 3 report Submitted by SKX TIA	Satisfactory
1064 Fraud and Risk Management plan	(SKX TIA) provided HVT support	Report submitted by SKX TIA	Satisfactory

Gateway 3- Evaluation

- The Request for Proposals closed on the 30th April 2013.
- A total of eleven (11) proposals were received comprising four (4) for the Diesel and (7) seven for the Electric locomotives.
- The CFET started evaluations on the 08 May 2013 and finalised the evaluations on the 21 December 2013.

1064 Locomotives	TCO/PRICE/SD/BBBEE/FRC	04 January 2014- Request for BAFO Issued	17 January 2014-Finalised BAFO workings	Audit Rating	Audit Observation
Electric	5	2	2 bidders	3	Satisfactory
Diesel	4	4	4 bidders	3	Satisfactory

Notes:

1. Three electric bidders were unsuccessful and were informed by Transnet on the 04 January 2014.

TIA Recommendations:

1. **Evaluation and FRM overall Gateway report classification**

The results of the gateway review indicate that the Evaluation Stage of the tender was successfully concluded and no residual risks existed which would have an impact on the next stages of the tender process.

TIA HVT provides reasonable assurance that the process followed for the Evaluation Gateway was compliant with the High Value Tender Methodology. This assurance rating is based on the fact that matters raised by TIA that could have had a potential impact on the efficiency of the process under review were satisfactorily resolved by Transnet Freight Rail.

On the basis of the above, the process undertaken has been classified as **"satisfactory"** (see definitions below).

2. **Board Approval**

The above actions are subject to Board of Directors approval. This report is intended solely for the information and use of the 1064 Steering Committee and Board Acquisition and Disposal Council and any other Governance structures.

Mr Lucky Lesiba Mabokela
Director
Transnet Internal Audit

Definitions

The tables below give the definitions for the Overall Report Classifications and Observation Classifications. The classifications are based on TIA's view of the gateway process under review and by definition involves the application of judgement which takes into account both **subjective and objective** issues.

Overall report classifications

	Requires Improvement	
▪ The results of real-time assurance at each stage of the High Value Tender (HVT) Gateway review process indicate **full/ sufficient compliance** to the High Value Tender Methodology and/or PPM to mitigate and/or manage those risks to which the process under review is exposed. Indicative matters likely to give rise to an **satisfactory** rating are: ▪ No significant compliance weaknesses in the key gateway activities ▪ Satisfactory compliance to laws and **regulations** (e.g. PFMA) and/or guidelines set out in the PPM (as amended). ▪ Where the need for minor improvements; to the HVT gateway process were noted, TIA recommendations have been taken into account by the OD. ▪ TIA was fully engaged in the HVT Gateway process review. Only **level 3** observations identified or **level 2** observations which are not pervasive in nature.	▪ The results of real-time assurance at each stage of the High Value Tender (HVT) Gateway review process indicate **incomplete/ limited non-compliance** to the High Value Tender Methodology and/or PPM to mitigate and/or manage those risks to which the process under review is exposed. Indicative matters likely to give rise to an **requires improvement rating** are: ▪ Limited compliance weaknesses in **key gateway activity** ▪ Limited non-compliance to laws and regulations (e.g. PFMA) and/or guidelines set out in the PPM (as amended). ▪ TIA was **partially engaged** in the HVT Gateway process review (e.g. only a review of the SPP and/or request for proposal instead of being involved in the cross functional sourcing team key meetings). ▪ All critical recommendations made by TIA **have not been fully** taken into account and implemented by the OD. ▪ **Level 1** observations identified, but resolved through the required engagement and escalations protocols at the conclusion of the gateway stage. ▪ **Level 2 and 3** observations identified.	▪ The results of real-time assurance at each stage of the High Value Tender (HVT) Gateway review process indicate **non-compliance** to the High Value Tender Methodology and/or PPM to mitigate and/or manage all/key risks to which the process under review is exposed. Indicative matters likely to give rise to an **unsatisfactory rating** are: ▪ Several significant compliance weaknesses (breakdown) in the overall key gateway activities Actions likely to bring the Transnet Group name into disrepute. ▪ Significant noncompliance to laws and regulations (e.g. PFMA) and/or guidelines set out in the PPM (as amended). ▪ Level 1 observations which have not been resolved through the required engagement and escalations protocols at the conclusion of the gateway stage. ▪ TIA was not involved at all in the HVT Gateway process review. ▪ All critical TIA recommendations have not been taken into account and implemented by the OD.

Definitions (cont'd)

Observation classifications

Level 3	Level 2	Level 1
▪ Failure to achieve gateway activities which are not material to the Group/Operating Division which for example entail "Housekeeping" matters that require management action in the normal course of business.	▪ Failure to complete **less significant** gateway activities with the potential to cause financial loss, or result in operational, regulatory or reputational impact, for the tender under review across the Group/Operating Division indicating a material deviation from the HVT Methodology/PPM.	▪ Failure to complete significant **gateway** activities with the potential to cause material **financial loss**, or result in **material operational**, **regulatory** or **reputational** impact, for the **tender** under review across the Group/Operating Division indicating a material deviation from the HVT Methodology/PPM.

ANNEXURE YL 12

COMMISSION OF INQUIRY INTO STATE CAPTURE

TRANSNET

9

ANNEXURE A

EXCERPT FROM THE 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

"4.2 **Acquisition of 599 Electric Locomotives**

RESOLVED that the Board:

- Approved the tender evaluation process.
- 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"

ANNEXURE YL 13

TRANSNET

10

EXCERPT FROM THE 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

"4.3 **Acquisition of 465 Diesel Locomotives**

RESOLVED that the Board:

- Approved the tender evaluation process.
- 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"

Results of scoring

1. Price

The result of the "Price" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER			
			1	2	3	4

<u>**Price Evaluation Criteria (Escalations and hedging costs)**</u>

- The Board approved evaluation criteria supplied to the CFET (Finance) indicated that the price evaluation must be done on the basis of the price including foreign exchange hedging costs and escalations;

- The CFET (Finance) was unable to evaluate on the basis of a fixed price including escalations and hedging costs (refer explanations in the sections below);

- The price evaluation was therefore done based on the price excluding hedging and escalation costs for all bidders. The risk impact of this is outlined in the "Overall Risks" section of this report;

<u>Escalations</u>

- The RFP requested bidders to submit a price in line with the following options:

  - Fixed pricing;
  - Escalation based pricing;
  - Indexation formula's used in pricing calculations;

  Most bidders chose the option of providing prices based on either escalation or indexation based pricing. Most of the bidders did not offer a fixed price as was required by the Board approved evaluation criteria in order to conduct the evaluation;

- It was noted that bidders provided various differing escalation regimes that were not comparable to normalise a 'Base' price over the period of the locomotive supply contract;

- Some bidders were not willing to provide fixed pricing (including escalation) over the delivery period due to the risks involved for them in this type of a pricing mechanism;

<u>Hedging Costs</u>

- The wording of the RFP with regard to foreign exchange hedging costs was subject to interpretation in that bidders were recommended (but not required) to provide a price including hedging costs;

- The RFP stipulated that TFR would prefer a Rand based contract and that the bidders must submit the cost of hedging and a hedging strategy. Although some bidders did provide the cost of hedging, they stated clearly that appropriate hedging strategies will be discussed and agreed upon at the contract award stage. In addition as part of their RFP response some bidders provided the cost of hedging whereas other bidders did not submit the cost of hedging;

- Through a process of clarification and in order to ensure that hedging costs were excluded from their 'Base' price, all bidders were requested to confirm whether their 'Base' prices quoted excluded foreign exchange hedging costs and if these were included to then provide the quantum thereof. Bidders were also requested to provide us with an estimated cost of hedging whether included in the Base price or not;

- As the cost of hedging will most likely change due to exchange rates fluctuating between evaluation and final contract signature date, and because the cost of hedging will in any case be base-lined, checked for reasonability by Transnet Treasury, and agreed to on the date of contract signature, it would be more appropriate to exclude the cost of hedging from the evaluation at this point;

- Post these clarifications we noted that one bidder (bidder 1) did not provide TFR with the estimated cost of hedging;

- An important point to note is that none of the bidders indicated that they were unwilling to enter into a foreign exchange hedging arrangement with TFR at the time of contract signature;

<u>Final agreed evaluation methodology (escalation & hedging costs)</u>

- In order to proceed with the price evaluation on a consistent and fair basis, the CFET (Finance) agreed, after consultation with SCS, that it would be more appropriate to exclude escalations and hedging costs from the price evaluation and thereby attain a more normalised price for evaluation purposes. This was agreed to with SCS on the proviso that this change to the evaluation methodology be brought to the attention of the Steering Committee and Transnet Board for approval prior to the award of the contract;

M.M

Normalising the "Base" Price for evaluation

Technical Options

- The 'Base' price, as submitted by all bidders was normalised for the "technical option" items as requested by the technical evaluation team. Refer "Annexure B" which contains a list of all option items that were normalised;

- The provisioning of ECP/WDP and RDP was a mandatory requirement per the technical specifications. Based on our discussions with CFET (Technical), all bidders have confirmed, in the technical response that they fully complied with this requirement. It was therefore concluded that all bidders had included the cost of provisioning in their base price and no adjustment to this item was required for evaluation purposes.

- The cost of either ECP/WDP or RDP was included in the base price, as the CFET (Technical) have advised that it is probable that this option would be exercised. We were advised by the GM Logistics Integrator (Pragasen Pillay) as to the number of ECP/WDP, RDP or ECP/WDP/RDP combination that must be applied over the fleet. (refer Annexure B for allocation and associated cost of this split);

- All bidders included the provisioning of ECP/WDP or RDP into in their price; however only bidder 2 included the equipment cost in their base price. Based on the advice from CFET (Technical) we therefore included the equipment cost of ECP/WDP and RDP for all other bidders onto their base price for the purpose of normalising the base price;

Rebasing the price for foreign exchange differences

- The RFP did not indicate the date that bidders should use to convert foreign exchange as part of the imported content of their price. As such bidders made their own assumptions and each used a rate and date of their choice. The result of this is that a comparison of base prices with different dates and rates would be inconsistent. In order to normalise the price for changes due to foreign exchange differences and movements since RFP closing date, the CFET (Finance) normalised the prices based on exchange rates as at 11th November 2013 (USD/ZAR 10.37, EUR/ZAR 13.91). As a consequence bidders were requested in a clarity question to confirm their foreign currency components included in their 'Base' price. These foreign currency components were converted at spot rates on the 11th of November 2013 for the purpose of comparing prices between bidders;

M.M

Using TE as a main subcontractor

- The RFP part 2 dictates as follows "participation of TRE in this locomotive procurement process will be prescribed". In terms of the evaluation governance process CFET (Finance) does not have access to 'Supplier Development' files. As such CFET (Finance) assumed that all bidders have provided pricing based on the utilisation of TE as the main subcontractor;

- SCS however advised CFET (Finance) that the Supplier Development files submitted by bidders indicated that Bidder 1 did not specify the use of TE as the main subcontractor and that this could have a potential price adjustment implication. SCS also mentioned that bidders were likely to make different assumptions in the use of TE as a main subcontractor including the percentage that would be subcontracted. These assumptions which were not specified by TFR in the RFP process could differ significantly between bidders. Accordingly SCS subsequently decided to obtain clarity from bidders on this matter;

- SCS in conjunction with the TFR CE and Transnet GCE and GCFO decided that clarity should only be obtained from those bidders who included TE as a main subcontractor. The clarity request was to establish what proportion of the bidder's price related to the use of TE;

- Accordingly the methodology provided to the CFET (Finance) was that all bidders should be evaluated excluding the use of TE as a main subcontractor in order to normalise the base on which to evaluate price;

- Based on this decision clarity responses were only issued to Bidder 2 and Bidder 4 (those bidders who indicated the use of TE as a subcontractor);

- Bidder 3 had already provided pricing with and without the use of TE as a subcontractor and indicated that the impact of not using TE as a subcontractor would be a decrease in price of R 1 640 000 per locomotive;

- Clarity responses were received from these bidders who indicated the impact on price and the new bid price for 465 locomotives if TE was not used as subcontractor. The summary of these responses is as follows:

    - Bidder 4 provided the required information as requested and indicated that the impact of not using TE as a subcontractor would be a decrease in price of R 1 046 060;

    - Bidder 2 provided the required information, however we noted that their new submitted bid price excluding TE as a subcontractor did not reconcile to their original bid price. This posed a risk to the evaluation of the price and the CFET (Finance) subsequently consulted with SCS to explain the concern as the impact of this difference was significant in relation to the final scoring on price;

- o It was subsequently decided by SCS that further clarity from Bidder 2 was required to understand this difference. SCS together with a representative of the finance team and in the presence of TIA engaged Bidder 2 telephonically on the evening of the 4 December 2013 to discuss this un-reconciled difference;

- o Bidder 2 indicated that the difference related to them providing a price based on the quote provided for fixed pricing as per the 1st clarification process instead of the price per their original tender submission. Subsequent to this telephonic conversation Bidder 2 submitted a revised clarity and the subsequent submission from them indicated that the impact of not using TE as a subcontractor would be a decrease in price of R 1 530 190;

- o The CFET (Finance) subsequently completed the evaluation on this basis;

- In summary the impact of excluding TE from the normalised base price is as follows:

Bidder 1	Bidder 2	Bidder 3	Bidder 4
n/a	-1 530 190	-1 640 000	-1 046 060

- The normalised pricing used for evaluation purposes of all bidders (capital acquisition cost) excluding TE as the main subcontractor i.e. using private sector as the main subcontractor is summarised as per the table below;

[illegible]	[illegible]	[illegible]	[illegible]
44 232 853	33 254 876	42 761 272	27 493 481

Assumptions used for pricing

Other than as noted above the following additional assumptions were used by the CFET (Finance) in the price evaluation:

- Where the import content percentage was not supplied by bidders as part of their pricing proposal and or clarification then the local content declaration form as supplied by bidders was used to obtain the imported content;

- The RFP requested break point pricing for batches of locomotives. As the TFR requirement is for 465 locomotives, the CFET (Finance) used the pricing provided by bidders for 465 locomotives to conduct the evaluation;

M.M

- Bidder 3 quoted for a price including and excluding utilising TE as the main build subcontractor. A reduced price of R 1 640 000 per locomotive was offered with private sector build instead of TE, coupled with limitations to localisation. The reduced price was taken into account for evaluation purposes as the evaluation was done on the basis of bidders using the private sector as the main sub-contractor for the build;

- The price of a standard list of capital spares and spare parts was requested as part of the RFP, to be included in the acquisition cost of the locomotive. Where bidders added additional items to this list of capital spares and spare parts then these items were excluded for evaluation purposes in order to ensure that the bidders were evaluated on the standard list thereby ensuring the evaluation was performed on an "like for like" basis. In instances where a bidder did not provide a price for a capital spare or spare part as per the standard list, then an average price of the remaining bidders was used to ensure that a realistic comparison was achieved;

- The Bonus points for Value Added services were not assessed. The main factor for this decision is that this item was not clearly defined in the RFP and the technical team had no view of the requirement of "value add" aspects and the technical team was not allowed to have access to the financial files. Therefore the finance team could not assess value added services;

M M

2. Total Cost of Ownership (TCO)

TCO evaluation criteria

The evaluation of TCO is conducted based on the following five elements (a maximum of 20 points in total excluding the bonus point allocation):

i. scheduled maintenance (8 points);
ii. lost revenue (4 points);
iii. unscheduled maintenance (4 points);
iv. energy utilisation (4 points);
v. overall TCO result bonus points (2 points);

Points are allocated individually for each of the five elements above.

- Whilst reviewing the submissions received from bidders on the TCO model, we noticed that the results of the scheduled and unscheduled maintenance varied considerably. The CFET (Finance) was unable to ascertain whether these varied results were as a result of bidders' interpretations of the TCO model or as a result of the different maintenance regimes of their respective locomotives. The result of this is that the evaluation of the scheduled and unscheduled maintenance could be subjective. The items that contribute to the subjectivity are as follows:

  i. bidders used different labour rates;
  ii. bidders used different prices for similar components;
  iii. bidders assumed different types of maintenance regimes and;
  iv. bidders assumed different failure rates for unscheduled maintenance;

- Through discussions with CFET (Technical), we were however advised that the above could be normalised by CFET (Technical), if required;

- The matter was discussed together with SCS and CFET (Technical) and it was decided that due to the subjectivity of this item, and because we did not want to make assumptions to change bidders submissions, different scenarios including and excluding scheduled and unscheduled maintenance should be prepared to provide the Steering Committee with appropriate information to make a final decision;

- As per confirmation from CFET (Technical) all bidders confirmed as part of their technical submission, that they would meet the required reliability regime i.e. that the locomotives offered would achieve less than 15 faults per million kilometres. This contributes to reducing the risk of an unreliable locomotive and as such provide some comfort should the unscheduled maintenance be excluded from the TCO evaluation. The draft supply agreement includes a penalty regime whereby should the stated minimum reliability regime (15 faults per

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million kilometres) not be reached then the penalty clauses would come into effect;

The results of the "TCO" evaluation scenarios are reflected below:

Scenario 1 – all elements of TCO included:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER			
			1	2	3	4

[redacted]

Scenario 2 - (TCO) excluding unscheduled maintenance and excluding bonus point allocation

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER			
			1	2	3	4

[redacted]

Scenario 3 - (TCO) excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER			
			1	2	3	4

[redacted]

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Assumptions used for TCO model evaluation

- The TCO model as submitted by all bidders was used as the basis for the evaluation;
- Escalation was normalised for all bidders for purposes of appropriate comparison. CPI + 2 % was used as escalation for all bidders. CPI was obtained from the current year's budget guidelines;
- The WACC rate was obtained from the latest Group Financial Planning Policy issued on the 1st of August 2012, and was used for the present value calculations;
- The submissions by bidders in respect of failure rates, maintenance strategies, optional components requiring unscheduled replacement and the timing of maintenance interventions varied significantly, however, as a finance team we assumed that these submissions are relative to their locomotive/product type as well as their maintenance regime and strategies. Accordingly we used the TCO models as submitted by bidders to conduct the evaluation;
- For the purposes of evaluating lost revenue as part of the TCO evaluation we assumed that TFR's expected delivery schedule would be an equal number of locomotives per month, as per the delivery batches stipulated within the relevant years within the RFP (see delivery schedule notes below). The current average TFR leasing rates per day was used to determine the lost revenue value for all bidders. The lease revenue rate per day used for all bidders was R 18 707 per locomotive;
- The energy model was designed by CFET (Technical) and was fully evaluated by CFET (Technical) without the involvement of CFET (Finance). CFET (Finance) incorporated the results of the energy model evaluation into the stage 6 evaluation of TCO;
- Some bidders included extra optional components for unscheduled maintenance which other bidders have not included in their TCO model. We have not removed this from the TCO model as suppliers would know the unscheduled maintenance costs of their loco's best.

3. Delivery schedule

The result of the "Delivery" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER			
			1	2	3	4
[redacted]						

Assumptions used for delivery schedule evaluation

- The effective date of contract signature was normalised to 1 September 2013 for all bidders in order to ensure consistent scoring;
- The RFP closing date was extended by about 7 months from 16 October 2012 to 30 April 2013. As such, for the purpose of evaluation, the expected start date for delivery (previously March 2014) was aligned accordingly and was moved forward by 7 months for all bidders (October 2014);
- Where bidders provided an accelerated delivery schedule whereby they would deliver earlier than indicated in the RFP, and would complete delivery of all 465 locomotives earlier than expected in the RFP, then these bidders were allocated the full points applicable for delivery for each subsequent year (where points were allocated) after their delivery is fully completed;
- TFR would conduct acceptance tests prior to accepting locomotives. The length of time taken to conduct acceptance testing is completely under the control of TFR. Bidders were not advised how long this acceptance testing would take within the RFP. As such bidders made their own assumptions regarding the time taken to conduct acceptance testing. In order to ensure consistency, the delivery date as stipulated by bidders was used to conduct the evaluation instead of the acceptance date;
- Some bidders provided an alternative delivery schedule based on more "imported content" This option was not considered in any of the team's evaluations as the preferred position is to maximise local content;

- The delivery schedules of all bidders is summarised as per the table below:

	Oct 14	Oct 15	Oct 16	Oct 17	Oct 18	Beyond	Total
TFR Plan	100	100	100	100	65	0	465
Bidder 1	0	26	98	133	146	62	465
Bidder 2	0	44	107	140	141	33	465
Bidder 3	0	6	82	100	100	177	465
Bidder 4	1	57	165	165	77	0	465

The above delivery schedule assumes a contract effectiveness date of 1 September 2013. The delivery schedule above would move out by an equal number of months from 1 September 2013 to the actual date the contract is signed.

4. Payment terms

The result of the "Payment Terms" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER 1	2	3	4
[redacted]						

Assumptions used in payment term evaluation

- The approved evaluation criteria required the evaluation of payment terms on a Net Present Value (NPV) basis. Therefore cash flows needed to be constructed for all bidders using their declared payment terms. NPV cash flows are generally a factor of payment terms, delivery dates, discount rate and a price. As "price" and "delivery" are evaluated separately as part of this stage 6 evaluation, the CFET (Finance) standardised the price per loco (R 30 million) and the delivery schedule (as per the RFP) for all bidders for the "payment terms" portion of the stage 6 evaluation. This would have the effect of isolating the payment terms offered by bidders on the cash flows for evaluation purposes. The primary reason for this is to ensure that bidders who provide higher/lower prices and/or faster/slower delivery schedules are not benefited or penalised twice in the evaluation process;

- The draft supply agreement issued as annexure I of the RFP stipulated a different % preferred payment terms for TFR as compared to the preferred payment terms stipulated in the RFP. After discussion with SCS we were advised that bidders were advised through a clarification that the preferred payment terms of TFR is as stipulated in the RFP. Where payments terms conflicted between the RFP response and the supply agreement response the payment terms as offered by bidders in response to the RFP was used for the evaluation purposes;

- Where bidders provided a percentage for the deposit payment, we applied that percentage to the standardised price to determine the deposit payment, whereas where bidders provided a fixed Rand amount we utilised that fixed Rand amount as a deposit payment on the standardised price;

- The WACC rate (12.56%) was obtained from the latest Group Financial Planning Policy issued on the 1st of August 2012, and was used for the present value calculations;

- We used a standardised retention period of 6 months from acceptance date for all bidders. The reason for this is that some bidders had indicated retention period to be when availability and reliability targets are achieved which could vary and can depend on various factors;

- The payment terms of all bidders is summarised as per the table below:

	Bidder 1	Bidder 2	Bidder 3	Bidder 4
Deposit	1.08%	1.43%	25.00%	10.00%
Acceptance	88.92%	88.57%	75.00%	87.00%
Retention	10.00%	10.00%	0.00%	3.00%

5. RFP & Contractual Compliance

The result of the "RFP & Contractual Compliance" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER			
			1	2	3	4
[redacted]						

- Evaluation of the contractual compliance matters related to the responses to the draft supply agreement by bidders was completely evaluated by Mr Kenneth Diedricks (TFR General Counsel) from the TFR legal department. CFET (Finance) incorporated the results of the contractual compliance evaluation into the stage 6 evaluation of RFP & Contractual Compliance;

- Evaluation of the RFP compliance matters related to the administrative responsiveness to the RFP by bidders was evaluated by Ms Lindiwe Mdletshe from the TFR SCS department. CFET (Finance) incorporated the results of the RFP compliance evaluation into the stage 6 evaluation of RFP & Contractual Compliance;

- References were provided by all bidders and therefore SCS assumed these to be adequate and scored full marks for all bidders. We were advised by SCS that they would contact references provided once a preferred bidder is chosen.

6. Financial Stability

The result of the "Financial Stability" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER			
			1	2	3	4
[redacted]						

- The financial stability of the bidders was assessed as part of stage 2 of the evaluation process. Please refer to the CFET (Finance) report relating to stage 2 issued on 31st July 2013. The scoring from stage 2 was carried forward to stage 6 of the evaluation.

OVERALL RISKS

The following risks must be communicated to the steering committee and considered prior to final contract award:

Price

Hedging and Escalations

- The evaluation and scoring for pricing has been determined and explained above. The CFET (Finance) would like to bring to the attention of the steering committee that as a result of the evaluation of price on the basis of excluding hedging costs and escalation costs, that the following additional aspects be considered prior to awarding the contract. These factors when considered either individually or in combination could have a significant impact on the final negotiated price:

  i. Hedging;
  ii. Escalation and;
  iii. Break pricing;

  A summary of the potential impact of the items above on the evaluated price is summarised below in order to provide the steering committee with a better understanding:

Hedging
Note: Bidder 1 did not quote for forex hedging costs

[redacted]			
0	100 000	9 926 569	2 798 120

Escalations
Note: Bidder 3 did not quote for escalations

[redacted]			
7 968 533	5 146 518	0	5 076 054

Break Point Pricing

- As the TFR requirement is for 465 locomotives, the CFET (finance) used the pricing provided by bidders for 465 locomotives to conduct the evaluation. Break point pricing was provided by all bidders and the price per locomotive varies dependant on the batch size of the order placed. This must be considered should TFR decide to place an order for a smaller batch as the evaluation was not conducted based on smaller batches. A decision regarding whether smaller batches will be purchased has not yet been made and therefore was unknown at the time of the evaluation. The table below indicates the break point pricing offered by bidders (based on their original tender responses where bidders used the main subcontractor of their choice):

1	42 872 500	41 361 250	40 857 500	40 605 625	40 500 000
2	40 057 313	34 310 215	32 394 515	31 436 666	30 929 353
3	41 072 258	38 106 409	36 880 878	36 490 000	36 490 000
4	30 773 333	29 884 636	28 289 553	26 690 788	25 624 580
Loco's cumulative	100	200	300	400	465
Loco's per year	100	100	100	100	65

TE as a subcontractor

- With reference to the section of the report above dealing with TE as the main subcontractor and the impact on price, the following matters need to be considered by the steering committee:

  - Although the price has been normalised to exclude TE for evaluation purposes, the use of TE as a main subcontractor is highly probable as this is a requirement as per the PFMA approval letter from the DPE. As such prices will have to be negotiated with the preferred bidder/s including TE and thus needs to be considered by the steering committee prior to the conclusion of the evaluation process as this could have an impact on the final price;

  - The price that bidders provided based on their choice of sub-contractor is significantly different from the price used for evaluation purposes (where the incremental cost of TE was excluded). This could change the evaluation result and the final price contracted;

  - Bidder 1 has not quoted using TE as the main subcontractor. No clarity was obtained from this bidder as mentioned in the report above. If clarity was obtained from this bidder and they indicated that there is no change to their price whether TE will be used or not then the impact on the evaluation scoring result could be significant;

  - In addition it should be noted that should Bidder 1 become the preferred bidder then there is a risk of a potential price adjustment and possible protracted negotiations. The finance team was unable to reasonably quantify the quantum of this potential price adjustment. It should be further noted that the use of TE as the sub-contractor could be an incremental adjustment to Bidder 1"s price based on the differential between using TE as a subcontractor versus the subcontractor costs already included in the price of Bidder 1's submission;

  - The delivery regime that bidders provided was based on their choice of sub-contractor (some with TE and some using private sector subcontractors). This could change should bidders be required to use TE.

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as a sub-contractor. A different delivery schedule could have an impact on the evaluation result and the final delivery schedule contracted;

Impact of capital and maintenance spares on price

- Standardised quantities of capital spares required were provided to all bidders as part of the RFP. All bidders quoted for these capital spares based on the quantities provided and this has been included in the price of the locomotive used for evaluation purposes. Following discussions with CFET (Technical) we were advised that as failure rates of these capital spares is not yet known, the quantities requested may not be completely accurate at this point and may change once the locomotives are placed into production;

- Quantities of maintenance spares required were provided by bidders as part of the RFP. All bidders quoted for these maintenance spares based on their knowledge of historical failure rates and this has been included in the price of the locomotive used for evaluation purposes. Following discussions with CFET (Technical) we were advised that as failure rates of these spares is not yet known by TFR, the quantities provided may not be completely accurate at this point and may change once the locomotives are placed into production.

TCO Model

The maintenance and intervention regimes of the selected preferred bidder must receive significant scrutiny during the negotiation phase. The CFET (Technical) will be required to have a detailed understanding of the related submissions and should conduct the necessary reviews and assessments of the maintenance and intervention regimes of the selected bidder.

We would recommend that a clause be inserted into the supply contract whereby a penalty is imposed upon the supplier for higher actual TCO costs as compared to their tender submission. This penalty clause can be built in on the basis of a periodic review (possibly every 5 years) of the actual energy usage, scheduled and unscheduled maintenance costs of the locomotives as compared to their tender submissions.

Delivery

The delivery schedule reflected in this report assumes a contract effectiveness date of 1 September 2013. This delivery schedule would move out by an equal number of months from 1 September 2013 to the actual date the contract is signed.

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MATTERS FOR APPROVAL OF THE STEERING COMMITTEE

The CFET (Finance) requests as part of this evaluation and based on the contents of the report above the:

1. Approval of the price evaluation criteria on the basis of excluding hedging and escalation costs;
2. Approval of all assumptions used for scoring as outlined in this report;
3. Approval of the TCO scenario to be used for final evaluation;
4. Approval of the price methodology provided to the CFET (Finance) for evaluation purposes to exclude the impact of TE on price.

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CONCLUSION

Based on the scoring by the CFET (Finance) using the assumptions mentioned above, the following is a summary of the results of our evaluation:

Scenario 1 - all elements of TCO included

[redacted]

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER 1	BIDDER 2	BIDDER 3	BIDDER 4
1	Price	30.00%	18.00%	0.00	0.00	0.00	30.00
2	Total Cost Of Ownership (TCO)	20.00%	12.00%	10.00	0.00	0.00	12.00
3	Delivery Schedule (DS)	25.00%	15.00%	4.00	6.00	4.00	9.00
4	Payment Terms (PT)	10.00%	6.00%	10.00	10.00	8.00	9.00
5	RFP & Contractual Compliance (CC)	10.00%	6.00%	8.75	8.75	7.00	7.50
6	Financial Stability (FS)	5.00%	3.00%	2.38	3.00	3.25	2.38
	[redacted]						

Scenario 2 - (TCO) excluding unscheduled maintenance and excluding bonus point allocation

[redacted]

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER 1	BIDDER 2	BIDDER 3	BIDDER 4
1	Price	30.00%	18.00%	0.00	0.00	0.00	30.00
2	Total Cost Of Ownership (TCO)	20.00%	12.00%	4.00	0.00	0.00	12.00
3	Delivery Schedule (DS)	25.00%	15.00%	4.00	6.00	4.00	9.00
4	Payment Terms (PT)	10.00%	6.00%	10.00	10.00	8.00	9.00
5	RFP & Contractual Compliance (CC)	10.00%	6.00%	8.75	8.75	7.00	7.50
6	Financial Stability (FS)	5.00%	3.00%	2.38	3.00	3.25	2.38
	[redacted]						

Scenario 3 - (TCO) excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER			
				1	2	3	4
1	Price	30.00%	18.00%	0.00	0.00	0.00	30.00
2	Total Cost Of Ownership (TCO)	20.00%	12.00%	4.00	0.00	0.00	4.80
3	Delivery Schedule (DS)	25.00%	15.00%	4.00	6.00	4.00	9.00
4	Payment Terms (PT)	10.00%	6.00%	10.00	10.00	8.00	8.00
5	RFP & Contractual Compliance (CC)	10.00%	6.00%	8.75	8.75	7.00	7.50
6	Financial Stability (FS)	5.00%	3.00%	2.38	3.00	3.25	2.38

10/12/13

Yousuf Laher
Executive Manager, Finance

2013/12/10

Danie Smit
Deputy Treasurer Middle Office (Group)

Zunaid Vally
Executive Manager, Finance
10/12/2013

10/12/2013

Thabo Seapi
Senior Manager, Finance

Tsietsi Tlaletsi
Debt Manager Group Treasury
10/12/2013

Mohammed Moola
Senior Manager, Finance
10/12/2013

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Annexure A

Detailed Scoring Criteria and Allocated Points

Price:

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER 1	BIDDER 2	BIDDER 3	BIDDER 4
	[redacted]						
1.1	Lowest Technically Acceptable Capital Acquisition Cost (LTACAC) (refer TCO model) (including duties or customs, escalations, insurances, engineering support, special tooling and test equipment costs, capital spares costs, consumables, Set up costs, Spares costs and spares holding cost, forex hedging costs) per loco						
	Bidder with lowest price & or any bidder within 0.99% of LTACAC	30		44 232 853	33 254 876	42 761 272	27 493 481
	any bidder within 1% to 1.99% of LTACAC	26					
	any bidder within 2% to 2.99% of LTACAC	20					
	any bidder within 3% to 4.99% of LTACAC	15					
	any bidder within 5% to 7.99% of LTACAC	10					
	any bidder within 8% to 12.99% of LTACAC	5					
	>13% of LTACAC	0					
	% result			61%	21%	56%	0%
	Final score			[redacted]			
1.2	Value added - 1 extra Bonus point						
	Value Add Services included in LTACAC to the value of > R 200 k per loco eg: Free Software & upgrades to software. Free fitting & replacement of parts etc.	1		[redacted]			

Note that the maximum points available is 30 including the bonus point

Notes:

1 The Bonus points for Value Added services was not assessed . The main factor for this assumption is that these items are not clearly defined in RFP and the technical team had no view of the requirement of "value add" aspects. Therefore the finance team did not have the relevant expertise to assess value added services.

2 Note: escalations and forex hedging costs were excluded from the price evaluation - refer notes in detailed evaluation sheet.

3 The Price evaluation has been done on the basis of excluding the cost of using TE as the main subcontractor. Bidders 2 & 4 were requested to quoted as if another private sector subcontractor is used (this was requested via clarification from bidder 2 & 4). SCS only issued the clarifications to those bidders that indicated that they had used TE as the main subcontractor per the SD files. Bidder 3 already quoted a price including and excluding TE per their 1st tender response.

Annexure A (continued) – Detailed scoring criteria and allocated points - TCO

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER			
[redacted]						
1.1 Lowest Total cost of Ownership (LTCO) - NPV - for preventative/scheduled maintenance only (excluding corrective maintenance, lost revenue & energy)						
Lowest LTCO & any bidder within 0.99% of LTCO	8		13 490 940	34 379 678	11 664 600	7 481 516
any bidder within 1% to 1.99% of LTCO	6					
any bidder within 2% to 2.99% of LTCO	4					
any bidder within 3% to 7.99% of LTCO	2					
any bidder within 8% to 12.99% of LTCO	1					
>13% of LTCO	0					
% Result			80%	360%	56%	0%
Score			[redacted]	[redacted]	[redacted]	[redacted]
1.2 Lost Revenue - Opportunity cost						
Lowest Lost Revenue (LLR) - NPV						
Lowest LLR & any bidder within 0.99% of LLR	4		3 127 952 083	2 099 041 494	4 239 800 951	1 741 511 515
any bidder within 1% to 1.99% of LLR	3					
any bidder within 2% to 3.99% of LLR	2					
any bidder within 4% to 12.99% of LLR	1					
>13% of LLR	0					
% Result			80%	21%	143%	0%
Score			[redacted]	[redacted]	[redacted]	[redacted]
1.3 Corrective/unscheduled maintenance plan						
Lowest technically acceptable corrective maintenance cost of Ownership (LTACMCO) - NPV - corrective maintenance (excluding energy and						
Lowest LTACMCO & within 1.99% of LTACMCO	4		2 624 993	3 097 760	35 516 149	5 422 905
within 2% to 4.99% of LTACMCO	3					
within 5% to 7.99% of LTACMCO	2					
within 8% to 12.99% of LTACMCO	1					
>13% of LTACMCO	0					
% Result			0%	18.0%	1253.0%	106.6%
Score			[redacted]	[redacted]	[redacted]	[redacted]
1.4 Energy						
Lowest technically acceptable energy cost (LTEC) - NPV - (excluding corrective and preventative maintenance)						
Lowest LTEC & within 0.99% of LTCO	4		73 800 167	100 291 258	95 507 882	100 683 248
within 1% to 1.99% of LTEC	3					
within 2% to 3.99% of LTEC	2					
within 4% to 12.99% of LTEC	1					
>13% of LTEC	0					
% Result			0%	36%	29%	36%
Score			[redacted]	[redacted]	[redacted]	[redacted]
1.5 Bonus Points - overall lowest NPV for TCO (excluding lost revenue)						
Lowest overall NPV & within 0.99% of lowest overall NPV	2		89 916 120	137 768 594	142 677 631	113 567 669
within 1% to 2.99% of lowest overall NPV	1					
>2.99% of lowest overall NPV	0					
% Result			0%	53%	59%	26%
Score			[redacted]	[redacted]	[redacted]	[redacted]

Note that the maximum points available is 20 including the bonus point

Notes:

1 We used the TCO calculations as provided by bidders. Bidders could (not that they have) miscalculate and reflect a low lifecycle cost. This could expose TFR to risk of higher life cycle costs than that which was used for evaluation.
We recommend that a penalty clause is built into the contract to mitigate the risk of exposure of changes in the TCO over the life of the asset.

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Annexure A (continued)

Detailed Scoring Criteria and Allocated Points

Financial Stability:

7.5 NPAT/Total Equity
ROE

Greater than 40%	5					
Between 30% & 39.99%	4				32.3%	
Between 20% & 29.99%	3					
[redacted]				12.3%		10.6%
Between 5% & 9.99%	1		9.7%			
Less than 5%	0					
Score:			[illegible]	2	4	2

7.6 EBIT/Total Assets
ROA

Greater than 20%	5					
Between 15% & 19.99%	4					
Between 10% & 14.99%	3					
Between 5% & 9.99%	2			6.0%	9.6%	
[redacted]			4.88%			4.4%
Less than 2%	0					
Score:			1	2	2	1

7.7 EBIT/Net Finance Charges
INTEREST COVER

> 5 Times	5			6	18.36	
> 4 Times	4		4.91			
> 3 Times	3					
[redacted]						2.39
> 1 Times	1					
0	0					
Score:			4	5	5	2

7.8
CASH FLOW
Cash generated by operations

Minimum R 600m cash generated from Operations	5		2 581 637 108	3 428 168 194	44 325 757 500	264 961 932 500
Minimum R 400m cash generated from Operations	4					
[redacted]						
Minimum R 100m cash generated from Operations	2					
Minimum R 50m cash generated from Operations	1					
< R 50 m as compared to the best bidder	0					
Score:			5	5	5	5

Total score	19.00	24.00	26.00	19.00
Final Score	2.38	3.00	3.25	2.38

Final score would be determined by following formula: (total score/40)*5

ANNEXURE B

The table below indicates the items that were added or deducted to the base price as submitted by the bidders in order to normalise the price of the locomotive for evaluation purposes.

ADU for the driver assistant				37 726	To be included to the base price of tenderer 4 as all other bidders have included the item in their base price
Real time signal analysis	-18 700	-31 250			Deduct from the base price of Tenderer 1 and 2 as tenderer 3 and 4 excluded the item/option from their base price
Access of any information on locomotive should be accessible via any other locomotive in the consist			16 400	115 875	Add to the base price of Tenderer 3 and 4 as tenderer 1 and 2 included the item/option in their base price
Installation of ECP/WDP cabling		-348 874			All tenderers have included the provisioning in their price; however Tenderer 2 has also included the equipment cost in their base price and therefore we have excluded the equipment cost from their base price.
Installation of RDP cabling					All tenderers have included the provisioning in their price but have excluded the equipment cost in their base price and therefore no adjustment to the base price is required for evaluation purposes.
Installation of combination of RDP/WDP and cabling					All tenderers have included the provisioning in their price but have excluded the equipment cost in their base price and therefore no adjustment to the base price is required for evaluation purposes.
Supply of dummy train line power supplies and ECP junction boxes			7 191		Add to the base price of Tenderer 3 as tenderer 1, 2 and 4 have included the item in their price
It is an essential requirement that solid multi-wear wheels with the option of tyring the wheel be offered and that the wheels shall conform to AAR-Specification M-107 for class B wheels or an equivalent international standard to be agreed upon by Transnet Freight Rail.	29 222				Add to base price of tenderer 1, as all other tenderers have this option included.
Traction inhibit when park brakes are applied	-12 500		-9 980		Deduct from Tenderer 1 and 3 as tenderers 2 and 4 have excluded this item in their base price or not provided a price for this item.
Fire Detection				70 135	Add to the base price of Tenderer 4 as tenderer 1, 2 and 3 have included the item in their price
MU Operation (Inter locomotive communication)		32 000			Add to the base price of Tenderer 2 as tenderer 1, 3 and 4 have included the item in their price
Equipment cost of WDP/ECP and RDP combination and RDP in a ratio of 379:89 the fleet of 468 locos	498 086	544 523	1 046 034	657 606	As per the technical team, this option will probably be exercised,. On the 2nd Dec 2013, JD provided the split which we used to calculate the unit price per loco for this option
Total adjustment to base price	**496 108**	**196 389**	**2 059 637**	**881 342**	

Workings					
Cost of WDP/ECP equipment	430 000	348 874	1 090 100	767 325	
Cost of RDP equipment	450 000	480 000	957 596	544 841	
Combination Price (WDP/ECP and RDP)	710 000	828 874	1 435 779	1 154 557	
Equipment cost of WDP / ECP and RDP combination and RDP only in a ratio of 379:89 the fleet of 465 locos	498 086	544 523	1 046 034	657 606	As per the technical team, this option will probably be exercised,. On the 2nd Dec 2013, JD provided the split which we used to calculate the unit price per loco for this option

Annexure C

The table below indicates the standard delivery schedule used for the payment terms evaluation.

Diesels

Standard delivery schedule used for evaluating payment terms of bidders

	Year 1	Year 2	Year 3	Year 4	Year 5	
April	9	9	9	9	6	
May	9	9	9	9	6	
June	9	9	9	9	6	
July	9	9	9	9	6	
August	8	8	8	8	6	
September	8	8	8	8	5	
October	8	8	8	8	5	
November	8	8	8	8	5	
December	8	8	8	8	5	
January	8	8	8	8	5	
February	8	8	8	8	5	
March	8	8	8	8	5	
Total	100	100	100	100	65	465

2. Total Cost of Ownership (TCO)

TCO evaluation criteria

The evaluation of TCO is conducted based on the following five elements (maximum of 20 points in total excluding the bonus point allocation):

i. scheduled maintenance (8 points);
ii. lost revenue (4 points);
iii. unscheduled maintenance (4 points);
iv. energy utilisation (4 points);
v. overall TCO result bonus points (2 points);

Points are allocated individually for each of the five elements above.

- Whilst reviewing the submissions received from bidders on the TCO model, we noticed that the results of the scheduled and unscheduled maintenance varied considerably. The CFET (Finance) was unable to ascertain whether these varied results were as a result of bidders' interpretations of the TCO model or as a result of the different maintenance regimes of their respective locomotives. The result of this is that the evaluation of the scheduled and unscheduled maintenance could be subjective. The items that contribute to the subjectivity are as follows:

  i. bidders used different labour rates;
  ii. bidders used different prices for similar components;
  iii. bidders assumed different types of maintenance regimes and
  iv. bidders assumed different failure rates for unscheduled maintenance;

- Through discussions with CFET (Technical), we were however advised that the above could be normalised by CFET (Technical), if required;

- The matter was discussed together with SCS and CFET (Technical) and it was decided that due to the subjectivity of this item, and because we did not want to make assumptions to change bidders submissions, different scenarios including and excluding scheduled and unscheduled maintenance should be prepared to provide the Steering Committee with appropriate information to make a final decision;

- As per confirmation from CFET (Technical) all bidders confirmed as part of their technical submission, that they would meet the required reliability regime i.e. that the locomotives offered would achieve less than 15 faults per million kilometres. This contributes to reducing the risk of an unreliable locomotive and as such provide some comfort should the unscheduled maintenance be excluded from the TCO evaluation. The draft supply agreement includes a penalty regime whereby should the stated minimum reliability regime (15 faults per million kilometres) not be reached then the penalty clauses would come into effect;

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The results of the "TCO" evaluation scenarios are reflected below:

Scenario 1 - all elements of TCO included:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
			1	2	3	4	5	6	7
[redacted]									

Scenario 2 - (TCO) excluding unscheduled maintenance and excluding bonus point allocation

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
			1	2	3	4	5	6	7
[redacted]									

Scenario 3 - (TCO) excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
			1	2	3	4	5	6	7
[redacted]									

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Assumptions used for TCO model evaluation

- The TCO model as submitted by all bidders was used as the basis for the evaluation;

- Escalation was normalised for all bidders for purposes of appropriate comparison. CPI + 2 % was used as escalation for all bidders. CPI was obtained from the current year's budget guidelines;

- The WACC rate (12.56%) was obtained from the latest Group Financial Planning Policy issued on the 1st of August 2012, and was used for the present value calculations;

- The submissions by bidders in respect of failure rates, maintenance strategies, optional components requiring unscheduled replacement and the timing of maintenance interventions varied significantly, however, as a finance team we assumed that these submissions are relative to their locomotive/product type as well as their maintenance regime and strategies. Accordingly we used the TCO models as submitted by bidders to conduct the evaluation;

- For the purposes of evaluating lost revenue as part of the TCO evaluation we assumed that TFR's expected delivery schedule would be an equal number of locomotives per month, as per the delivery batches stipulated within the relevant years within the RFP (see delivery schedule notes below). The current average TFR leasing rates per day was used to determine the lost revenue value for all bidders. The lease revenue rate per day used for all bidders was R 24 632 per locomotive;

- The energy model was designed by CFET (Technical) and was fully evaluated by CFET (Technical) without the involvement of CFET (Finance). CFET (Finance) incorporated the results of the energy model evaluation into the stage 6 evaluation of TCO;

- Some bidders included extra optional components for unscheduled maintenance which other bidders have not included in their TCO model. We have not removed this from the TCO model as suppliers would know the unscheduled maintenance costs of their loco's best;

- The cost of major components and materials as submitted in the TCO models of bidders 5 & 7 looked abnormally low; this was clarified as part of the clarification request submitted to these bidders. Both bidders confirmed post clarification that the amounts quoted were correct.

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3. Delivery schedule

The result of the "Delivery" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
			1	2	3	4	5	6	7
[redacted]									

Assumptions used for delivery schedule evaluation

- The effective date of contract signature was normalised to 1 September 2013 for all bidders in order to ensure consistent scoring;
- The RFP closing date was extended by about 7 months from 16 October 2012 to 30 April 2013. As such, for the purpose of evaluation, the expected start date for delivery (previously March 2014) was aligned accordingly and was moved forward by 7 months for all bidders (October 2014);
- Where bidders provided an accelerated delivery schedule whereby they would deliver earlier than indicated in the RFP, and would complete delivery of all 599 locomotives earlier than expected in the RFP, then these bidders were allocated the full points applicable for delivery for each subsequent year (where points were allocated) after their delivery is fully completed;
- TFR would conduct acceptance tests prior to accepting locomotives. The length of time taken to conduct acceptance testing is completely under the control of TFR. Bidders were not advised how long this acceptance testing would take within the RFP. As such bidders made their own assumptions regarding the time taken to conduct acceptance testing. In order to ensure consistency, the delivery date as stipulated by bidders was used to conduct the evaluation instead of the acceptance date;
- Some bidders provided an alternative delivery schedule based on more "imported content" This option was not considered in any of the team's evaluations as the preferred position is to maximise local content;

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- The delivery schedules of all bidders is summarised as per the table below:

	Oct 15	Oct 16	Oct 17	Oct 18	Oct 19	Beyond	Total
Per RFP	65	130	130	130	144	0	599
Bidder 1	73	159	164	164	39	0	599
Bidder 2	166	142	146	145	0	0	599
Bidder 3	0	81	151	155	153	59	599
Bidder 5	20	133	130	130	138	48	599
Bidder 7	9	103	135	135	135	82	599

The above delivery schedule assumes a contract effectiveness date of 1 September 2013. The delivery schedule above would move out by an equal number of months from 1 September 2013 to the actual date the contract is signed.

4. Payment terms

The result of the "Payment Terms" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
			1	2	3	4	5	6	7
[redacted]									

<u>Assumptions used in payment term evaluation</u>

- The approved evaluation criteria required the evaluation of payment terms on a Net Present Value (NPV) basis. Therefore cash flows needed to be constructed for all bidders using their declared payment terms. Cash flows are generally a factor of payment terms, delivery dates, discount rate and a price. As "price" and "delivery" are evaluated separately as part of this stage 6 evaluation, the CFET (Finance) standardised the price per loco (R 31 million) and the delivery schedule (as per the RFP) for all bidders for the "payment terms" portion of the stage 6 evaluation. This would have the effect of isolating the payment terms offered by bidders on the cash flows for evaluation purposes. The primary reason for this is to ensure that bidders who provide higher/lower prices and/or faster/slower delivery schedules are not benefited or penalised twice in the evaluation process;

- The draft supply agreement issued as annexure I of the RFP stipulated a different % preferred payment terms for TFR as compared to the preferred payment terms stipulated in the RFP. After discussion with SCS we were advised

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that bidders were advised through a clarification that the preferred payment terms of TFR is as stipulated in the RFP. Where payments terms conflicted between the RFP response and the supply agreement response the payment terms as offered by bidders in response to the RFP was used for the evaluation purposes;

- Where bidders provided a percentage for the deposit payment, we applied that percentage to the standardised price to determine the deposit payment, whereas where bidders provided a fixed Rand amount we utilised that fixed Rand amount as a deposit payment on the standardised price;

- The WACC rate (12.56%) was obtained from the latest Group Financial Planning Policy issued on the 1st of August 2012, and was used for the present value calculations;

- We used a standardised retention period of 6 months from acceptance date for all bidders. The reason for this is that some bidders had indicated retention period to be when availability and reliability targets are achieved which could vary and can depend on various factors;

- The payment terms of all bidders is summarised as per the table below:

	[redacted]				
Deposit on effective date	8%	1.62%	1.62%	1.62%	1.62%
Milestone 2	8%		9.00%		
Milestone 3	8%		3.00%	0.00%	
Milestone 4			3.00%		
Milestone 5			5.00%		
Milestone 6			3.00%		
Total payments before acceptance	24.00%	1.62%	24.62%	1.62%	1.62%
On at locomotive acceptance	66%	88.38%	65.38%	98.38%	98.38%
Retention	10%	10.00%	10.00%	0.00%	-
Total	100.00%	100.00%	100.00%	100.00%	100.00%

- A detailed explanation as to how the scoring was arrived at is attached as Annexure D of this report.

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5. RFP & Contractual Compliance

The result of the "RFP & Contractual Compliance" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
			1	2	3	4	5	6	7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- Evaluation of the contractual compliance matters related to the responses to the draft supply agreement by bidders was completely evaluated by Mr Kenneth Diedricks (TFR General Counsel) from the TFR legal department. CFET (Finance) incorporated the results of the contractual compliance evaluation into the stage 6 evaluation of RFP & Contractual Compliance;

- Evaluation of the RFP compliance matters related to the administrative responsiveness to the RFP by bidders was evaluated by Ms Lindiwe Mdletshe from the TFR SCS department. CFET (Finance) incorporated the results of the RFP compliance evaluation into the stage 6 evaluation of RFP & Contractual Compliance;

- References were provided by all bidders and therefore SCS assumed these to be adequate and scored full marks for all bidders. We were advised by SCS that they would contact references provided once a preferred bidder is chosen.

6. Financial Stability

The result of the "Financial Stability" evaluation is reflected below:

WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
			1	2	3	4	5	6	7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- The financial stability of the bidders was assessed as part of stage 2 of the evaluation process. Please refer to the CFET (Finance) report relating to stage 2 issued on 31st July 2013. The scoring from stage 2 was carried forward to stage 6 of the evaluation.

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OVERALL RISKS

The following risks must be communicated to the steering committee and considered prior to final contract award:

Price

Hedging and Escalations

- The evaluation and scoring for pricing has been determined and explained above. The CFET (Finance) would like to bring to the attention of the steering committee that as a result of the evaluation of price on the basis of excluding hedging costs and escalation costs, that the following additional aspects be considered prior to awarding the contract. These factors when considered either individually or in combination could have a significant impact on the final negotiated price:

  i. Hedging;
  ii. Escalation and;
  iii. Break pricing;

  A summary of the potential impact of the items above on the evaluated price is summarised below in order to provide the steering committee with a better understanding:

Hedging

2 448 500	2 387 000	5 662 297	n/a	5 562 845	n/a	4 743 786

Escalations

13 794 150	2 613 000	12 878 150	n/a	0	n/a	9 004 798

Break Point Pricing

- As the TFR requirement is for 599 locomotives, the CFET (finance) used the pricing provided by bidders for 599 locomotives to conduct the evaluation. Break point pricing was provided by all bidders and the price per locomotive varies dependant on the batch size of the order placed. This must be considered should TFR decide to place an order for a smaller batch as the evaluation was not conducted based on smaller batches. A decision regarding whether smaller batches will be purchased has not yet been made and therefore was unknown at the time of the evaluation. The table below indicates the break point pricing offered by bidders (based on their original tender responses where bidders used the main subcontractor of their choice):

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	Batch 1	Batch 2	Batch 3	Batch 4	Batch 5
Bidder 1	49 860 694	37 247 559	34 555 142	33 245 507	30 955 000
Bidder 2	42 500 732	36 462 977	35 255 426	34 737 905	34 360 000
Bidder 3	81 168 577	51 030 239	45 006 189	42 355 684	39 908 949
Bidder 5	51 359 000	37 338 000	34 175 000	32 575 000	31 358 000
Bidder 7	51 264 417	42 438 403	39 742 636	37 201 313	29 880 000
Locos per year	65	130	130	130	144
Locos cumulative	65	195	325	455	599

TE as a subcontractor

- With reference to the section of the report above dealing with TE as the main subcontractor and the impact on price, the following matters need to be considered by the steering committee:

  - Although the price has been normalised to exclude TE for evaluation purposes, the use of TE as a main subcontractor is highly probable as this is a requirement as per the PFMA approval letter from the DPE. As such prices will have to be negotiated with the preferred bidder/s including TE and thus needs to be considered by the steering committee prior to the conclusion of the evaluation process as this could have an impact on the final price;

  - The price that bidders provided based on their choice of sub-contractor is significantly different from the price used for evaluation purposes (where the incremental cost of TE was excluded). This could change the evaluation result and the final price contracted;

  - Bidder 3 and Bidder 7 have not quoted using TE as the main subcontractor. No clarity was obtained from these bidders as mentioned in the report above. If clarity was obtained from these two bidders and they indicated that there is no change to their price whether TE will be used or not (as was the response from Bidder 5) then the impact on the evaluation scoring result could be significant;

  - In addition it should be noted that should Bidder 3 or 7 become the preferred bidder then there is a risk of a potential price adjustment and possible protracted negotiations. The finance team was unable to reasonably quantify the quantum of this potential price adjustment. It should be further noted that the use of TE as the sub-contractor could be an incremental adjustment to Bidder 3 or 7"s price based on the differential between using TE as a subcontractor versus the subcontractor costs already included in the price of Bidder 3 or 7's submission;

  - The delivery regime that bidders provided was based on their choice of sub-contractor (some with TE and some using private sector subcontractors). This could change should bidders be required to use TE as a sub-contractor. A different delivery schedule could have an impact on the evaluation result and the final delivery schedule contracted.

Impact of capital and maintenance spares on price

- Standardised quantities of capital spares required were provided to all bidders as part of the RFP. All bidders quoted for these capital spares based on the quantities provided and this has been included in the price of the locomotive used for evaluation purposes. Following discussions with CFET (Technical) we were advised that as failure rates of these capital spares is not yet known, the quantities requested may not be completely accurate at this point and may change once the locomotives are placed into production;

- Quantities of maintenance spares required were provided by bidders as part of the RFP. All bidders quoted for these maintenance spares based on their knowledge of historical failure rates and this has been included in the price of the locomotive used for evaluation purposes. Following discussions with CFET (Technical) we were advised that as failure rates of these spares is not yet known by TFR, the quantities provided may not be completely accurate at this point and may change once the locomotives are placed into production.

TCO Model

The maintenance and intervention regimes of the selected preferred bidder must receive significant scrutiny during the negotiation phase. The CFET (Technical) will be required to have a detailed understanding of the related submissions and should conduct the necessary reviews and assessments of the maintenance and intervention regimes of the selected bidder.

We would recommend that a clause be inserted into the supply contract whereby a penalty is imposed upon the supplier for higher actual TCO costs as compared to their tender submission. This penalty clause can be built in on the basis of a periodic review (possibly every 5 years) of the actual energy usage, scheduled and unscheduled maintenance costs of the locomotives as compared to their tender submissions.

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Delivery schedule

Some bidders' delivery schedules differed significantly from the requirements of Transnet. Although these bidders would score relatively low points in this area of scoring, the overall scoring may still be high due to other scoring criteria being taken into account like price, TCO, payments terms etc. Should any of these bidders be awarded a preferred bidder status it would be critically important for TFR to understand the committed delivery schedule based on their bid response. This could significantly impact the outcome of negotiations with these bidders. The delivery schedule reflected in this report assumes a contract effectiveness date of 1 September 2013. This delivery schedule would move out by an equal number of months from 1 September 2013 to the actual date the contract is signed.

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MATTERS FOR APPROVAL OF THE STEERING COMMITTEE

The CFET (Finance) requests as part of this evaluation and based on the contents of the report above the:

1. Approval of the price evaluation criteria on the basis of excluding hedging and escalation costs;
2. Approval of all assumptions used for scoring as outlined in this report;
3. Approval of the TCO scenario to be used for final evaluation;
4. Approval of the price methodology provided to the CFET (Finance) for evaluation purposes to exclude the impact of TE on price.

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CONCLUSION

Based on the scoring by the CFET (Finance) using the assumptions mentioned above, the following is a summary of the results of our evaluation:

Scenario 1 - all elements of TCO included

FINANCIAL EVALUATION - FINANCIAL SUMMARY

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
				1	2	3	4	5	6	7
1	Price	30.00%	18.00%	30.00	10.00	0.00	N/A	0.00	N/A	20.00
2	Total Cost Of Ownership (TCO)	20.00%	12.00%	3.00	4.00	4.00	N/A	0.00	N/A	14.00
3	Delivery Schedule (DS)	25.00%	15.00%	25.00	25.00	8.00	N/A	6.00	N/A	4.00
4	Payment Terms (PT)	10.00%	6.00%	0.00	10.00	1.00	N/A	9.00	N/A	10.00
5	RFP & Contractual Compliance (CC)	10.00%	6.00%	8.75	9.00	6.25	N/A	8.50	N/A	8.25
6	Financial Stability (FS)	5.00%	3.00%	3.00	3.00	2.50	N/A	2.88	N/A	2.38
	TOTAL SCORE	100.00%	60.00%	[illegible]	[illegible]	[illegible]	N/A	[illegible]	N/A	[illegible]
	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Scenario 2 - (TCO) excluding unscheduled maintenance and excluding bonus point allocation

FINANCIAL EVALUATION - FINANCIAL SUMMARY

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
				1	2	3	4	5	6	7
1	Price	30.00%	18.00%	30.00	10.00	0.00	N/A	0.00	N/A	20.00
2	Total Cost Of Ownership (TCO)	20.00%	12.00%	1.00	4.00	4.00	N/A	0.00	N/A	8.00
3	Delivery Schedule (DS)	25.00%	15.00%	25.00	25.00	6.00	N/A	6.00	N/A	4.00
4	Payment Terms (PT)	10.00%	6.00%	0.00	10.00	1.00	N/A	9.00	N/A	10.00
5	RFP & Contractual Compliance (CC)	10.00%	6.00%	8.75	9.00	6.25	N/A	8.50	N/A	8.25
6	Financial Stability (FS)	5.00%	3.00%	3.00	3.00	2.50	N/A	2.88	N/A	2.38
	TOTAL SCORE	100.00%	60.00%	67.75	61.00	19.75	N/A	[illegible]	N/A	[illegible]
	EFFECTIVE SCORE AT 60 %			40.65	36.60	11.85	N/A	[illegible]	N/A	[illegible]

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Scenario 3 - (TCO) excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation

	FINANCIAL EVALUATION - FINANCIAL SUMMARY									
	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
				1	2	3	4	5	6	7
1	Price	30.00%	18.00%	30.00	10.80	0.00	N/A	0.00	N/A	20.00
2	Total Cost Of Ownership (TCO)	20.00%	12.00%	1.00	4.00	4.00	N/A	0.00	N/A	0.00
3	Delivery Schedule (DS)	25.00%	15.00%	25.00	25.00	6.00	N/A	6.00	N/A	4.00
4	Payment Terms (PT)	10.00%	6.00%	8.00	10.00	1.00	N/A	8.00	N/A	10.00
5	RFP & Contractual Compliance (CC)	10.00%	6.00%	8.75	9.00	6.25	N/A	8.50	N/A	8.25
6	Financial Stability (FS)	5.00%	3.00%	3.00	3.00	2.50	N/A	2.88	N/A	2.38
	TOTAL SCORE	[illegible]	60.00%	87.75	61.00	[illegible]	N/A	[illegible]	N/A	54.63

10/12/13

Yousuf Laher
Executive Manager, Finance

2013/12/10

Danie Smit
Deputy Treasurer, Middle Office (Group)

Zunaid Vally
Executive Manager, Finance

10/12/2013

Thabo Seapi
Senior Manager, Finance

10/12/2013

10/12/2013

Tsietsi Tlaletsi
Debt Manager, Group Treasury

Mohammed Moola
Senior Manager, Finance

10/12/2013

Annexure A

Detailed Scoring Criteria and Allocated Points

Price:

FINANCIAL EVALUATION: FINANCIAL SUMMARY										
	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
				1	2	3	4	5	6	7
				[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.1	Lowest Technically Acceptable Capital Acquisition Cost (LTACAC) (refer TCO model) (including duties or customs, escalations, insurances, engineering support, special tooling and test equipment costs, capital spares costs, consumables, Set up costs, Spares costs and spares holding cost, forex hedging costs) per loco									
	Bidder with lowest price & or any bidder within 0.99% of LTACAC	30		32 833 423	34 718 169	46 301 908	n/a	38 091 755	n/a	33 685 001
	any bidder within 1% to 1.99% of LTACAC	25								
	any bidder within 2% to 2.99% of LTACAC	20								
	any bidder within 3% to 4.99% of LTACAC	15								
	any bidder within 5% to 7.99% of LTACAC	10								
	any bidder within 8% to 12.99% of LTACAC	5								
	>13% of LTACAC	0								
	% result			0.00%	5.73%	41.02%	n/a	16.02%	n/a	2.82%
	Final Score			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	n/a	[illegible]
1.2	Value added - 1 extra Bonus point									
	Value Add Services included in LTACAC to the value of > R 200 k per loco eg: Free Software & upgrades to software Free fitting & replacement of parts etc.	1								
	% result									
	Final Score			Note 1	Note 1	Note 1	Note 1	Note 1	Note 1	Note 1

Note that the maximum points available is 30 including the bonus point

Notes:

1 The Bonus points for Value Added services was not assessed. The main factor for this assumption is that these items are not clearly defined in RFP and the technical team had no view of the requirement of "value add" aspects. Therefore the finance team did not have the relevant expertise to assess value added services

2 Note: escalations and forex hedging costs were excluded from the price evaluation - refer notes in detailed evaluation sheet.

3 The Price evaluation has been done on the basis of excluding the cost of using TE as the main subcontractor but rather bidders were requested to quote as if another private sector subcontractor is used (per the GCE request after this was requested via clarification from bidder 1,2 & 5). SCS issued the clarifications to those bidders that indicated that they had used TE as the main subcontractor per the SD files.

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Annexure A (continued) – Detailed scoring criteria and allocated points - TCO

FINANCIAL EVALUATION - FINANCIAL SUMMARY

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER 1	2	3	4	5	6	7

[redacted]

1.1 Lowest Total cost of Ownership (LTCO) - NPV - for preventative/scheduled maintenance only (excluding corrective maintenance, lost revenue & energy)

What is being measured	Points	1	2	3	4	5	6	7
Lowest LTCO & any bidder within 0.99% of LTCO	8	4 221 721	33 384 305	7 559 126	n/a	3 757 400	n/a	2 626 026
any bidder within 1% to 1.99% of LTCO	6							
any bidder within 2% to 2.99% of LTCO	4							
any bidder within 3% to 7.99% of LTCO	2							
any bidder within 8% to 12.99% of LTCO	1							
>13% of LTCO	0							
% result		61%	1171%	188%	n/a	43%	n/a	0%
Final Score		[redacted]						

1.2 Lost Revenue - Opportunity cost

Lowest Lost Revenue (LLR) - NPV

What is being measured	Points	1	2	3	4	5	6	7
Lowest LLR & any bidder within 0.99% of LLR	4	-1 152 188 048	-2 784 814 881	2 123 457 986	n/a	1 026 183 807 21	n/a	1 901 392 599
any bidder within 1% to 1.99% of LLR	3							
any bidder within 2% to 3.99% of LLR	2							
any bidder within 4% to 12.99% of LLR	1							
>13% of LLR	0							
% result		-69%	0%	-170%	n/a	-137%	n/a	-165%
Final Score		[redacted]						

1.3 Corrective/unscheduled maintenance plan

Lowest technically acceptable corrective maintenance cost of Ownership (LTACMCO) - NPV - corrective maintenance (excluding energy and preventative maintenance)

What is being measured	Points	1	2	3	4	5	6	7
Lowest LTACMCO & within 1.99% of LTACMCO	4	1 618 918	591 952	2 202 681	n/a	2 149 495	n/a	8 523
within 2% to 4.99% of LTACMCO	3							
within 5% to 7.99% of LTACMCO	2							
within 8% to 12.99% of LTACMCO	1							
>13% of LTACMCO	0							
% result		21217%	6845%	25743%	n/a	25107%	n/a	0%
Final Score		[redacted]						

1.4 Energy

Lowest technically acceptable energy cost (LTEC) - NPV - (excluding corrective and preventative maintenance)

What is being measured	Points	1	2	3	4	5	6	7
Lowest LTEC & within 0.99% of LTCO	4	8 026 462	9 312 966	7 150 595	n/a	8 460 093	n/a	11 302 230
within 1% to 1.99% of LTEC	3							
within 2% to 3.99% of LTEC	2							
within 4% to 12.99% of LTEC	1							
>13% of LTEC	0							
% result		12.2%	30.2%	0%	n/a	18.3%	n/a	58.1%
Final Score		[redacted]						

1.5 Bonus Points - overall lowest NPV for TCO (excluding lost revenue)

What is being measured	Points	1	2	3	4	5	6	7
Lowest overall NPV & within 0.99% of lowest overall NPV	2	14 053 100	43 289 275	16 912 406	n/a	14 365 978	n/a	13 936 779
within 1% to 2.99% of lowest overall NPV	1							
>2.99% of lowest overall NPV	0							
% result		0.82%	210.61%	21.35%	n/a	3.08%	n/a	0.0%
Final Score		[redacted]						

Note that the maximum points available is 20 including the bonus point

Notes:

1 We used the TCO calculations as provided by bidders. Bidders could (not that they have) miscalculate and reflect a low lifecycle cost. This could expose TFR to risk of higher life cycle costs than that which was used for evaluation.
We recommend that a penalty clause is built into the contract to mitigate the risk of exposure of changes in the TCO over the life of the asset.

2 Some bidders included extra optional components for unscheduled maintenance which other bidders have not included. We have not removed this from the TCO model as suppliers would know the unscheduled maintenance costs of their loco's best.

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Annexure A (continued)

Detailed Scoring Criteria and Allocated Points

Delivery:

FINANCIAL EVALUATION - FINANCIAL SUMMARY										
	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
				1	2	3	4	5	6	7
[redacted]										

New GFB Electric Locomotive Plan

Delivery Periods	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Quantity of Locomotive	65	130	130	130	144	599

[redacted]

Final Score [redacted]

3.1 Cumulative Number of loco's delivered on time each year	Points
65 loco's by March 2015	3
195 loco's by March 2016	3
325 loco's by March 2017	3
455 loco's by March 2018	3
599 loco's by March 2019	3
Total points	15

3.2 Number of loco's delivered on time each year	Points
65 loco's during Financial Year March 2015	2
130 loco's during Financial Year March 2016	2
130 loco's during Financial Year March 2017	2
130 loco's during Financial Year March 2018	2
144 loco's during Financial Year March 2019	2
Total points	10

Total scoring is out of 25

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Annexure A (continued)

Detailed Scoring Criteria and Allocated Points

Payment Terms:

FINANCIAL EVALUATION - FINANCIAL SUMMARY										
	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
				1	2	3	4	5	6	7
[redacted]										
				[redacted]						
	Final Score			0	10	1	[illegible]	9	N/A	10

Payment terms are usually based on:
- Pre-payment (%)
- Milestones
- Acceptance of Locos
- Retentions

4.1 Cash Flow - Time Value of money	
Best payment terms from a time value of money perspective & within 0.99 % of best payment terms	10
Within 1 to 1.99 % of the best payment terms	9
Within 2 to 2.99 % of the best payment terms	8
Within 3 to 3.99 % of the best payment terms	7
Within 4 %- 4.99 % of the best payment terms	6
Within 5 %- 5.99 % of the best payment terms	5
Within 6 %- 7.99 % of the best payment terms	4
Within 8 %- 9.99 % of the best payment terms	3
Within 10 %- 11.99 % of the best payment terms	2
Within 12 %- 12.99 % of the best payment terms	1
> 13 % of best payment terms	0

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Annexure A – Detailed Scoring Criteria and Allocated Points – Contractual Compliance

FINANCIAL EVALUATION - FINANCIAL SUMMARY

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER 1	BIDDER 2	BIDDER 3	BIDDER 4	BIDDER 5	BIDDER 6	BIDDER 7
5	RFP & Contractual Compliance (CC)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
			Y=0,25 N=0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5.1	General information duly completed (RFP section 3A)			0,25	0,25	0,25	0,25	0,25	0,25	0,25
5.2	Provided AUDITED financial statements for the past 3 years			0	0	0	0	0		0
5.3	Provided AUDITED financial statements for quarters thereafter			0	0	0	0	0		0
5.4	Provided latest Rating report from current banker (Fitch or equivalent) & adequacy thereof			0,25	0,25	0	0,25	0,25	0,25	0,25
5.5	Provided strength of approvals (RFP section 3B - c) & adequacy thereof			0,25	0,25	0,25		0,25	0,25	0,25
5.6	Provided a complete breakdown on proposed financing structure on buy option (RFP section 3B - b) & adequacy thereof			0,25	0,25	0,25		0,25	0	0,25
5.7	Provided company equity structure (Holding company and subsidiaries)(RFP section 3B - d) & adequacy thereof			0,25	0,25	0,25		0,25	0,25	0,25
5.8	Provided company debt structure (Holding company and subsidiaries)(RFP section 3B - e) & adequacy thereof			0,25	0,25	0,25		0,25	0,25	0,25
5.9	Provided hedging strategy (RFP section 3B - f) & adequacy thereof			0,25	0	0		0,25	0,25	0,25
5 10	Provided insurance strategy (RFP section 3B - g) & adequacy thereof			0,25	0,25	0,25		0,25	0,25	0,25
5.11	Provided tax strategy (RFP section 3B - h) & adequacy thereof			0,25	0,25	0,25		0,25	0,25	0,25
5.12	Cash flow model adequately provided (RFP section 3 C)			0,25	0,25	0,25	[redacted]		0,25	0,25
5.13	Provided "Sensitivity Analysis" ratios/proposal			n/a	n/a	n/a	n/a	n/a	n/a	n/a
5.14	Provided Manuals			0,25	0,25	0,25		0,25	0,25	0,25
5.15	Provided Mock Ups			0,25	0,25	0,25		0,25	0,25	0,25
5.16	Provided Maintenance Plan			0,25	0,25	0,25		0,25	0,25	0,25
5.17	Provided Training & Training Manuals			0,25	0,25	0,25		0,25	0,25	0,25
5.18	Provided SD proposal/obligations			0,25	0,25	0,25		0,25		0,25
5.19	Rand based pricing offered			0,25	0,25	0,25		0,25	0,25	0,25
5.20	Fixed pricing excluding escalations offered			0,25	0,25	0,25		0,25	0,25	0,25
5.21	Risk provisions adequately completed (section 2 "clause 13" of RFP)			0,25	0,25	0,25		0,25		0,25
5.22	References adequate			0,25	0,25	0,25		0,25		0,25
5.23	Design life parameters offered adequate (not less than 30 years)			0,25	0,25	0		0,25	0,25	0,25
5.24	Fleet Availability target accepted			0,25	0,25	0,25		0,25	0,25	0,25
5.25	Fleet Reliability target accepted			0,25	0,25	0,25		0,25	0,25	0,25
5.26	Testing & commissioning terms accepted			0,25	0,25	0,25		0,25	0,25	0,25
5.27	Handover & testing terms accepted			0,25	0,25	0		0	0,25	0
5.28	Risk, Title & payment process accepted			0,25	0,25	0		0,25	0,25	0
5.29	Delay & early delivery regime accepted			0,25	0,25	0		0,25	0,25	0,25
5.30	Proposed warranty regime accepted			0,25	0,25	0		0,25	0,25	0,25
5.31	Lawful & safe operation clauses accepted			0,25	0,25	0		0,25	0,25	0,25
5.32	IP clauses accepted			0,25	0,25	0,25		0,25	0,25	0,25
5.33	Contractor covenant clauses accepted			0,25	0,25	0,25		0,25	0,25	0,25
5.34	Spares, change out spares & tools clauses accepted			0,25	0,25	0		0,25	0,25	0,25
5.35	Insurance clauses accepted			0,25	0,25	0,25		0,25	0,25	0,25
5.36	Breach & termination clauses accepted			0	0,25	0		0	0,25	0
5.37	Limitation of liability clauses accepted			0	0,25	0		0	0,25	0
5.38	Indemnity clauses accepted			0,25	0,25	0		0,25	0	0,25
5.39	Force majeur clauses accepted			0,25	0,25	0,25		0,25	0,25	0,25
5.40	Dispute resolution & confidentiality clauses accepted			0,25	0,25	0,25		0,25	0,25	0,25
				8,75	9	6,25	0,5	8,8	9	8,25

Notes

1. Tenderers are evaluated based on their initial response to the tender
2. If there was clarification sent to the tenderer to request any of the above, the tenderer would have failed to comply first time therefore they are rated zero
3. The intention of this evaluation is to credit those tenderers who give TFR a chance for smooth evaluation by proving adequate, requested information right the first time

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Annexure A (continued)

Detailed Scoring Criteria and Allocated Points

Financial Stability:

FINANCIAL EVALUATION - FINANCIAL SUMMARY									
WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	BIDDER						
			1	2	3	4	5	6	7
[redacted]									

7.1 Total Liabilities/(Total Equity+Total Liabilities)
Gearing Ratio

			ultimate	ultimate	immediate	ultimate	ultimate	ultimate	ultimate
<20%	5								
21% to 30%	4								
31% to 40%	3								
41% to 50%	2								
[redacted]				62.4%				60.6%	
>70%	0		94.7%		83.9%	[illegible]	[illegible]		78.42%
Score:			0	1	0	0	0	1	0

7.2 Capacity

Current Assets vs Current Liabilities

3:1	5								
2.5:1	4								
2:1	3								
[redacted]									
1:1	1		1.07	1.07		1.03	1.22		1.15
< 1:1	0				0.94			0.95	
Score:			1	1	0	1	1	0	1

7.3 NPAT/Revenue
Profitability
Net profit to turnover

>10%	5								
7 - 9.99%	4								
5% - 6.99%	3			5.5%			5.6%		
[redacted]			3.6%		4.0%			3.5%	
1 - 1.99%	1					1.5%			
<1%	0								1.4%
Score:			2	3	2	1	3	2	1

7.4 Credit ratings of the bidder (Banker issuing guarantee)

[redacted]			5	5	5	5	5	5	5
B rating	4								
C rating	3								
D rating	2								
E rating	1								
F rating	0								
Score:			5	5	5	5	5	5	5

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Annexure A (continued)

Detailed Scoring Criteria and Allocated Points

Financial Stability

7.5 NPAT/Total Equity
ROE

Greater than 40%	5	[illegible]						
Between 30% & 39.99%	4							
Between 20% & 29.99%	3							
[redacted]			12.9%	16%	12.0%	[illegible]		
Between 5% & 9.99%	1						9.7%	7.0%
Less than 5%	0							
Score:		5	2	2	2	2	1	1

7.6 EBIT/Total Assets
ROA

Greater than 20%	5							
Between 15% & 19.99%	4							
Between 10% & 14.99%	3							
Between 5% & 9.99%	2		[illegible]			[illegible]		
[redacted]		2.7%		4%	[illegible]		[illegible]	[illegible]
Less than 2%	0							
Score:		1	2	1	1	2	1	1

7.7 EBIT/Net Finance Charges
INTEREST COVER

> 5 Times	5	[illegible]	[illegible]	5.32	[illegible]	[illegible]		[illegible]
> 4 Times	4						[illegible]	
> 3 Times	3							
[redacted]								
> 1 Times	1							
0	0							
Score:		5	5	5	5	5	4	5

7.8

CASH FLOW
Cash generated by operations

Minimum R 600m cash generated from Operations	5	[illegible]	[illegible]	12 852 973 080		[illegible]	[illegible]	[illegible]
Minimum R 400m cash generated from Operations	4							
[redacted]					[illegible]			
Minimum R 100m cash generated from Operations	2							
Minimum R 50m cash generated from Operations	1							
< R 50 m as compared to the best bidder	0							
Score:		5	5	5	3	5	5	5
Total score		24.00	24.00	20.00	18.00	23.00	19.00	19.00
Final Score		3.00	3.00	2.50	2.25	2.88	2.38	2.38

Final score would be determined by following formula: (total score/40)*5

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ANNEXURE B

The table below indicates the items that were added or deducted to the base price as submitted by the bidders in order to normalise the price of the locomotive for evaluation purposes.

Option Item	Bidder 1	Bidder 2	Bidder 3	Bidder 5	Bidder 7	Comments
On-Board to Ground Communication System						No adjustment, as it is included in the base price for all tenderers and tenderer 5 will include as a free issue.
Fault information for Maintenance Personnel						No adjustment, as it is included in the base price for all tenderers
WSP Hardware and Software				91 878		All tenderers included this item in their base price except for tenderer 5, therefore add to the base price of tenderer 5
Remote Access to Control System			2 747			All tenderers included this item in their base price except for tenderer 3, therefore add to the base price of tenderer 3.
Energy Management System	389 306		325 085		427 500	Only tenderer 2 and 5 included the cost in their base price therefore add to the base price of 1, 3 and 7.
Illustrations of Software Algorithms and High level Descriptions of Control Algorithms						All tenderers included this item in their base price therefore no adjustment required.
Redundant Central (Vehicle) Control Unit	17 102		121 141	105 019		Only tenderer 2 and 7 included the cost in their base price therefore add to the base price of 1, 3 and 5.
Supply of 2 Driver Display Units			65 788			All tenderers included this item in their base price except tenderer 3, therefore add to the cost of tenderer 3.
Installation of ECP/WDP and cabling						As per discussion with the technical team (Frikkie Harris), the provisioning of ECP/WDP was a mandatory requirement per the specifications and all tenderers have confirmed in the clause by clause response that they fully complied with this requirement. It was therefore concluded that all tenderers had included the cost of provisioning in their base price and no adjustment is required for evaluation purposes. With regard to the responses to the clarity questions sent out, all tenderers with the exception of CSR, indicated that these items are not part of the base price. It was concluded that these tenderers were referring to the equipment cost and not the provisioning cost. This was based on their responses and the cost provided. CSR confirmation to the clarity questions refers to the provisioning and not the equipment based on the prices that they quoted. As a result no adjustment to the base price for evaluations purposes was required.
Installation of RDP and cabling						As per discussion with the technical team (Frikkie Harris), the provisioning of ECP/WDP was a mandatory requirement per the specifications and all tenderers have confirmed in the clause by clause response that they fully complied with this requirement. It was therefore concluded that all tenderers had included the cost of provisioning in their base price and no adjustment is required for evaluation purposes. With regard to the responses to the clarity questions sent out, all tenderers with the exception of CSR, indicated that these items are not part of the base price. It was concluded that these tenderers were referring to the equipment cost and not the provisioning cost. This was based on their responses and the cost provided. Frikkie Harris indicated that the CSR confirmation to the clarity questions refers to the provisioning and not the equipment based on the prices that they quoted. As a result no adjustment to the base price for evaluations purposes was required.
Installation of a combination of RDP/WDP and cabling						As per discussion with the technical team (Frikkie Harris), the provisioning of ECP/WDP was a mandatory requirement per the specifications and all tenderers have confirmed in the clause by clause response that they fully complied with this requirement. It was therefore concluded that all tenderers had included the cost of provisioning in their base price and no adjustment is required for evaluation purposes. With regard to the responses to the clarity questions sent out, all tenderers with the exception of CSR, indicated that these items are not part of the base price. It was concluded that these tenderers were referring to the equipment cost and not the provisioning cost. This was based on their responses and the cost provided. Frikkie Harris indicated that the CSR confirmation to the clarity questions refers to the provisioning and not the equipment based on the prices that they quoted. As a result no adjustment to the base price for evaluations purposes was required.
Fire detection system			20 213			All tenderers included the item in their base price except for tenderer 3, therefore add to the cost of tenderer 3.
Supply of the FFCCTV on the locomotive	124 650		114 727			All tenderers included this item in their base price except for tenderer 1 and 3, therefore add to the cost of tenderer 1 and 3.
Simu-Train			23 350		15 860	All tenderers included this item in their base price except for tenderer 3 and 7, therefore add to the cost of tenderer 3 and 7.
Anti wheel skid tread brake system			52 033	91 878		All tenderers included the item in their base price except for tenderer 3 and 5, therefore add to the cost of tenderer 3 and 5.
Transformer Short circuit test	2 051			2 009	4 705	All tenderers included the item in their base price except for tenderers 1, 5 and 7, therefore add to the cost of tenderers 1, 5 and 7.
Transformer Cage			157 564			All tenderers included the item in their base price except for tenderer 3, therefore add to the cost of tenderer 3.
Ablution requirements			82 429			All tenderers included the item in their base price except for tenderer 3, therefore add to the cost of tenderer 3.
Wheels			-418 447			Tenderer 3 included a more expensive option, therefore we reduced their price by the difference in cost between our requirement and their proposed option.
Roof Equipment Design			102 164			All tenderers included the item in their base price except for tenderer 3, therefore add to the cost of tenderer 3.
MU functions with Diesel locomotives	65 100		194 585			All tenderers included the item in their base price except for tenderer 1 and 3, therefore add to the cost of tenderers 1 and 3.
Additional tests on Traction motors	5 250					All tenderers included the item in their base price except for tenderer 1, therefore add to the cost of tenderer 1.
Main Transformer Basic Insulation Level			53 431		364 137	All tenderers included the item in their base price except for tenderer 3 and 7, therefore add to the cost of tenderers 3 and 7.
Center Bogie			270			All tenderers included the item in their base price except for tenderer 3, therefore add to the cost of tenderer 3.
Equipment cost of WDP/ECP combination and RDP in a ratio of 340:259 over the fleet of 599 locos	742 546	1 262 187	1 848 657	1 012 258	1 310 344	As per the technical team, this option will probably be exercised. On the 2nd Dec 2013, JD provided the split which we used to calculate the unit price per loco for this option
Total adjustment to base price	**1 266 001**	**1 262 187**	**3 165 748**	**1 303 041**	**2 122 546**	

Workings						
Cost of WDP/ECP equipment	386 050	650 400	746 200	689 010	593 000	
Cost of RDP equipment	552 000	950 008	1 453 890	621 167	973 750	
Cost of WDP/ECP and RDP combination	887 700	1 500 000	2 149 370	1 310 177	1 566 750	
Equipment cost of WDP/ECP and RDP combination and RDP only in a ratio of 340:259 over the fleet of 599 locos	**742 546**	**1 262 187**	**1 848 657**	**1 012 258**	**1 310 344**	As per the technical team, this option will probably be exercised. On the 2nd Dec 2013, JD provided the split which we used to calculate the unit price per loco for this option

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Annexure C

The table below indicates the standard delivery schedule used for the payment terms evaluation.

	2014	2015	2016	2017	2018
April	5	10	10	10	12
May	5	10	10	10	12
June	5	11	11	11	12
July	5	11	11	11	12
August	5	11	11	11	12
September	5	11	11	11	12
October	5	11	11	11	12
November	6	11	11	11	12
December	6	11	11	11	12
January	6	11	11	11	12
February	6	11	11	11	12
March	6	11	11	11	12
Total locos delivered per year	65	130	130	130	144
Cumulative total locos delivered	65	195	325	455	599

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Annexure D

Summary and analysis of payment terms results

Deposit amount

The RFP and the clarity responses to the RFP stipulated the deposit amount to be R 300 m for batch 1 (65 locomotives).

Bidder 5 indicated based on their clarity response received that the R 300m upfront deposit is applicable for the full fleet of 599 locomotives.

Bidder 1 did not specify the R 300 m deposit amount' as an initial upfront payment and provided deposit percentages according to their own requirements (refer to payment terms summary).

The other 3 bidders indicated that the R 300 m deposit upfront is applicable for batch 1 only (which is what was required based on the RFP and the clarity responses to the RFP).

The upfront deposit percentage (1.62%) is applicable for all bidders except Bidder 1 and is computed based on the R 300 m deposit divided by the contract price (standard price).

At face value it would appear that the impact on NPV would be the same for all bidders who stipulated the 'R 300 m deposit amount', however the allocation of the upfront deposit for the full fleet of 599 locomotives as opposed to the first batch of 65 locomotives changes the cash flow configuration when the locomotives are accepted.

Where the R 300m paid is spread over the entire fleet the amount payable for each acceptance of locomotives will be equal over the full fleet. Whereas, if the R 300m paid is spread over the first batch, the remaining amount payable for each acceptance of locomotives will be significantly lower for year 1, thereby impacting positively on the NPV.

Deposit amount Batch1 v Fleet Deposit per loco:

Batch	Deposit amount	No of locomotives	Deposit amount per loco
First	R 300 000 000	65	R 4 615 385
Full fleet	R 300 000 000	599	R 500 835
Difference			R 4 114 550

Difference in cash flow for loco acceptance in year 1 R 267 445 742.90

Therefore TFR would pay this additional portion above in year 1 with the resulting effect equalising over the period of 599 delivery.

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The differential is therefore a discounting impact for year 1 (higher NPV for TFR) compared to the payment of the differential over the 599 period.

Accordingly although bidder 5 and bidder 7 have the same percentage payment terms bidder 5 would have a higher NPV due to the impact of the deposit of R 300m being relevant for the entire fleet compared to bidder 7 whose R 300m deposit is payable for batch 1 only.

Bidder 1 and Bidder 3 have the highest NPV's which is reflective of their payment terms. These bidders have requested significantly high deposit amounts (Bidder 1 -24% and Bidder 3 -24.62%).

Based on the scoring criteria set these bidders are significantly penalised (Bidder 1 - 0 points and Bidder 3 - 1 point).

Annexure E

Reconciliation of price

The following table provides a reconciliation between the submitted bid prices to the final evaluated prices, highlighting the impact of each change to the final price used for evaluation:

	Bidder 1	Bidder 2	Bidder 3	Bidder 5	Bidder 7
Price per loco as submitted by bidder	30 955 000	34 380 000	39 906 949	31 358 000	29 880 000
Add: Additional items to balance back to annexure F	1 821 465	636 007	1 165 646	698 720	809 401
Special tooling	3 762	34 789	39 997	136 998	37 080
Engineering support					
Capital Spares	491 240	402 918	855 648	538 547	507 558
Consumables	45 302		7 817		
Spares holding	27 405	198 300	253 334	8 150	264 762
Setup cost			8 799	15 025	
Insurance					
Rounding			51		1
Forex Hedging	1 253 756				
Price per loco submitted as per annex F (capital acquisition cost)	32 776 465	35 016 007	41 072 595	32 056 720	30 689 399
Adjustments to normalise:					
Deduct Schedule B capital spares	-16 360	-122 648	-19 114	-	-23 996
Deduct Forex hedging	-1 253 756	-	-	-	
Sub Total 1 (Price excluding impact of hedging and escalations)	31 506 349	34 893 359	41 053 481	32 056 720	30 665 403
Add Options	1 266 001	1 262 187	3 165 748	1 303 041	2 122 546
Sub Total 2 (Price with Options included)	32 772 350	36 155 546	44 219 229	33 359 761	32 787 949
Impact of Re-basing (foreign exchange movements)	1 966 587	2 040 643	2 082 677	4 731 994	907 051
Sub Total 3 (Total price before TE adjustment)	34 738 937	38 196 188	46 301 906	38 091 755	33 695 000
Impact of not using TE as the main sub-contractor	-1 905 514	-3 480 000	-	-	-
Price used for evaluation	**32 833 423**	**34 716 188**	**46 301 906**	**38 091 755**	**33 695 000**

M.M

TD

ANNEXURE YL 14

COMMISSION OF INQUIRY INTO STATE CAPTURE

Commercial Negotiations Baseline Worksheet – Price	
Negotiation Point:	Pricing – deferral of delivery schedule
Current Offer:	No offer currently
Negotiation Issues:	Consignment stock principle - Cost would change for time value of money and holding costs if delivery deferred to later
Comments	

Most Desirable Outcome (MDO)	Least Acceptable Agreement (LAA)	Target Agreement
Less than market related cost increase for time value of money and warehousing costs	Beyond market related cost increase for time value of money and warehousing costs	Market related cost increase for time value of money and warehousing costs

Sign Off	
Negotiator:	*Approver* :*
Outcome:	
Date:	
Signed:	

DRAFT

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YIL-169

Negotiations Baseline Worksheet – Price	
Negotiation Point:	Base price – escalation risk indices
Current Offer:	Current offered price includes an escalation clause
Negotiation Issues:	Escalation from date of signature to date of delivery e.g. increase labour, Raw Material and any other inflationary items
Comments	Transnet's expectation is for a fixed price for the Locomotive as such any escalations in price until delivery must be built into the cost of the Locomotive.

Most Desirable Outcome (MDO)	Least Acceptable Agreement (LAA)	Target Agreement
Fixed price with no escalation and on the upside should there be a reduction in these indices this will revert to Transnet.	Acceptable market determined escalation clauses included in contract	Acceptable market determined or CPI related escalation clauses (as per RFP) built into contract with market related impact on price
This aspect will be negotiated based on the bidder specific situation.	This aspect will be negotiated based on the bidder specific situation.	This aspect will be negotiated based on the bidder specific situation.

Sign Off	
Negotiator:	*Approver* :*
Outcome:	
Date:	
Signed:	

DRAFT

Negotiations Baseline Worksheet – Price	
Negotiation Point:	Base Price – foreign exchange impacts
Current Offer:	Forex hedging cost not part of price offer
Negotiation Issues:	Limit foreign exchange impacts – ideal situation is full Rand based contract Change in price relating to foreign exchange movements – upward movements to be limited
Comments	

Most Desirable Outcome (MDO)	Least Acceptable Agreement (LAA)	Target Agreement
Rand based contract with Fixed Price including hedging costs (supplier manages hedging contract) – price premium for hedging costs at less than market related rates Due to weakness of Rand Transnet must have the ability to participate in Rand strength	Multi-currency contract – Transnet manages hedging contracts Due to weakness of Rand → no upside for Transnet	Rand based contract with Fixed Price including hedging costs (supplier manages hedging contract) – market related price premium for hedging costs. Due to weakness of Rand Transnet must have the ability to participate in Rand strength

Sign Off	
Negotiator:	*Approver* :*
Outcome:	
Date:	
Signed:	

Negotiations Baseline Worksheet – Price	
Negotiation Point:	Base Price – impact of TE
Current Offer:	Price offered excludes additional cost of using TE
Negotiation Issues:	Limit impact to price for using TE
Comments	

Most Desirable Outcome (MDO)	**Least Acceptable Agreement (LAA)**	**Target Agreement**
Same price offered as was used for evaluation – i.e. no change in price for use of TE	Price offered is 20 % greater than price that was used for evaluation	Increase in Price is less than 20 % that the price was used for evaluation

Sign Off	
Negotiator:	*Approver*:*
Outcome:	
Date:	
Signed:	

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Negotiations Baseline Worksheet – Price	
Negotiation Point:	Capital Acquisition Costs – Set up costs
Current Offer:	Included in Capital Acquisition price :
Negotiation Issues:	We need a detailed understanding of the plan to set up operations in South Africa. Consideration to the use of TE production lines already in use in SA – could significantly reduce the set up costs
Comments	

Most Desirable Outcome (MDO)
Reduction of R 500,000 on price per loco
This aspect will be negotiated based on the bidder specific situation.

Least Acceptable Agreement (LAA)
Accept price provided
This aspect will be negotiated based on the bidder specific situation.

Target Agreement
Reduction of between R 100,000 and R 500,000 on price per loco
This aspect will be negotiated based on the bidder specific situation.

Sign Off	
Negotiator:	*Approver* :*
Outcome:	
Date:	
Signed:	

DRAFT

YIL-172

Negotiations Baseline Worksheet – TCO	
Negotiation Point:	Costs of maintenance interventions included in TCO model
Current Offer:	Include per TCO model submission
Negotiation Issues:	The cost of maintenance interventions included in the TCO model needs to be properly understood. TFR requires confirmation of the assumptions used in the model and submissions. These maintenance events trigger significant cost implications to TFR over the lifecycle of this asset should they be confirmed. An understanding is required of the averages utilised in the models and the appropriateness of their averages submitted. The technical team's involvement is required to assess the appropriateness of maintenance levels confirmed by the bidders. This significantly and directly impacts on total cost of ownership to TFR of the locomotive Understanding of the impact of their maintenance regime on reliability and availability of locomotives
Comments	The impact of the costs remaining as submitted will significantly impact the TCO over the 30 year period. The risk to TFR is that costs could be higher over the asset's life.

Most Desirable Outcome (MDO)	Least Acceptable Agreement (LAA)	Target Agreement
Include a clause locking in the TCO models submitted to a penalty regime over the life of the loco.	No change	Include a clause locking in the TCO models submitted to a penalty regime over the life of the loco.

Sign Off	
Negotiator:	*Approver* :*
Outcome:	
Date:	
Signed:	

TRANSNET

Negotiations Baseline Worksheet – Finance – payment terms
Payment Schedule

Negotiation Point:	Payment Schedule
Current Offer:	As per draft supply agreement and RFP R 200 m (Diesel) and R 300 m (electric) pre-payment Balance excluding retention upon issuance of acceptance certificate 5% upon achievement of mission reliability target 5% upon achievement of fleet availability target
Negotiation Issues:	Use
Comments	

Most Desirable Outcome (MDO)	Least Acceptable Agreement (LAA)	Target Agreement
10 % advance payment with a concomitant benefit passed on to Transnet (time value of money)	As per suppliers offer	5 % advance payment with a concomitant benefit passed on to Transnet (time value of money)
This aspect will be negotiated based on the bidder specific situation.	This aspect will be negotiated based on the bidder specific situation.	This aspect will be negotiated based on the bidder specific situation.

Sign Off

Negotiator:	*Approver*:*
Outcome:	
Date:	

DRAFT

Negotiations Baseline Worksheet – Technical& Commercial Warranty & DLP	[redacted]
Negotiation Point:	Extended Warranty
Current Offer:	**WARRANTY** Each locomotive carries a 24 month warranty period commencing on acceptance of such locomotive.
Negotiation Issues:	Extend the warranty period with NO additional costs
Comments	Detailed warranty required applicable to whole fleet.

Most Desirable Outcome (MDO)	Least Acceptable Agreement (LAA)	Target Agreement
Each locomotive carries a 60 month warranty period commencing on acceptance of such locomotive. Traction motors 6 years Spare parts 15 months from installation into locomotives	Each locomotive carries a 24 month warranty period commencing on acceptance of such locomotive. Traction motors ~~6 years~~ Spare parts one (1) year or 15 months from acceptance	Each locomotive carries a between 24 and 60 months warranty period commencing on acceptance of such locomotive. Traction motors 6 years or greater Spare parts one (1) – two (2) years or 15 - 24 months from acceptance

Negotiator:	*Approver*:*
Outcome:	
Date:	
Signed:	

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Negotiations Baseline Worksheet – Finance - Options Warranty & DLP	
Negotiation Point:	Options
Current Offer:	Current price offer excludes technical options
Negotiation Issues:	Include mandatory options into the offer price
Comments	

Most Desirable Outcome (MDO)	**Least Acceptable Agreement (LAA)**	**Target Agreement**
5 % discount offered to price including options (i.e. free)	Mandatory Options added to the base price offer	Include Mandatory options into the base price offer (i.e. free)

Sign Off	
Negotiator:	*Approver* :*
Outcome:	
Date:	
Signed:	

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Commercial Negotiations Baseline Worksheet – Price	
Negotiation Point:	Base Price
Current Offer:	Base price new pricing after all negotiation issues finalised
Negotiation Issues:	Reduce base price – alignment between bidders
Comments	The base price between the 2 shortlisted bidders is slightly different – these need to be aligned.

Most Desirable Outcome (MDO)
5% reduction in base price of both bidders after the target adjustment

Least Acceptable Agreement (LAA)
Current price offered

Target Agreement
Alignment of price between bidders to price of lowest bidder

Sign Off	
Negotiator:	*Approver* :*
Outcome:	
Date:	
Signed:	

YIL-177

Commercial Negotiations Baseline Worksheet – Price	
Negotiation Point:	Break Pricing – reduce risk and cost under breach
Current Offer:	Price changes due to breach
Negotiation Issues:	Price remains fixed – no risk of additional cost to Transnet
Comments	Transnet view on break pricing — no compensation for loss in profits - (no cost to Transnet for unallocated overheads on uncompleted units)

Most Desirable Outcome (MDO)	Least Acceptable Agreement (LAA)	Target Agreement
No compensation for loss in profits. Only 50 % of related sunk costs paid for.	Break pricing as offered by bidders	No compensation for loss in profits. Only related sunk costs paid for.

Sign Off	
Negotiator:	*Approver* :*
Outcome:	
Date:	
Signed:	

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Commercial Negotiations Baseline Worksheet – Price	
Negotiation Point:	Batch Pricing
Current Offer:	Price changes based upon quantity ordered
Negotiation Issues:	Price remains fixed as if order placed for full 599 electric or 465 diesel
Comments	

Most Desirable Outcome (MDO)	Least Acceptable Agreement (LAA)	Target Agreement
Remove batch pricing	Remove batch pricing	Remove batch pricing

Sign Off	
Negotiator:	*Approver* :*
Outcome:	
Date:	
Signed:	

YIL-179

ANNEXURE YL 15

Yusuf

Tender close 30/04/15.

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2

REC!

D. 3yrs Comparing. E 4yrs

CAL 15.8% vs. 19.1. EER 25.1. vs 26.2

GE 6.1% vs 19.1. BT 21.4. vs 26.2.

- CPI of 6% → no premium for risk
- Impact of local content weight. 60%
- upward trend in CPI.
- unpredictable labour environment.
- FE risk new world
- option to float no.
- CPI Bus. case 4%. Banks.

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Exch. rate (B).

1. options to float no.
2. valuation too high.
3. Impacting ?.
4. Exchange rate depreci. 24%
5. Participation not cost effective
6. Acc. treatment not optimal. ED.
7. bus case R. 9.10 $
8. current R 11.00 $
9. Foreign content %. 40%
10. Rep. currency support exports ∴ View is that Govt will not support [illegible].

TE Business

1. TE SCOPE DETAIL.

APG097

(1). Other tenderers.

(2). TE scope 28%

(3). Start listed tender. Impact

(4). Batch Rx.

(5). ESCL + FX.

(5). Bus vs TE.

(6). Fx Impact vs commodity basket

(7). Pleming Delivery. ↓ 1064

10. TCO Inconsistency.

11. Unit.

0.6
1.4
2.2
1.4
3.6

(8). 119 not allowed.

(9). R decom

(12). Impact TE scope Elect R Rx.

YIL-184

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Commercial (1)

① BAFO FX bn of capital cost

② Impact significant drivers
- FX 16.2
- Baton 10.7
- Escl. 11.7

} 30/04/18 to date

③ BAFO 2bn of OS bn will be adj. Good deal.

④ Total cost impact forward looking fixed fx.
- Escl.
- Fx.

} Detail later

⑤ After using base fx 7.4% vehicle and diesel + 8.8% on elect.

Base case = R58.6 bn.
Current = R84 bn.

} Escl. Hedging Escl.

Escl. + Fx. 15.1

52.1 bn.

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6. CP Impact

- capex
- ratios
- additional vol.
- additional station

weighing benefit vs capital cost.

7. Other benefits

- fixed contract
- fixed price
- delivery risk + penalty regime
- guaranteed delivery period 48 4/m.
- benefit of R 15bn vs
- security doc all continued.

8. Socio Economic benefits in table.

9. The scope to be finalised
due-d- review dis.
finalise T + C

} Impact

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Capital Cost vs additional vol + Revenue [illegible] Impact country + [illegible].

(8). [illegible]

- [illegible] Px Base Px.
- Economic [illegible] [illegible] Impacting
- Vol. Economic condition ∴ Fixed. Px.
- Fixing [illegible] reasonable
- Overall Rel [illegible] affordable + reasonable
- Supreme [illegible] [illegible] fully.

(9). ∴ Basic to award + Confirm [illegible] [illegible].

Diesel [illegible]

Elect 60/40.

→ [illegible] – Capital Cost:

- Escalation + Fx. Impact [illegible]
- [illegible] into Px.

① The increase in ETC has resulted for ~~from~~ the following reasons:

① . Forex + Escalation from bus. case to award date (Eskom ... working)

③ . Cost of fixing forex exposure over the life of the contract (currently working)

④ . Cost of future escalations over the life of the contract. (currently working).

② . Variations to design for higher specification.

(3) - THE Financial risk management Framework (FRMF) Approved by the BOD Does not permit Transnet accepting Forex exposure on Committed Transactions.

- The SARB also Does not permit TFR to ~~[illegible]~~ Accept open exposure on foreign currency contracts.

- Consequently the cost of ~~apply~~ foreign currency hedging to ~~Risk~~ mitigate + protect the Company against foreign currency devaluation ~~[illegible]~~ ~~[illegible]~~ ~~[illegible]~~ option had to be invoked.

- the recent volatility in the forex exchange rate Directly Impacts this cost.

- In addition the longer Delivery Schedule of the locomotives also impacts the cost of hedging as the length of ~~this~~ the exposure impact costs.

- The imminent risk of the Ukraine crisis also had an impact on fixing exchange rate exposure

(5) - Given the size + magnitude + risk tolerance of the Company due to MOS Escalation cashflow certainty is of paramount importance when trying to plan over a long-term horizon.

- Consequently careful consideration had to be given to accepting other ~~[illegible]~~ risk (labour; steel etc) and being exposed to market conditions.

- Labour unrest + strike in the platinum sector has put significant ~~[illegible]~~ pressure on forward looking labour costs.

- PPI + CPI are also on an upward trajectory based on SARB + NT outlook.

- Consequently it was decided to fix the escalation for these input costs + gain certainty of cashflows.

ANNEXURE YL 16

6.16

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TRANSNET

MEMORANDUM

www.transnet.net

To: Transnet Board of Directors (BOD)

From: Brian Molefe, Group Chief Executive

SUBJECT: INCREASE IN ESTIMATED TOTAL COST (ETC) OF THE ACQUISITION OF 1064 LOCOMOTIVES FOR TRANSNET FREIGHT RAIL'S GENERAL FREIGHT BUSINESS (GFB)

PURPOSE:

1. The purpose of this memo is:
   a) for the BOD to note the reasons for the increase in ETC.
   b) to request that the BOD approve an increase in the estimated total cost (ETC) for the acquisition of 1064 Locomotives for the General Freight Business of Transnet Freight Rail from R 38.6 billion to R 54.5 billion.

EXECUTIVE SUMMARY:

2. In summary the increase in ETC of R 15.9 billion can be attributed to the following:

Update of business case for updated economic factors	R 5.4 bn	34 %
Risk Mitigation - Forex and Escalation	R 9.5 bn	59 %
TE Scope	R 2.6 bn	16 %
Contingencies	R 4.9 bn	31 %
Lower capital acquisition cost of the locomotive obtained through the competitive tender and negotiation process less the batch pricing adjustment of R 2.7 billion.	R – 6.5 bn	- 41 %

3. 93 % of the ETC increase relates to changes in market conditions and the risk tolerance level of the company. Whilst 16 % of the ETC increase relates to strategic factors such as localisation and competition. These increases have been offset by a competitive tender and negotiation process that realised a benefit of 41 %.

4. On a like for like comparison the new price including TE scope of R 40.09 billion (excluding hedging and escalation) is only 3.89 % higher than the approved ETC of R 38.6 billion. The balance of the ETC increase relates to risk mitigation and strategic

concessions such as batch pricing.

5. Regiments Capital (using an international expert) benchmarked the Capital Acquisition Cost of the locomotives at the "best and final offer" stage of this transaction and the results indicate that the price being offered by the bidders is reasonable. Given that forex, escalation, economic factors and batch pricing impact is subject to market conditions it can be deduced that the final contract price is also reasonable.

6. The need to incur these costs has been justified and the associated costs are reasonable in the circumstances.

7. The NPV of the business case remains positive at R 11.68 billion.

8. Impacts on the 2014/15 corporate plan has been assessed and mitigated. Consequently the R 54.5 billion is affordable and reasonable.

9. Risk mitigation measures have been developed and are being implemented to ensure benefits are realised.

10. Significant socio economic benefits such as localisation and job creation will be realised.

11. Significant benefit will be achieved by the company including additional volumes earlier, additional cash flows, a stronger balance sheet, which should enable greater capital expansion in future.

12. 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 and consequently is fully aligned with the MDS of the company.

13. The strategic, commercial and socio economic benefits associated with this acquisition will significantly outweigh the capital cost.

BACKGROUND:

14. The acquisition of 1064 Locomotives was approved by the Board of Directors in April 2013 at a cost of R 38.6 billion. This excluded the following costs:

    a. The cost of changes in economic conditions (forex and inflation) between approval of the business case and award of the contracts
    b. The cost of hedging for foreign exchange movements;
    c. The cost for future inflationary escalations;
    d. The cost of additional scope for Transnet Engineering (TE);

15. The rationale for the investment is to increase the capacity of TFR's GFB from 80mt to 180mt in terms of the Market demand Strategy (MDS).

16. The acquisition of 1064 Locomotives for GFB was approved by the Shareholder Minister (Department of Public Enterprises) on 3 August 2013.

17. Although the approval from the Minister was not subject to a final cost of R 38.6 billion, for good governance and for information purposes a letter will be sent to the DPE

advising of the final ETC.

18. Four contracts to acquire 1064 locomotives were concluded on 17 March 2014 at a cost of R 49.5 billion including the cost of future escalations, including additional scope for TE and including foreign exchange hedging costs thus resulting in an increase in ETC of approximately R 15.9 billion (including a 10 % contingency).

19. As per the DTI codes for local content, the tender process required that bidders exceed a minimum Supplier Development (SD) threshold of 40 %. All bidders exceeded this threshold. All the bidders met the minimum thresholds for local content of 55 % for diesel locomotives and 60% for electric locomotives.

20. The locomotives will be delivered at a rate of 12 locomotives per month per bidder at peak production as per the summarised delivery schedule below (refer Table 1). 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.

Table 1

Delivery Schedule - Diesel Locomotives	CNR 232 (50%)	GE 233 (50%)
	CNR 1st 20 from China	GE 1st 6 from USA
by March 2015	0	0
by March 2016	20	34
by March 2017	87	126
by Oct 2017	84	73
by February 2018	42	
Locomotives will be manufactured at a peak tempo of 12 per month.		

Delivery Schedule - Electric locomotives	Bombardier 240 (40%)	CSR 359 (60%)
	BT produce all loco's locally	CSR 1st 40 from China
by March 2016	6	88
by March 2017	137	142
by December 2017	97	
by January 2018		129
Locomotives will be manufactured at a peak tempo of 12 per month.		

DISCUSSION

21. 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).

22. 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.

23. The increase in ETC of R 15.9 billion is due to the following reasons (refer Table 2 below):
    a) Escalations from the approved business case to award date (backward looking) (Item A of Table 2)
    b) Forex from the approved business case to award date (backward looking) (Item C of Table 2)
    c) Additional scope of work allocated to Transnet Engineering (TE) for the strategy to enable TE to eventually transform to an Original Equipment Manufacturer (OEM) of locomotives (strategic) (Item B of Table 2).
    d) The cost of reducing the batch size (strategic and risk mitigation) (Item D of Table 2)
    e) The cost of future escalations over the life of the contract (forward looking and risk mitigation) (Item E of Table 2)
    f) The cost of fixing forex exposure over the life of the contract (forward looking and risk mitigation) (Item F of Table 2)
    g) Contingencies related to variation orders, options (such as electronically controlled pneumatic braking and wire distributed power etc.) and capital spares (Item G of Table 2)

Table 2

		Diesel + Electric	[illegible]
		Grand Total	[illegible]
		1064 [illegible]	[illegible]
Best and Final Offer per Board submission excluding Hedging & Escalation		29 358 832 740	
Adjusted for changes to:		9 994 929 119	
Escalation up to signature date (from close of tender to Mar 14)	A	2 362 018 104	8.0%
Add back original TE scope removed for BAFO purposes	B	1 708 643 960	5.8%
Forex adjustment to spot rate at 17 March 2014	C	3 030 860 144	10.3%
Batch pricing adjustment for reduction of batch size to 40 % / 60 %	D	2 754 402 335	9.4%
Best and Final Offer updated for economic and other factors		39 209 256 683	
Adjustments for:			
Additional TE Scope	B	883 172 732	3.0%
New Price including TE scope		40 092 429 415	
Cost to fix escalation to end of contract	E	6 725 748 499	16.8%
Cost of Hedging	F	2 729 046 496	6.8%
Estimated Total Cost including Hedging and Escalation		49 547 224 410	
The ETC above excludes the cost of any options, variations capital spares, initial spares, tools and test equipment. Add approximately a further 10 % at least to cover this cost.	G	4 954 775 590	
Proposed Estimated Total Cost including Hedging, Escalation, options, spares, tools and test equipment		54 502 000 000	

Increase in ETC for 1064 GFB Locomotives

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

24. The estimates and assumptions on which the 1064 business case was based have changed substantially since approval was obtained from the Transnet Board in April 2013.

25. In addition a number of parameters have materially changed since issue of the tender, approval of the investment by the Transnet Board and the contract negotiation process. These are summarised in Table 3 below:

Table 3

	Business Case	Tender Stage	Negotiation/ Contracting Stage	% movement
Rand to the US Dollar	9.13	8.98	10.72	19.4%
Rand to the Euro	n/a	11.86	14.87	25.4%
Local CPI	n/a	100%	106.10%	6.1% *
Local Hot rolled Steel plates Index	n/a	100%	112.90%	12.9% *
Local PPI	n/a	100%	107.50%	7.5% *
Chinese Equivalent CPI Index	n/a	100%	102.50%	2.5% **
US Equivalent CPI Index	n/a	100%	101.33%	1.3% **
Euro Equivalent CPI Index	n/a	100%	102.08%	2.1% **

* Index movements calculated from Dec 12 to Jan 14
** Index movements calculated from May 13 to Mar 14

Item C of Table 2

a. Foreign exchange rates. The Rand has depreciated by 19.4 % against the US Dollar since the tender stage. Similarly the Rand has also depreciated by 25.4 % against the Euro over the same period. The spot rate of exchange used in the business case to calculate the base price of the locomotive was 9.13 Rand to the US Dollar, as compared to the spot exchange rate as at contract signature date of 10.72 Rand to the US Dollar, an increase of 17.4 %. This has impacted the expected price of the locomotive as per the business case and ultimately the ETC as approved by the Board.

Consequently the additional 10.3 % per C in Table 2 is reasonable.

Item A of Table 2

b. Labour cost increase. The cost of labour required to build the locomotives has increased locally within South Africa and globally over this period, as indicated within the CPI/PPI indices listed in Table 3 above and as evidenced by the higher than CPI wage settlement that Transnet entered into at 8.5 % for a 2 year period. Due to the tender localisation requirements, 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. The price of steel is impacted by the steel commodity price of which the trading currency is in

US Dollars and secondly thereby foreign exchange deterioration as well. The local index for hot rolled steel plates has deteriorated by approximately 12.9 % since December 2012, which is indicative of the level of increase in the price of steel.

d. Inflation. Local Producer Price Index (PPI) has increased by over 7.5 % since December 2012 thereby affecting the price of locally sourced products required for the build of the locomotives. Foreign equivalent indices also increased over this period. This together with the foreign exchange deterioration indicated above has resulted in the price of imported components for this 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, would result in the net increase in the locomotive price of 8 %.

g. Consequently the net impact of 8 % on the locomotive price due to the change in economic conditions as per Item A of Table 2 is reasonable.

FORWARD LOOKING ECONOMIC FACTORS AND MEASURES TO MITIGATE FINANCIAL RISK THAT HAVE IMPACTED THE PRICE:

Forex (Item F of Table 2)

26. The Financial Risk Management Framework (FRMF) approved by the Board of Directors (BOD) does not permit Transnet accepting forex exposure on committed transactions.

27. The South African Reserve Bank (SARB) also does not permit SOC's to accept open exposure on foreign currency contracts.

28. In addition credit rating agencies and bond holders both prefer conservative risk appetites and consequently would also support fixing our forex exposure.

29. Sensitivities indicate that a 5 % devaluation of the Rand could impact the total ETC by approximately R 3.07 billion if left unhedged.

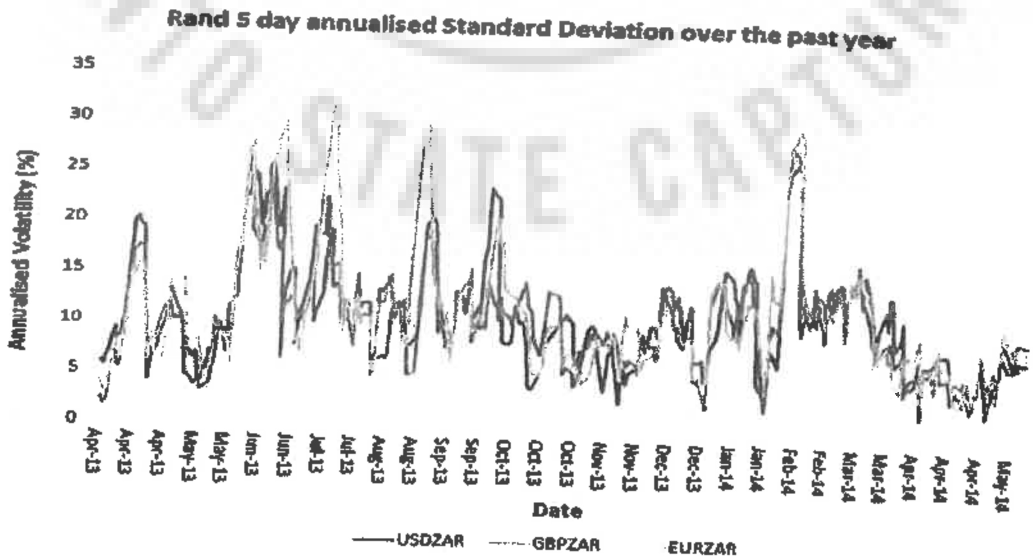
30. Consequently the cost of foreign currency hedging to mitigate and protect the Company against foreign currency devaluation is an inherent cost of the transaction.

31. 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 impact 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.

32. The cost of fixing the forex exposure is impacted by currency volatility and time or duration of the exposure.

33. 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 in Table 4 below:

Table 4



34. 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).

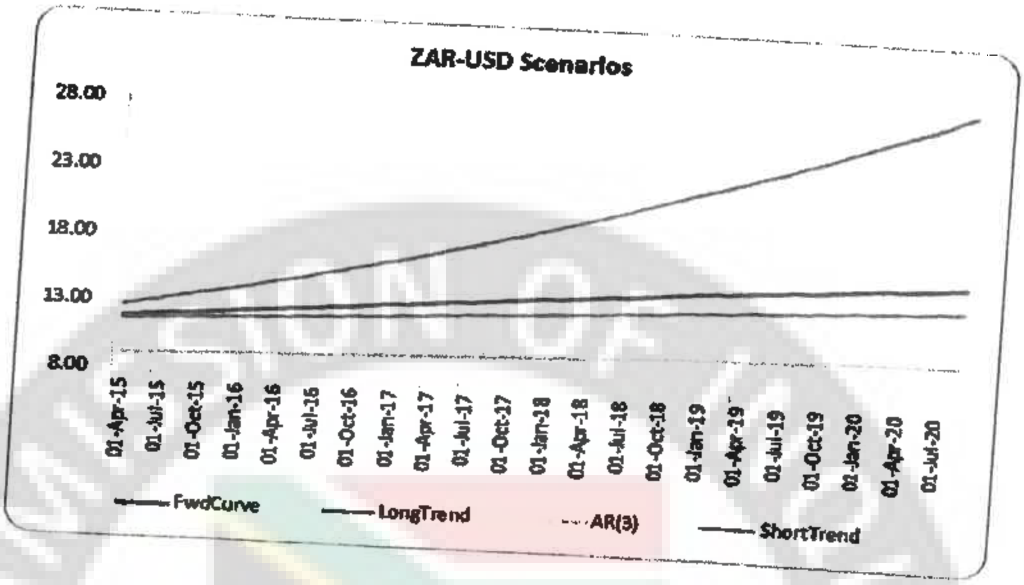
35. Business Day reported on 18 March 2014 that the Rand is in for a "Rocky ride" for the rest of the year (Refer article "Rocky Ride forecast for 'still to expensive' Rand)

36. 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 5

37. A historical regression analysis conducted by Regiments Capital indicates that the ZAR currency is on a trend of devaluation as indicated in Table 5 above.

Table 6



38. 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.

39. 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.

40. In addition the delivery schedule of the locomotives, between 31 and 35 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.

41. 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.

42. 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.

43. 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.

44. Consequently the net 6.8 % per F in Table 2 above is reasonable.

Escalation of Input Costs (Item E of Table 2)

45. 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.

46. 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).

47. In addition credit rating agencies and bond holders both prefer conservative risk appetites and consequently would also support fixing our escalation exposure.

48. Careful consideration had to be given to accepting other risks such as labour, steel etc. and being exposed to market conditions.

49. Consequently it was decided to fix escalation for these input costs and gain certainty of cash flows.

50. Costs associated with fixing these input costs are largely driven by market sentiment at the time of contracting such as the items mentioned below.

51. 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.

52. 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.

53. Statistics SA reports that the headline CPI annual inflation rate in April 2014 was 6.1 %, and which is further explained in the Business Day article "CPI Breaches Reserve bank target" dated 22 May 2014.

54. 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.

55. The MPC also is concerned about upward inflationary pressure on the economy as they have increased the Repo rate by 50 basis points recently in response to managing the upward inflationary pressures. Another imminent increase is highly likely at the next sitting of the MPC on 22 May 2014.

56. The high level of local content (60%) makes local indices more applicable to assess the cost of escalations going forward.

57. 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 increase in the locomotive price of 9.2 % for electrics and 6.3 % for diesels increase.

58. Hence a CPI of 6 % escalated for 35 months on a compound basis (excluding a premium for risk) results in a 18.54 % increase, thus the net 16.8 % per E in Table 2 above is reasonable.

86

59. 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.

TE Scope (Item B of Table 2)

60. A strategic decision was taken at a Transnet level that TE should transform to eventually become an OEM of locomotives. This 1064 tender process, together with the 100 equivalent 19E Dual Voltage Electric locomotive process, was used as a catalyst to facilitate this strategy.

61. As such bidders were advised to provide pricing based on providing TE with additional scope for the manufacture of the locomotives.

62. Strategically it was decided that for specific items within the build process where TE were within 10 % of the market price then it would be acceptable to allow TE to retain this scope.

63. The pricing as reflected above in Table 2 is inclusive of this additional scope for TE based on this principle.

64. Bidders have also built a risk premium into their pricing, to cater for the risk associated with Transnet Engineering carrying out this additional *new* scope of work for the 1st time.

65. Consequently the net additional 3 % per B in Table 2 is justified and is reasonable.

Batch Size (Item D of Table 2)

66. As approved by the Transnet Board the preferred bidders were advised that the batch size has been split on a 50/50 basis for the Diesels and a 60/40 basis for the electrics, amongst them.

67. This was done to mitigate locomotive delivery risk and reduce the MDS risk related to volumes.

68. As a result, the fixed costs related to setting up the production line would have to be recouped over a smaller batch.

69. This resulted in an increase in the cost per locomotive.

70. Although the cost per locomotive has increased, an overall saving is realised due to splitting the batch, because of the saving made on future escalations and hedging costs as a result of a shorter delivery period. This has been quantified to be R 4.08 billion.

71. Consequently the net additional 9.4 % per D in Table 2 is justified and is reasonable.

Contingencies (Item G of Table 2)

72. The contracted price of R 49.5 billion excludes the cost of any requirements for capital spares beyond the warranty period, variation orders and options (such as electronically controlled pneumatic braking and wire distributed power etc.) and as such an additional 10 % (R 4.9 billion) has been added into the request for additional ETC for this (refer item G of Table 2)

73. In order to stimulate development in other parts of South Africa, Transnet have decided that it would be more strategic to have two OEM's manufacture the locomotives in Durban.

74. In addition TE production lines in Koedoespoort cannot accommodate four OEM's as validated by the PWC study.

75. Bidders have based their contracted prices on manufacturing operations being carried out in Gauteng. Bidders have not yet quantified this cost, however this cost is included in the additional 10 % (refer item G of Table 2).

8h

FINANCIAL IMPLICATIONS:

76. The business need and rationale remains as originally indicated in the business case submission.

77. The Business case resulted in a positive NPV (R2.7 billion at the TFR hurdle rate of 18.56 % and R34.1 billion at the TFR WACC of 12.56 %).

78. The Transnet hurdle rate has since been amended to 15.2 % and the NPV at this hurdle rate using the business case assumptions would be R 16.02 billion.

79. The financial models for the Business case have been updated for the following based on the conditions per the signed final contracts:
    a. Final pricing
    b. Revised cash flow profile for the capital investments
    c. Commensurate changes to the volume ramp up and tariff increases on commodities that are priced relative to the investment outlay

80. The updated NPV result is a positive NPV of R 11.68 billion at the new hurdle rate of 15.2 % and R 22.71 billion at the TFR WACC of 12.6 %. The NPV would become a negative R 1.67 billion at the original hurdle rate of 18.56%.

81. The WACC and hurdle rates are updated annually for changes in economic conditions and are approved by Transnet Exco and reviewed by External audit during the year end audit process.

BUDGET IMPLICATIONS:

82. The investment is included in the 2014/15 seven year capital investment plan.

83. The contracted delivery schedule and cash flows have changed as compared to the investment included in the 2014/15 seven year capital investment plan.

84. 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.

85. The difference between the 2014/15 seven year investment plan and the projected cash flows based on the supplier agreements with contractors with an additional 10 % added for options, variation orders, special tooling, test equipment, initial spares and capital spares, is illustrated in Table 7 below:

Table 7

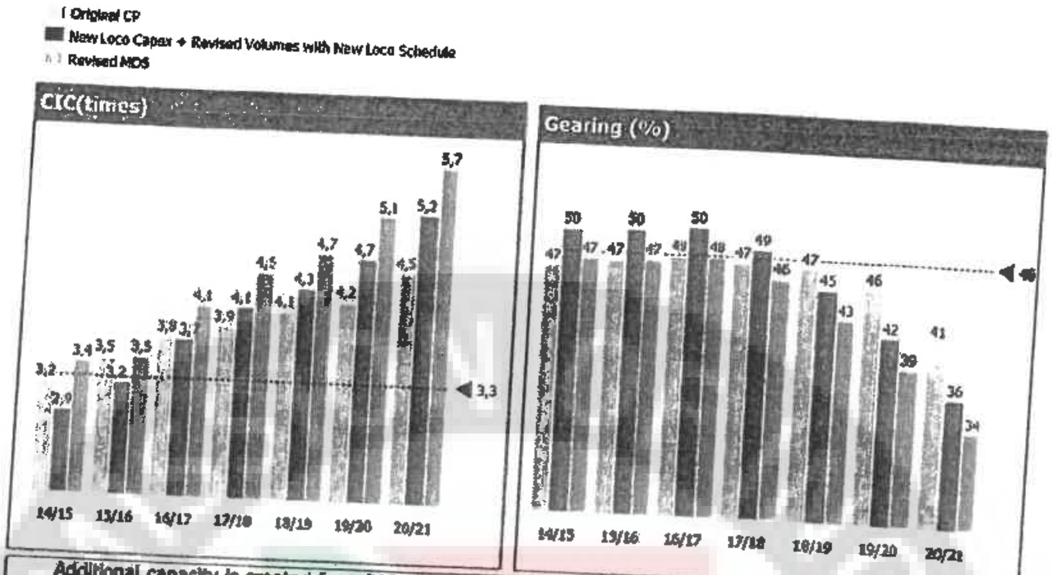
	Rand million								
	ETC	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Budget per Corporate Plan	41 468	-	315	4 188	8 344	9 123	9 420	8 382	1 696
Contracted	49 547								
Add 10 % for options, variations, tools, spares etc.	4 955								
Expected	54 502	4 824	6 308	6 597	18 618	16 970	1 185	-	-
Difference	-13 034	-4 824	-5 993	-2 409	-10 274	-7 847	8 235	8 382	1 696
Corporate Plan alignment to Business Case	-2 868								
Net ETC difference	-15 902								

86. In order to secure accelerated delivery of the locomotives to address the MDS volumes at risk, a larger advance payment (R 4844 million) had to be made to the contractors in the 2013/14 financial year.

87. As confirmed by a letter received from the suppliers this was required by the suppliers 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 Statement at 31 March 2014.

88. Although the accelerated delivery schedule would have resulted in earlier cash outflows for Transnet, an overall saving is realised because of the saving made on future escalations and hedging costs as a result of a shorter delivery period

89. The impact from 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.

90. As can be seen from the graphs the initial two years of the 2014/15 Corporate Plan has been negatively impacted the by locomotive acquisitions.

91. However after the planned EBITDA and optimisation initiatives that have been factored into the model the ratios are restored.

92. The initiatives identified to meet the Corporate Plan targets are detailed in Annexure A.

RISK MANAGEMENT:

93. In order to manage risks associated with this transaction a risk management framework is in the process of being developed.

94. 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

95. A socio economic monitor will be appointed to ensure socio economic benefits will be realised.

96. 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.

97. Escalation risk has been mitigated by fixing the price of the locomotives.

98. Forex risk has been mitigated by hedging the price of the locomotives by using the suppliers balance sheets.

99. 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.

100. Payment terms have been structured such that the bulk of payments, of between 70 % and 90 %, happens after delivery of the locomotives.

101. In order to manage the total cost of ownership and mitigate against the risk that the locomotives once placed into operation will consume more fuel (diesel locomotives) or energy (electric locomotives) than indicated in bidders responses to the RFP, a penalty clause with a related fuel/energy warranty regime has been included in the supply agreement with bidders.

102. In order to mitigate against default of Supplier Development (SD) commitments, and SD penalty clause has been included in the supply agreements with bidders. An SD bond has also been obtained to cover risk against default.

103. GE have agreed to provide a 30 month warranty on the locomotive as well as a 6 year warranty on the traction motor and a 12 month warranty on spares.

104. CNR, BT and 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.

105. 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.

106. In order to mitigate against the risk of having to accept and pay for locomotives during an economic downturn when volumes from customers may not be forthcoming thereby impacting negatively upon Transnet's loan covenants, bidders agreed to accept a clause in the supply agreement whereby acceptance of locomotives could be deferred for a period of time. Transnet agreed that in return bidders would be reimbursed for reasonable and auditable costs. These costs could include warehousing costs, time value of money costs, costs related to the rolling of hedges etc.

SOURCE OF INFORMATION AND REFERENCES:

107. 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:

108. 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 estimated total cost (ETC) for the acquisition of the 1064 locomotives for Transnet Freight Rail's General Freight Business from R38,6 billion to R54,5 billion.

Recommended by:

Anoj Singh
Group Chief Financial Officer
Date: 22/05/14

Recommended by:

Siyabonga Gama
TFR Chief Executive
Date: 2014.05.21

Recommended by:

Brian Molefe
Group Chief Executive
Date: 23.5.14.

ANNEXURE YL 17

08-Feb-18 v7 Model?

Reconciliation of Original business case ETC to OEM contracted value

Description	R'bn	Comments
Bus. Case ETC	31 887	
Forex	1 706	
Escalation	2 775	
Contingency	2 232	
Bus. Case ETC to Board	**38 600**	Per Original business case model
Less:Contingencies for recon purpose	2 232	
Business case ETC excluding contingencies	36 368	
Adjusting busness case base price to OEM submitted base price 2014	(893)	USD price converted (Diesel \$2.6m vs \$2.9m and Electric \$3.5m vs \$3.1m)
Additional impact of new forward curve at March 2014 vs business case forward curve and moving the start date from business case April 2013 to March 2014	7 995	As per updated forward curve per Transnet Treasury as at March 2014 and moving the start date to March 2014
Adjusting busness case delivery schedule to OEM contracted delivery schedule	(1 451)	Shortening the delivery schedule as per contract resulted in less forex exposure and less escalations
Adjusting busness case payment terms to OEM contracted payment terms	(1 362)	Larger payment contracted for upfront resulted in less forex exposure
Adjusting busness case localisation % to OEM contracted localisation %	(200)	Higher local content contracted resulted in less forex exposure
Total	40 457	
Original TE scope (SCS to track submissions and confirm)	1 706	As per the memo submitted to Board dated May 2014
Add additional cost of increasing TE scope per OEM submissions (SCS to track submissions and confirm)	883	As per the memo submitted to Board dated May 2014
Add additional cost of reducing the batch size per OEM submissions (SCS to track submissions and confirm)	2 754	As per the memo submitted to Board dated May 2014
Recalculated Business case ETC as at March 2014	**45 800**	
Difference between recalculated business case ETC and amount contracted with OEMs	3 747	
Amount contracted with OEMs	**49 547**	
Contigencies	4 955	
Amount contracted including contingencies	**54 502**	

Exclusions & Notes:

Escalation indices have been kept the same as per the original business case assumptions

Amounts contracted per OEM - excluding contingencies	
BOMBARDIER	13 049
CSR	18 122
GE	8 429
CNR	9 947
TOTAL	49 547

Business case Original

Treasury FX (R/$) BC 2013	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
Busines Case DIESEL 465	2.6	50%	Apr-13	12 640	24.922	0	0	11 705	408	528	12 640	0
Busines Case Electric 599	3.5	50%	Apr-13	23 728	33.549	0	0	20 297	1 504	1 927	23 728	36 368

Business Case Delivery with 2014 Tender prices

Treasury FX (R/$) BC 2013	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
Busines Case DIESEL 465	2.9348175	50%	Apr-13	14 268	28.131	0	0	13 212	460	596	14 268	0
Busines Case Electric 599	3.1282175	50%	Apr-13	21 207	29.985	0	0	18 141	1 344	1 722	21 207	35 475

BC 2014 Delivery Price 2014 Curve

Treasury FX (R/$) 2014	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
Busines Case DIESEL 465	2.9348175	50%	Apr-13	16 199	31.489	0	0	14 789	515	895	16 199	0
Busines Case Electric 599	3.1282175	50%	Apr-13	24 442	33.564	0	0	20 306	1 505	2 631	24 442	40 641

BC Del +1yr 2014 Forex Curve

Treasury FX (R/$) 2014	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
Busines Case DIESEL 465	2.9348175	50%	Apr-13	17 234	31.489	0	0	14 789	890	1 555	17 234	0
Busines Case Electric 599	3.1282175	50%	Apr-13	26 236	33.564	0	0	20 306	2 161	3 770	26 236	43 470

BC OEM Del

Treasury FX (R/$) 2014	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
Electric BT Contract 240	2.9348175	50%	Mar-14	9 165	31.489	0	0	7 633	556	976	9 165	0
CSR Contract - 359	3.1282175	50%	Mar-14	14 458	33.564	0	0	12 170	832	1 456	14 458	23 623

Treasury FX (R/$) 2014	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
GE OEM Diesel 233	2.9348175	50%	Mar-14	8 789	31.489	0	0	7 410	501	878	8 789	0
CNR OEM Diesel 232	3.1282175	50%	Mar-14	9 607	33.564	0	0	7 865	632	1 111	9 607	18 396
												42 019

BC OEM Del and Payment

Treasury FX (R/$) 2014	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
Electric BT Contract 240	2.9348175	50.0%	Mar-14	8 812	31.489	680	1360	5 572	436	764	8 812	0
CSR Contract - 359	3.1282175	50.0%	Mar-14	13 784	33.564	1205	2410	8 519	600	1 051	13 784	22 596

Treasury FX (R/$) 2014	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
GE OEM Diesel 233	2.9348175	50.0%	Mar-14	8 662	31.489	734	0	6 669	457	802	8 662	0
CNR OEM Diesel 232	3.1282175	50.0%	Mar-14	9 398	33.564	779	389	6 685	560	985	9 398	18 061
												40 657

BC OEM Delivery Payment and Local Content

Treasury FX (R/$) 2014	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
Electric BT Contract 240	2.9348175	39.9%	Mar-14	8 757	31.489	680	1360	5 583	524	610	8 757	0
CSR Contract - 359	3.1282175	39.5%	Mar-14	13 707	33.564	1205	2410	8 537	726	830	13 707	22 464

Treasury FX (R/$) 2014	USD	Foreign	Cntrct Star	Total	oco Base Rr	Deposit	Desg.Rev	Base Price	Escalation	Forex	Total Rm	1064
GE OEM Diesel 233	2.9348175	44.3%	Mar-14	8 630	31.489	734	0	6 677	510	710	8 630	0
CNR OEM Diesel 232	3.1282175	45.0%	Mar-14	9 362	33.564	779	389	6 692	616	886	9 362	17 993
												40 457

BAFO - 13 Jan	ZAR M
Diesel	
General Elect	27.1595
CNR	30.4553
Electric	
Bombardier	32.3778
China South F	32.4623

GE = 55.74%
CNR = 55.00%
CSR = 60.52%
BT = 60.1%

ANNEXURE YL 18

COMMISSION OF INQUIRY INTO STATE CAPTURE

10 April, 2015

BOMBARDIER
the evolution of mobility

TRANSPORTATION
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Company Registration No 1995/011405/07
VAT Registration No 4260158546

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

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

Transnet Freight Rail
Inyanda House 2
Parktown
Johannesburg
2193 South Africa

Att. Ms. Lindiwe Mdletshe / Mr. Thamsanqa Jiyane

RE: Durban V.O. Revision

Dear Ms. Mdletshe

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

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

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

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

Kind regards,

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

Dobri Makhubela
Project Contracts Manager
Locomotives
Bombardier Transportation South Africa

YIL-214

BOMBARDIER

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

(hereinafter Durban Variation Order)

April 2015

1 Introduction

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

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

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

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

1.1 Provisions of the Contract

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

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

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

Clause 9.1.1 which provides for the consequences of delayed deliveries.

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

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

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

2.1 Scope of TE

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

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

2.2. Category of Impacts of the Variation Order

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

- The costs due to the **change of location** from Johannesburg to Durban (Logistics concept, additional transportation, etc)

- The costs due to the **extension of time of the project schedule** (Inflation, resources needed for an extended project duration, etc)

3 Pricing Assumptions

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

3.1 Change of location assumptions

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

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

3.2 Extension of time assumptions

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

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

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

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

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

3.3.3 Milestone Payments

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

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

3.3.4 Payment Terms

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

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

3.3.5 Supplier Development Plan (SD Plan)

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

3.3.6 General

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

3.4 Fixed price with hedging costs

Price is provided as a Fixed Price:

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

4 Validity of this offer

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

5 Appendixes

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

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

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

10.04.2015

Ramón Pérez
Project Manager

10/04/2015

Dobri Makhubela
Project Contract Manager

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

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

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

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

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

BOMBARDIER

Durban V.O.

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

ANNEXURE YL 19

Pierre . Leonard

From: Lindiwe Mdletshe Transnet Freight Rail JHB <Lindiwe.Mdletshe@transnet.net>
Sent: Saturday, 20 June 2015 13:12
To: Yousuf Laher Transnet Freight Rail JHB
Cc: Anoj Singh Corporate JHB
Subject: CNR Proposal
Attachments: Relocation Calcs adj.xlsx; Analysis of CNR numbers v0705.16 2015.3.pdf

Hi Yousuf,

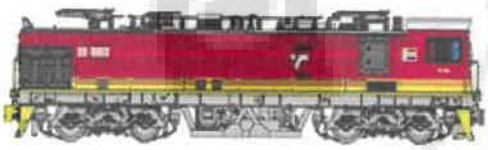
Please find attached CNR proposal FYA.

Regards

TRANSNET
freight rail

Lindiwe Mdletshe
Snr Manager: Strategic Sourcing (Locomotives)
Supply Chain Services
Transnet Freight Rail

011 584 0620 083 2683365
011 773 0832 Lindiwe.Mdletshe@transnet.net
www.transnet.net



YIL-228

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Analysis of Cost Increase

for

Locomotive Delivery

and

Locomotive Factory Relocation

from

Pretoria, Gauteng to Durban, Kwa-Zulu Natal

in terms of

Manufacturing Facility Relocation for Class 45D Locomotives Supply Project

March 2015

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Executive Summary

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

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

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Introduction

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

These considerations can be broken down into:

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

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

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

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

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

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Cost Breakdown

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

Labour Costs

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

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

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

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

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

Material Costs

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

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

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

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

Operational & Logistics Costs

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

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

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- **Administrative costs** to re-work logistics will be required, as the roll-out and execution of the relocation and final manufacturing project will need to be altered. This amounts to R1.7m.
- **A new environment** will require to be thoroughly tested in order to maintain the required level of quality and delivery. This will amount to R475k.
- **Additional staff travel costs** due to the move will amount to an estimated R2m.
- **Higher inventory** requirements will be required due to the distance from Gauteng. This will result in a cost of R2.2m.

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

Technical Support

Total cost R70m: 10% of relocation costs

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

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

Technical	**Increased cost of tech support**	As per Fixed	28 000 000

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Support	**Engineering**	Quotation	10 500 000
	Increased cost of on-site service by suppliers		31500 000
Total			**70 000 000**

Transportation

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

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

- There will be a R567k cost saving to being based in Durban due to **proximity to an industrial port.**
- **Physical transportation of assembly parts of locomotives**is estimated at R64.8m, explained as follows: the cost of road logistics in South Africa is estimated at (average) 5% of pre-transport costs. Assuming the project is transporting ~R1.3b worth of raw materials. The total is thus estimated atR64.8m.
- **Short-term insurance** on the value of transported goods will amount to R22.5m, based on industry-level Goods In Transit insurance premiums of between 0.2% and 0.8% of value.
- **Transport protection, express shipments**(for time-sensitive delivery), Trucks for handover and Testing goods when received are directly inherited costs of the relocation, amounting to incremental costs of R7.5m.

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

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

Incremental Warehousing Costs

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

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

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

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

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

Financing & Risk Costs

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

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

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

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

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

Costing Summary

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

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

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References & Sources

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

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

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

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

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

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

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Mr. Jeff Wang

Chief Executive Officer

CNR Rolling Stock (Pty) South Africa

Contact Detail

Jeff Wang (CEO)
Tel: 27 61 9846361(SA)
0086 13940991125(CHINA)
Mail Add.: luckwg@163.com

Communication Manager

Jane Dong
Tel: 27 61 9847989(SA)
0086 13889583608 (CHINA)
Mail Add: cnrrssapm@163.com

Boke
Tel: 27 61 9849195(SA)
0086 15941169206 (CHINA)
Mail Add: boke_qiao@163.com

	Costs	% of Total Relocation	Notes
Labour Costs	R 54 367 333	8%	
Manufacturing cost increase	R 38 280 000	6%	3
Increase quality assurance	R 4 640 000	1%	3
Customer service	R 8 064 000	1%	3
Program management	R 3 383 333	1%	3
Material Cost	R 178 822 793	27%	
Inflation due to schedule shift	R 162 064 173	24%	2
Additional procurement costs	R 16 758 621	3%	2
Logistics Costs	R 6 420 941	1%	
Admin costs to re-work logistics	R 1 731 158	0%	Fixed Quotation
Dry run in new environment	R 474 576	0%	Fixed Quotation
Additional travel costs	R 2 024 410	0%	Fixed Quotation
0	R 2 190 797	0%	Fixed Quotation
Technical Support	R 70 000 000	10%	
Increased cost of tech support	R 28 000 000	4%	3
Engineering	R 10 500 000	2%	3
Increased cost of on-site service by suppliers	R 31 500 000	5%	3
Transportation	R 94 194 785	14%	
International shipments	-R 567 104	0%	Fixed Quotation
Parts Transportation to Durban	R 64 800 000	10%	6
Insurance	R 22 500 000	3%	4
Transport protection	R 3 283 231	0%	Fixed Quotation
Express shipments	R 895 427	0%	Fixed Quotation
Truck for handover	R 1 492 378	0%	Fixed Quotation
Locos testing	R 1 790 853	0%	Fixed Quotation
Delta to warehouse costs	R 75 650 745	11%	
Additional Lease costs	R 16 800 000	3%	5
Fencing/Security	R 110 395	0%	Fixed Quotation
Civil works upgrades/office construction	R 3 927 000	1%	5
Office & warehouse furniture	R 188 899	0%	Fixed Quotation
Racks & Shelving	R 11 962 500	2%	5
Local forklifts/stacker trucks	R 5 300 000	1%	5
Additional delivery vehicles	R 3 924 552	1%	Fixed Quotation
Technology & inventory systems	R 3 133 999	0%	Fixed Quotation
Additional staff & personnel	R 24 503 400	4%	3
Extra outside labour & services	R 5 800 000	1%	3
Other Costs	R 190 327 688	28%	
Labour inflation original contract	R 4 413 790	1%	3
Finance costs on forward contracts	R 81 000 000	12%	4
Bond costs increase	R 18 000 000	3%	4
Contingency	R 25 867 599	4%	Contingency Risk - Fixed %
Increased insurance costs	R 2 750 000	0%	Fixed Quotation
Increased training costs	R 3 587 623	1%	3
Risk provision increase project	R 54 708 676	8%	Standard Risk - Fixed %
Total	R 669 784 286		

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

Inflation		
Annual Inflation		5,5% SARB CPI
4months Inflation		1,8%
Total Cost	9 000 000 000	
Inflation	**162 064 173**	

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

Assumptions & Variables	
Team per Loco	25
Total Locos	232
Locos per Month	12
Working on Locos pm	300
Number of Months	19
Per Loco	
Unskilled	5
Skilled	17
Managers	3
Avg Cost per Employee	17 500
Unskilled	10 000
Skilled	20 000
Manager	35 000
Calculated Avg	*19 800*
Total Cost per Team	495 000
Total Cost pm	5 940 000

Increased Training Costs	
Additional Staff	24 503 400
Manufacturing Related costs	38 280 000
	62 783 400
Additional Training	6%
Training Total	3 587 623
Annual Employee Cost	700 000
1 year MBA	40 000
%	6%

QA due to Inexperience support	
Number of Locos pm	12
Locos per Supervisor support	2
Number of Supervisors	6
Cost per Supervisor pm	40 000
	4 640 000

35%	Portion of Total costs for Labour
9 000 000 000	Total Value
30%	Margin
6 300 000 000	Costs
2 205 000 000	Labour
39 705 722	Labour Inflation

5 051 503	Calculated Inflation
280 527 931	Total Original Labour Cost
14 168	Total FTE (over period)

Extra outside labour & services	
Engineering Consulting Fee	900 000
pm	75 000
Period	1 450 000
Number of Experts	4
Total	**5 800 000**

Labour inflation original contract	
Additional Payments for St:	80 250 733
Inflation	5,5%
Total Cost	**4 413 790**

Long Term Maintenance Consulting		
Years	4	
Avg Salary	1 000 000	
Number of Engineers, Tech, Suppliers	20	
	70 000 000	pa
Weighting		
CNR Tech Support	8	
CNR Engineers	3	
Suppliers	9	

Customer Service (increase in #)	
Additional team	8
Cost	12 000
	8 064 000

Mix Change Due To Inexperience & CNR Additional Support	Old	New
Unskilled	5	5
Skilled	17	20
Managers	3	6
Per Loco	25	31
Direct Labour per Loco	*495 000*	*660 000*
Total Cost	114 840 000	153 120 000
Diff	**38 280 000**	

Additional staff & personnel	
Relocation %	30%
Total CNR Team	300
Relocated Team	90
Salary Growth	25%
Relocation Cost	100 000
Total Cost	17 613 000
Additional CNR Staff	72
Incremental Salary	25%
Total Cost	6 890 400
Grand Total	**24 503 400**

Program management		
Senior Manage support for Relocation	700 000	pa
	58 333	pm
Total	1 127 778	
Number	3	
Total Cost	**3 383 333**	

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

Forward Contract Cost		
Imported Value	4 050 000 000	
12c Spread on Fwd	0,12	
Paying Double for Buy-Sell	0,24	Rand to the USD
R/USD	12	ZAR/USD
Additional Cost %	2%	
Total Cost	**81 000 000**	

Insurance on Transportation	
Standard Insurance	20 000 000
Insurance	50 000
	0,25%
Value	9 000 000 000
Insurance	**22 500 000**

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

Racks & Shelving	
17%	of sqm
5 000	sqm
14 500	cost per sqm
11 962 500	

Small Office		
	850	sqm
	55	R/sqm
	3 927 000	

Local forklifts/stacker trucks		
#	R	
15	120 000	lifts
5	700 000	trucks
	5 300 000	

Parts Transportation to Durban		
Cost of Road Logistics	5%	of Total Costs
Total Imported Materials	40%	of Costs
Total Imported Value	4 050 000 000	*original cost*
Margin	20%	
Total Costs	3 240 000 000	
Materials from Costs	1 296 000 000	
Logistics on Materials	**64 800 000**	

Reference Type	Decription	Site
Key References		
	South African Reserve Bank	www.resbank.co.za
	Stats SA	www.statssa.gov.za
	Fin24	www.fin24.com
	JSE News	www.jse.co.za
Transportation References		
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	Durban Clearing	www.durbanclearing.co.za
	Road Freight Logistics	www.rflogistics.co.za
	South African Railways	www.southafricanrailways.co.za
Finance Costs		
	South African Reserve Bank	www.resbank.co.za
	Consulting with various finance experts	
	Standard Bank	
	SASFin	
	Bidvest Bank	
Labour Related Research		
	SA Board for People Practices	
	EVA Solutions	www.evasolutions.co.za
	Exceed HR Consulting	www.exceed.co.za
Property Research		
	Seeff Property Agency	www.seeff.co.za
	Property24	www.property24.com
	Standard Bank Property	
	Nedbank Preferred Property Guide	
	FNB Property	
	Industrial Listings	www.industriallistings.co.za
	SA Commercial Property New	www.sacommercialpropnews.co.za
Factory & Materials Costs		
	Industry experts in manufacture	
	Industry experts in mining & efficiencies	
	Industry experts in cost-optimisation	
	Trading Economics	www.tradingeconomics.co.za
	Manufacturing Circle	www.manufacturingcircle.co.za

Notes
Macro-economic analysis on trends, growth in manufacture, currency risk, inflation and interest movements and general
consulting
agency *non-agency* *banking portfolio assistance* *banking portfolio assistance* *banking portfolio assistance*
consulting *consulting* *consulting*

ANNEXURE YL 20

Yousuf Laher Transnet Freight Rail JHB

From: Yousuf Laher Transnet Freight Rail JHB
Sent: 20 June 2018 06:39 PM
To: 'popo@lereko.co.za'
Subject: FW: CNR Proposal - move to Durban

Dear Dr Molefe

As requested, refer mail below regarding the questions I raised regarding the move to Durban.

Best Regards
Yousuf Laher CA(SA)

From: Yousuf Laher Transnet Freight Rail JHB
Sent: 03 July 2015 02:31 PM
Lindiwe Mdletshe Transnet Freight Rail JHB <Lindiwe.Mdletshe@transnet.net>
Cc: Emma Molotsane (emolotsane@tia-snk.co.za) (emolotsane@tia-snk.co.za) <emolotsane@tia-snk.co.za>
Subject: FW: CNR Proposal

Resend.

Best Regards
Yousuf Laher CA(SA)

From: Yousuf Laher Transnet Freight Rail JHB
Sent: 21 June 2015 06:41 PM
To: Lindiwe Mdletshe Transnet Freight Rail JHB
Cc: Anoj Singh Corporate JHB; Garry Pita Transnet Corporate JHB; Thamsanqa Jiyane Transnet Engineering PTA; Ndiphiwe Silinga Transnet Corporate JHB
Subject: RE: CNR Proposal

Dear all, my comments as follows:

1. Increasing the team size does not make sense considering the learning curve will mitigate this requirement within a short time
2. Negotiating with suppliers will eliminate the inflationary cost related to the 4 additional months. In any case material costs generally don't increase on a monthly basis, thus the impact should not be as large as 1.8 %. Also 1.8 % for 4 months does not equal 5.5 % but rather 7.2 % which is excessive.
3. From the explanation provided, the incremental cost of procurement does not relate to the move to Durban. This should not be charged. In any case 9 % interest is excessive.
4. The additional technical support requirement in Durban does not make sense. The cost of this technical support should have been included in the original price.
5. On site service by technicians should have been included in the original price. R 31.5 m for travel and relocation seems excessive.
6. Can the transport not be done by TFR via rail containers? If so then insurance costs would also be minimal as would be internally insured.
7. R 11200 psm for shelving seems excessive? SCS can research this.
8. Has consideration been given to TP or TFR property for the warehousing?
9. Why the additional forklifts?
10. How much is the incentive and relocation cost per staff member?
11. Labour inflation does not increase [illegible] a monthly basis. The [illegible] should possibly only be at the [illegible] [illegible]

12. Labour inflation rate applied at 5.5 % for the full year, whereas it should only be for 4 months (Cell E23 in "Staff" sheet)
13. The additional cost to rollover the hedge must be checked by treasury
14. Additional bond costs must be checked by treasury
15. Contingency risk of 4 % and risk provision of 9 % is unexplained and seems to be additional profit. This seems excessive.
16. Obtain a detailed list of suppliers being used in Durban versus those in JHB.
17. The cost of the long term maintenance consulting does not relate to the move to Durban (Cell E29 "staff"). This should not be charged as it should have been included in the original contract.
18. Labour inflation is double counted (ref cell D7 & cell E23 "staff")

Best Regards
Yousuf Laher CA(SA)

From: Lindiwe Mdletshe Transnet Freight Rail JHB
Sent: 20 June 2015 01:12 PM
To: Yousuf Laher Transnet Freight Rail JHB
Cc: Anoj Singh Corporate JHB
Subject: CNR Proposal

Hi Yousuf,

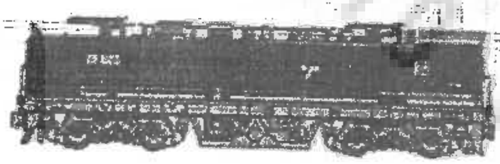
Please find attached CNR proposal FYA.

Regards

TRANSNET
freight rail

Lindiwe Mdletshe
Snr Manager: Strategic Sourcing (Locomotives)
Supply Chain Services
Transnet Freight Rail

011 584 0620
011 773 0832
www.transnet.net
083 2683365
Lindiwe.Mdletshe@transnet.net



Yousuf Laher Transnet Freight Rail JHB

From: Yousuf Laher Transnet Freight Rail JHB
Sent: 20 June 2018 06:41 PM
To: 'popo@lereko.co.za'
Subject: FW: Bombardier Proposals - comments - move to Durban

Dear Dr Molefe

As requested, refer mail below regarding the questions I raised regarding the move to Durban.

Best Regards
Yousuf Laher CA(SA)

From: Yousuf Laher Transnet Freight Rail JHB
Sent: 22 June 2015 08:58 AM
To: Lindiwe Mdletshe Transnet Freight Rail JHB <Lindiwe.Mdletshe@transnet.net>; Garry Pita Transnet Corporate JHB <Garry.Pita@transnet.net>; Thamsanqa Jiyane Transnet Engineering PTA <Thamsanqa.Jiyane@transnet.net>; Anoj Singh Corporate JHB <Anoj.Singh@transnet.net>; Ndiphiwe Silinga Transnet Corporate JHB <Ndiphiwe.Silinga@transnet.net>
Subject: RE: Bombardier Proposals - comments

Dear all, my comments as follows, some clarity should be sought from BT for some items:

1. BT do not provide a detailed costing of each element that makes up the additional cost. This should be requested (per category for which an explanation has been provided), detailed costs should be provided for the following at a minimum:
   a. Additional hedging cost
   b. Additional escalation cost
   c. Additional bonding costs
   d. Additional transport cost (number of trips, size of containers per trip and distances)
   e. Additional warehousing cost (per square metre)
   f. Saving on transport costs for materials imported
   g. Additional insurance cost
   h. Additional cost of new production layout in Durban
2. On the production schedule – why are no loco's handed over between the 7th of June to the 6th of July?
3. What did TE quote BT for the move?
4. I've checked that the milestone payments and payment terms tie into the contract.
5. Obtain a detailed list of suppliers being used in Durban versus those in JHB.

The BT cost information is limited and does not allow for a detailed analysis of their costing.

Best Regards
Yousuf Laher CA(SA)

From: Lindiwe Mdletshe Transnet Freight Rail JHB
Sent: 20 June 2015 12:54 PM
To: Garry Pita Transnet Corporate JHB; Thamsanqa Jiyane Transnet Engineering PTA; Anoj Singh Corporate JHB; Yousuf Laher Transnet Freight Rail JHB
Subject: Bombardier Proposals

Good day

Please find attached Bombardier proposal as requested

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

Kind Regards

TRANSNET
freight rail

Lindiwe Mdletshe
Snr Manager: Strategic Sourcing (Locomotives)
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Transnet Freight Rail

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ANNEXURE YL 21

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

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Analysis of Cost Increase

for

Locomotive Delivery

and

Locomotive Factory Relocation

from

Pretoria, Gauteng to Durban, Kwa-Zulu Natal

in terms of

Manufacturing Facility Relocation for Class 45D Locomotives Supply Project

June 2015

YIL-256

TO BE INSERTED ON CNR LETTERHEAD

22 June 2015
To whom it may concern:

Dear Sir,

CNR RS SA appreciates the opportunity to resubmit our proposal.
In this regard we have been through the proposal again taking into account your comments regarding the financial cost estimates.
Given that the project is already running a month late, we believe that accounting for the cost implications of a further delay will more than offset the 'potential savings' you referred to in our meeting.
We therefore conclude that the cost estimate of R669 784 286 remains accurate.

We have addressed the key issues raised, below:

1> **Proposed discount and initial payment:**
We would like to propose a 10% settlement discount, assuming payment of 50% of the total cost is made upfront on signature of the agreement.

The revised cost estimate after the discount would than be
R669 784 286 – R66 978 428 = R602 805 858

Therefore we propose an upfront payment of the initial 50% amounting to R301 402 929.

2> **Payment:**
In order to align the balance of the payment with the project execution, we propose that the remaining 50% of the consideration, being R301 402 929 is paid monthly in arrears, on a pro-rata basis, against the 212 locally manufactured locomotives.

These payments are to commence the month that the first locomotives are manufactured and will be payable over 24 months in equal installments.

Calculation of monthly payments: R301 402 929 / 24 = R12 558 455
Therefore CNR RS SA will invoice for 24 monthly payments of R12 558 455

Please note that these monthly invoices will be issued separately from the milestone payment invoice as per the Locomotive Supply Agreement for the manufacture of the 212 locomotives, and this payment should be paid as per the document approved by Transnet. In addition, this payment should not neither reduce nor increase or affect the milestone payment stipulated in LSA. This payment is separated from the payment of 212 locally manufactured locomotives as stipulated in LSA.

3> **Supplier development initiatives:**
CNR RS SA will where appropriate, focus on providing technical support, skills development and training to local suppliers and service providers.
In this regard CNR RS SA will provide for training and supplier development with regard to technical support.

We trust that you will find our proposal in order and look forward to finalizing the contract.

Kind Regards

CNR Rolling Stock South Africa (Pty) Ltd (reg 2014 /016832/07) t/a

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Executive Summary

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

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

CNR Rolling Stock South Africa (Pty) Ltd (reg 2014 /[illegible]/07) t/a

Rolling Stock
South Africa

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Introduction

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

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

These considerations can be broken down into:

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

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

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

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

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

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Cost Breakdown

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

Labour Costs

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

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

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

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

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

Material Costs

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

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

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

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

Operational & Logistics Costs

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

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

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- **Administrative costs to** re-work logistics will be required, as the roll-out and execution of the relocation and final manufacturing project will need to be altered. This amounts to R1.7m.
- **A new environment** will require to be thoroughly tested in order to maintain the required level of quality and delivery. This will amount to R475k.
- **Additional staff travel costs** due to the move will amount to an estimated R2m.
- **Higher inventory** requirements will be required due to the distance from Gauteng. This will result in a cost of R2.2m.

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

Technical Support

Total cost R70m: 10% of relocation costs

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

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

Technical	**Increased cost of tech support**	As per Fixed	28 000 000

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Support	Engineering	Quotation	10 500 000
	Increased cost of on-site service by local small business supplier		31500 000
Total			70 000 000

Transportation

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

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

- There will be a R567k cost saving to being based in Durban due to **proximity to an industrial port**.
- **Physical transportation of assembly parts of locomotives**is estimated at R64.8m, explained as follows: the cost of road logistics in South Africa is estimated at (average) 5% of pre-transport costs. Assuming the project is transporting ~R1.3b worth of raw materials. The total is thus estimated atR64.8m.
- **Short-term insurance** on the value of transported goods will amount to R22.5m, based on industry-level Goods In Transit insurance premiums of between 0.2% and 0.8% of value.
- **Transport protection, express shipments**(for time-sensitive delivery), Trucks for handover and Testing goods when received are directly inherited costs of the relocation, amounting to incremental costs of R7.5m.

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

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

Incremental Warehousing Costs

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

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

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

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

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

Financing & Risk Costs

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

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

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

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

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

Costing Summary

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

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

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Definition

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

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References & Sources

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

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Chief Executive Officer

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	Costs		% of Total Relocation		Notes
Labour Costs		R 54,367,333		8%	
Manufacturing cost increase	R 38,280,000		6%		3
Increase quality assurance	R 4,640,000		1%		3
Customer service	R 8,064,000		1%		3
Program management	R 3,383,333		1%		3
Material Cost		R 178,822,793		27%	
Inflation due to schedule shift	R 162,064,173		24%		2
Additional procurement costs	R 16,758,621		3%		2
Logistics Costs		R 6,420,941		1%	
Admin costs to re-work logistics	R 1,731,168		0%		Fixed Quotation
Dry run in new environment	R 474,576		0%		Fixed Quotation
Additional travel costs	R 2,024,410		0%		Fixed Quotation
0	R 2,190,797		0%		Fixed Quotation
Technical Support		R 70,000,000		10%	
Increased cost of tech support	R 28,000,000		4%		3
Engineering	R 10,500,000		2%		3
Increased cost of on-site service by supp	R 31,500,000		5%		3
Transportation		R 94,194,785		14%	
International shipments	-R 567,104		0%		Fixed Quotation
Parts Transportation to Durban	R 64,800,000		10%		6
Insurance	R 22,500,000		3%		4
Transport protection	R 3,283,231		0%		Fixed Quotation
Express shipments	R 895,427		0%		Fixed Quotation
Truck for handover	R 1,492,378		0%		Fixed Quotation
Locos testing	R 1,790,853		0%		Fixed Quotation
Delta to warehouse costs		R 75,650,745		11%	
Additional Lease costs	R 16,800,000		3%		5
Fencing/Security	R 110,395		0%		Fixed Quotation
Civil works upgrades/office construction	R 3,927,000		1%		5
Office & warehouse furniture	R 188,899		0%		Fixed Quotation
Racks & Shelving	R 11,962,500		2%		5
Local forklifts/stacker trucks	R 5,300,000		1%		5
Additional delivery vehicles	R 3,924,552		1%		Fixed Quotation
Technology & inventory systems	R 3,133,999		0%		Fixed Quotation
Additional staff & personnel	R 24,503,400		4%		3
Extra outside labour & services	R 5,800,000		1%		3
Other Costs		R 190,327,688		28%	
Labour Inflation original contract	R 4,413,790		1%		3
Finance costs on forward contracts	R 81,000,000		12%		4
Bond costs increase	R 18,000,000		3%		4
Contingency	R 25,867,599		4%		Contingency Risk - Fixed %
Increased insurance costs	R 2,750,000		0%		Fixed Quotation
Increased training costs	R 3,587,623		1%		3
Risk provision increase project	R 54,708,676		8%		Standard Risk - Fixed %
Total		R 669,784,286			

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

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

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

Assumptions & Variables	
Team per Loco	25
Total Locos	232
Locos per Month	12
Working on Locos pm	300
Number of Months	19
Per Loco	
Unskilled	5
Skilled	17
Managers	3
Avg Cost per Employee	17,500
Unskilled	10,000
Skilled	20,000
Manager	35,000
Calculated Avg	*19,800*
Total Cost per Team	495,000
Total Cost pm	5,940,000

Increased Training Costs	
Additional Staff	24,503,400
Manufacturing Related co	38,280,000
	62,783,400
Additional Training	6%
Training Total	3,587,623
Annual Employee Cost	700,000
1 year MBA	40,000
%	6%

QA due to inexperience support	
Number of Locos pm	12
Locos per Supervisor	
support from CNR	2
Number of Supervisors	6
Cost per Supervisor pm	40,000
	4,640,000

35%	Portion of Total costs for Labour
9,000,000,000	Total Value
30%	Margin
6,300,000,000	Costs
2,205,000,000	Labour
39,705,722	Labour Inflation

5,051,503	Calculated Inflation
280,527,931	Total Original Labour Cost
14,168	Total FTE (over period)

Extra outside labour & services	
Engineering Consulting	900,000
pm	75,000
Period	1,450,000
Number of Experts	4
Total	5,800,000

Labour inflation original contract	
Additional Payments fc	80,250,733
Inflation	5.5%
Total Cost	4,413,790

Long Term Maintenance Consulting		
Years	4	
Avg Salary	1,000,000	
Number of Engineers,		
Tech, Suppliers	20	
	70,000,000	pa
Weighting		
CNR Tech Support	8	
CNR Engineers	3	
Local Small Business		
Supplier	9	

Customer Service (increase in #)	
Additional team	8
Cost	12,000
	8,064,000

Mix Change Due To Inexperience	Old	New
		CNR Additional skill training/mentorship
Unskilled	5	5
Skilled	17	20
Managers	3	6
Per Loco	25	31
Direct Labour per Loco	*495,000*	*660,000*
Total Cost	114,840,000	153,120,000
Diff	38,280,000	

Additional staff & personnel	
Relocation %	30%
Total CNR Team	300
Relocated Team	90
Salary Growth	25%
Relocation Cost	100,000
Total Cost	17,613,000
Additional CNR Staff	72
Incremental Salary	25%
Total Cost	6,890,400
Grand Total	24,503,400

Program management		
Senior Manege support for Relocation	700,000	pa
	58,333	pm
Total	1,127,778	
Number	3	
Total Cost	3,383,333	

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

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

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

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

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

Small Office	
850	sqm
55	R/sqm
3,927,000	

Local forklifts/stacker trucks		
#	R	
15	120,000	lifts
5	700,000	trucks
	5,300,000	

Parts Transportation to Durban		
Cost of Road Logistics	5%	of Total Costs
Total Imported Materials	40%	of Costs
Total Imported Value	4,050,000,000	*original cost*
Margin	20%	
Total Costs	3,240,000,000	
Materials from Costs	1,296,000,000	
Logistics on Materials	64,800,000	

eference Typ	Decription	Site	Notes
Key References			
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	South African Reserve Ba	www.resbank.co.za	
	Consulting with various finance experts		*consulting*
	Standard Bank		
	SASFin		
	Bidvest Bank		
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	SA Board for People Practices		
	EVA Solutions	www.evasolutions.co.za	
	Exceed HR Consulting	www.exceed.co.za	
Property Research			
	Seeff Property Agency	www.seeff.co.za	*agency*
	Property24	www.property24.com	*non-agency*
	Standard Bank Property		*banking portfolio assistance*
	Nedbank Preferred Property Guide		*banking portfolio assistance*
	FNB Property		*banking portfolio assistance*
	Industrial Listings	rw.industriallistings.co.za	
	SA Commercial Property N	v.sacommercialpropnews.co.za	
Factory & Materials Costs			
	Industry experts in manufacture		*consulting*
	Industry experts in mining & efficiencies		*consulting*
	Industry experts in cost-optimisation		*consulting*
	Trading Economics	rww.tradingeconomics.co.za	
	Manufacturing Circle	w.manufacturingcircle.co.za	

ANNEXURE YL 22

From: Yousuf Laher Transnet Freight Rail JHB <Yousuf.Laher@transnet.net>
Sent: Thursday, 25 June 2015 10:12
To: Lindiwe Mdletshe Transnet Freight Rail JHB
Cc: Emma Molotsane (emolotsane@tia-snk.co.za); Anoj Singh Corporate JHB; Thamsanqa Jiyane Transnet Engineering PTA; Garry Pita Transnet Corporate JHB; Ndiphiwe Silinga Transnet Corporate JHB
Subject: RE: Manufacturing Facility Relocation for Class 45D Locomotives Supply Project

Hi Lindiwe, their proposal has not changed from the previous submission except for their new offer on payment terms.

As such the comments per my mail over the weekend would still apply.

Their payment terms offer needs to be considered in light of Transnets cash flow situation, for which treasury must advise.

Best Regards
Yousuf Laher CA(SA)

From: Lindiwe Mdletshe Transnet Freight Rail JHB
Sent: 23 June 2015 04:13 PM
To: Anoj Singh Corporate JHB; Thamsanqa Jiyane Transnet Engineering PTA; Garry Pita Transnet Corporate JHB; Ndiphiwe Silinga Transnet Corporate JHB; Yousuf Laher Transnet Freight Rail JHB
Cc: Emma Molotsane (emolotsane@tia-snk.co.za)
Subject: FW: Manufacturing Facility Relocation for Class 45D Locomotives Supply Project

Good day,

Please find attached revised CNR proposal for your review and comments.

Please note that both meetings that were scheduled to take place today, 23 June 2015 were postponed.

BT's proposal is still outstanding. They are having an alignment session this afternoon and they will revert back to us today with an indication on when the "revised proposal" will be submitted to Transnet.

Kind Regards

TRANSNET
freight rail

Lindiwe Mdletshe
Snr Manager: Strategic Sourcing (Locomotives)
Supply Chain Services
Transnet Freight Rail

011 584 0620 083 2683365
011 773 0832 Lindiwe.Mdletshe@transnet.net
www.transnet.net

From: Jane Dong [mailto:cnrrssapm@163.com]
Sent: 23 June 2015 02:58 PM
To: Lindiwe Mdletshe Transnet Freight Rail JHB
Cc: 王刚（南非公司）; 于涛(南非公司); Jane
Subject: Manufacturing Facility Relocation for Class 45D Locomotives Supply Project

Hi Lindiwe,

As requested, I attached the revised proposal behind for your reference.

Once you confirmed the meeting time, just let me konw.

Appreciated.

Regards,

2015-06-23

Jane Dong
Communication Manager &Project Manager CNR Rolling Stock South Africa(Pty)Ltd.
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