

ANNEXURE "MSM 15"



BY HAND

TO :

Mr Wang Pan
Director General Manager
CSR E-LoCo Supply (Pty) Ltd
1st Floor
95 Grayston Drive
SANDTON
2196

**GSM /15/07/1296 FOR THE PROVISION OF MAINTENANCE & RELIABILITY SERVICES
TO TRANSNET ENGINEERING FOR A PERIOD OF 12 YEARS**

Received by :

PRINT NAME

SHE Yongjun.

SIGNATURE

余勇军

DATE

2016-08-12

TRANSNET



RE: LETTER OF AWARD

GSM /15/07/1296 FOR THE PROVISION OF MAINTENANCE & RELIABILITY SERVICES TO TRANSNET ENGINEERING FOR A PERIOD OF 12 YEARS.

Pursuant to our Notice to Respond [NTR Number: GSM /15/07/1296][the NTR], Transnet is pleased to inform you that your company has been identified as a preferred bidder to provide certain maintenance, materials & reliability services as more fully described in Annexure C (Technical Requirements) [the Maintenance Services] to the Client (as defined below). Your appointment as preferred bidder (in all respects) is subject to the conditions set out in this Letter of Award.

The Parties to this Letter of Award are:

1. **Transnet SOC Ltd** (acting through its Transnet Engineering division), a State Owned Company and the procurer of Maintenance & Reliability Services (Registration number 1990/000900/30) [the Client]; and
2. **CSR E-LoCo Supply (Pty) Ltd** (Registration number 2012/128051/07) [the Maintainer].

The Client wishes to appoint the Maintainer to provide the Maintenance Services to the Client for certain Class 20Es, Class 21Es and Class 22Es Locomotives which, if mutually agreed by the Parties, will be documented and performed in accordance with a Materials & Reliability Support Agreement between the Parties [the MRS Agreement].

The Parties are desirous of successfully concluding negotiations and thereafter executing the MRS Agreement to enable the Maintainer to provide the Maintenance Services under and in accordance with the MRS Agreement.

In the interim, the Parties have identified certain of the Maintenance Services which Transnet requires the Maintainer to provide, pending finalisation and execution of the MRS Agreement. Conditions of the current requirement are specified below [the Interim Maintenance Services]. We also annex hereto the Best and Final Offer submitted by the Maintainer on 14 July 2016

Transnet SOC Ltd
Registration Number
1990/000900/30

160 Lynette Street
Kilner Park
Pretoria
0186

PO Box 15912
Lynn East
Pretoria, 0039
T +27 12 391 1361
F +27 12 391 1342

Directors: LC Maseko (Chairperson, St Garra*) (Group Chief Executive) Y Forbes GJ Mahalela PEB Masekga ZA Nqdeni V M Nkonyane SD Share
BG Stagman PG Williams GJ Pita* (Group Chief Financial Officer)
*Executive

Group Company Secretary: ANC Cebe

www.transnet.net

marked as Annexure "A" [the BAFO], the terms of which will be incorporated in the MRS Agreement and will also form part of the Interim Maintenance Services.

The purpose of this Letter of Award is to (i) appoint the Maintainer as a preferred bidder, (ii) describe the Interim Maintenance Services and (iii) appoint the Maintainer as the maintenance provider for the Interim Maintenance Services. This Letter of Award and the Maintainer's appointments hereunder will remain in effect until the MRS Agreement is signed and becomes effective, or until Ninety (90) business days has elapsed from date of this LOA (unless terminated earlier in accordance with the provisions hereof), whichever event should occur first [the LOA Period]. The Client may (acting in its sole and absolute discretion) extend the LOA Period on written notice to the Maintainer.

NOW THEREFORE IT IS AGREED

1. General Conditions of Award

This Letter of Award and the Maintainer's appointments hereunder are subject to the following general terms and conditions:

- 1.1 this LOA shall become effective on the date of signature hereof;
- 1.2 the parties each agree to work diligently and in good faith during the LOA Period towards concluding the MRS Agreement;
- 1.3 if, upon expiry of the LOA Period, the Client is satisfied (acting in its sole and absolute discretion), having regard to the standard of performance of the Interim Maintenance Services performed by the Maintainer and the results of the due diligence investigations referred to in Clause 2.12, that the Maintainer is able to achieve the maintenance standards required by the Client to fully and effectively perform the Maintenance Services in accordance with the terms of the MRS Agreement, the Client may, subject to the remaining terms and conditions of this LOA, enter into the MRS Agreement with the Maintainer;
- 1.4 the Maintainer acknowledges and agrees that if the Client is not satisfied that the Maintainer is able to achieve the maintenance standards required by the Client as contemplated in Clause 1.3, the Client may (but is not obliged) enter into a long term parts supply agreement (LTPA) (or similar arrangement) with the Maintainer, once negotiated, instead of concluding the MRS Agreement. In such circumstances, the



Maintainer acknowledges and agrees that the Start-Up Cost Payment (as defined in Clause 2.4) is forthwith repayable to the Client in accordance with Clause 2.4;

- 1.5 upon expiry of the LOA Period or should (in the opinion of Client) negotiations between the Parties fail for any reason prior to expiry of the LOA Period, the Client shall, subject to Clause 2.4.3, pay to the Maintainer all service payments (as further described in Clause 2.1 below) owed to the Maintainer at such time.

2. Interim Maintenance Services and MRS Agreement

This Clause 2 sets out the principal terms and conditions under which the Maintainer will perform the Interim Maintenance Services. The Maintainer acknowledges and agrees that if and to the extent the Client decides to enter into the MRS Agreement with the Maintainer at the end of the LOA Period, the terms set out in this Clause 2 shall be expressly included in the MRS Agreement and will form part of the Maintenance Services to be performed thereunder.

2.1 NTR, BAFO and Related Documents

The MRS Agreement shall incorporate (i) the Client maintenance specification set out in the NTR documents; (ii) the terms of the Maintainer's BAFO; (iii) the Client's Standard Terms of the Contract (signed by the Maintainer and included in the NTR) and (iv) the General Bid Conditions (included in the NTR).

2.2 Compliance with laws

- 2.2.1 At all times during the LOA Period, the Maintainer shall perform the Interim Maintenance Services in compliance with all applicable laws and the reasonable instructions of the Client from time to time.

- 2.2.2 Without limiting the generality of Clause 2.2.1, the Maintainer must at its cost obtain and maintain in full force and effect during the LOA Period all authorisations, licences, certifications, consents, registrations, exemptions and approvals required by the laws of South Africa to enable the Maintainer to perform the Interim Maintenance Services and its other obligations under and in connection with this LOA, including without limitation, its Tax Clearance certificate and BBBEE Certificate (in each case in form and substance satisfactory to the Client). The Maintainer will promptly, upon written request, deliver a copy thereof to the Client.

3

[Handwritten signature]

[Handwritten initials]

2.3 Contract Price

The Maintainer agrees to perform the Interim Maintenance Services at the rates set out in the Maintainer's BAFO. The payment terms are outlined in Annexure "B" (Payment Terms and Conditions) hereto. The Maintainer further agrees that the rates set out in the Maintainer's BAFO shall apply to the MRS Agreement and the Maintenance Services to be performed thereunder. All prices stated are exclusive of VAT. There shall be no escalation or indexation of the BAFO prices during the LOA Period.

2.4 Start Up Costs

2.4.1 Subject to the terms of this Clause 2.4, the Client will pay to the Maintainer an initial payment in the amount specified in Annexure "B" [the Start-Up Cost Payment]. The Start-Up Cost Payment is intended to fund and must be applied against certain start-up costs and expenses incurred or to be incurred by the Maintainer in performing the Maintenance Services under and in accordance with the MRS Agreement. The Maintainer shall promptly on request provide evidence satisfactory to the Client of the start-up costs so incurred and the application of the Start-Up Cost Payment in accordance with this Clause 2.4.1.

2.4.2 The Client shall pay the Start-Up Cost Payment to the Maintainer within 14 days of receipt by the Client of a valid and effective on demand payment guarantee issued by a financial institution and otherwise in form and substance satisfactory to the Client (acting in its sole and absolute discretion) [the On Demand Payment Guarantee]. The Client shall have no obligation to pay the Start-Up Cost Payment until it has notified the Maintainer in writing that the On Demand Payment Guarantee is in an acceptable form.

2.4.3 If: (i) negotiations fail for any reason prior to the expiry of the LOA Period, or (ii) in accordance with Clause 1.3, the Client is not satisfied that the Maintainer is able to achieve the maintenance standards required to fully and effectively perform the Maintenance Services in accordance with the terms of the MRS Agreement, or (iii) the Client enters in to a long term parts supply agreement (or similar arrangement) with the Maintainer in accordance with Clause 1.3, or (iv) the LOA Period expires in circumstances where the MRS Agreement has not been signed for any other reason whatsoever, the Maintainer shall promptly and in any event within 5 business days of such occurrence, repay in full the Start-Up Cost

Payment to the Client including any other amounts then due and payable to the Client under or in connection with this LOA.

2.4.4 Any failure by the Maintainer to repay any and all amounts under and in accordance with Clause 2.4.3 shall, without prejudice to Clause 3, entitle the Client to call on the On Demand Payment Guarantee. Such repayment provisions (amongst others) shall be included in the form of the On Demand Payment Guarantee.

2.4.5 The Maintainer shall provide the client with all bonds required as per NTR before the commencement of delivery of service as per paragraph 2.4

2.5 Technical Requirements

The performance of the Interim Maintenance Services shall be performed by the Maintainer at the Customer's facilities in accordance with Annexure "C" [the Technical Requirements] or as otherwise agreed between the parties from time to time during the LOA Period.

2.6 Delivery lead times

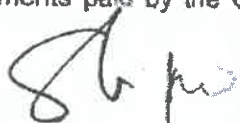

2.6.1 The Maintainer shall, notwithstanding the provisions of Clause 2.4.2 and the payments and time periods contemplated therein, promptly on commencement of this LOA commence and complete the activities under and in accordance with the time periods specified in Annexure "C".

2.6.2 Without prejudice to the generality of Clause 2.6.1 and the activities specified in Annexure "C", the Maintainer shall ensure that the maintenance facilities required to perform the Maintenance Services are functioning and fully operational within (Four) 4 months of the signature date of this LOA.

2.7 Penalties

The following penalty regime and liability caps will apply to the Interim Maintenance Services and will be incorporated (with any required consequential amendments) into the MRS Agreement:

2.7.1 subject to Clause 2.7.2 below, penalties for unscheduled sheddings, parts unavailability and major failures will be subject to a cumulative cap of 3.6% of the total value of all maintenance payments paid by the Client to the Maintainer in

3  

respect of the Interim Maintenance Services during the LOA Period [the Total Contract Value]. In addition and separate to the above cap, penalties for critical and catastrophic KPI's will be capped at 10% of the Total Contract Value. The overall liability cap for performance of all KPI's will be 10% of the Total Contract Value. If the liability cap has been reached, and a Locomotive is still in "parts unavailable status" then that Locomotive will be excluded from the monthly service payment payable by the Client in respect of the Interim Maintenance Services for so long as such Locomotive is in "parts unavailable status". If any of the penalty caps referred to in this Clause 2.7.1 are breached, the Interim Maintenance Services may forthwith be terminated (for breach) by the Client.

2.7.2 The Maintainer will be penalized and measured separately on the metrics of each of its fleets (20E, 21E and 22E).

2.8 **Supplier Development [SD]/Local content [LC]/BBBEEE**

2.8.1 The penalty regime proposed in the NTR in respect of the Maintainer's Supplier Development and Local Content obligations is hereby replaced with the provisions set out in Clause 2.8.2 (which will apply to and be incorporated into the MRS Agreement (with any necessary consequential edits).

2.8.2 Should the Maintainer not meet its Supplier Development and Local Content commitments (as specified in the Maintainer's BAFO), the penalty will be equal to: (i) in the case of Supplier Development, 110% of the value of any undelivered Supplier Development obligations; and (ii) in the case of Local Content, 110% of the value of any Local Content not achieved. The assessment of any penalties due (and the calculation of the amount thereof) will be made at the end of year 1 (being the first anniversary of the effective date of the MRS Agreement) of the MRS Agreement and each year thereafter. All Local Content and Supplier Development obligations performed during the LOA Period will be included for the purposes of measuring and calculating the Maintainer's performance of and compliance with its Supplier Development and Local Content obligations. The Maintainer must submit quarterly progress reports to the Client for the purposes of determining the Maintainer's performance against its Supplier Development and Local Content obligations, which reports will be used by the Client as a basis for calculating any penalties due.

2.8.3 The Maintainer must provide the Client with (i) a Local Content plan (ii) a Supplier Development Plan (iii) a BBBEE Improvement Plan (in each case in form and substance satisfactory to the Client and otherwise consistent with the NTR, the Maintainer's BAFO and where applicable Annexure D) by no later than 45 business days after the date of this LOA. Any failure to do so shall constitute a breach of this LOA and entitle the Client to invoke the provisions of Clause 3.

2.8.4 Annexure "D" specifies the terms and conditions agreed by both Parties relating to Supplier Development and Local Content obligations of the Maintainer.

2.9 Intellectual Property

2.9.1 As part of the Interim Maintenance Services and the Maintainer's preparation for the commencement of the Maintenance Services under and in accordance with the MRS Agreement, the Client may disclose and make available to the Maintainer certain intellectual property, materials and other information concerning the Client and its operations [Client IP]. Such Client IP belongs exclusively to the Client and the Maintainer may not, without the prior written consent of the Client, disclose such Client IP to any other person or use such Client IP for any purpose other than for the purposes contemplated in this LOA, including the performance of the Interim Maintenance Services.

2.9.2 The parties acknowledge that, as part of the preparation for the commencement of the MRS Agreement and the performance of the Maintenance Services thereunder, certain new intellectual property will be developed during the LOA Period by employees or agents of the Maintainer jointly with employees or agents of the Client [collectively, the Joint IP]. Such Joint IP shall be jointly owned by the Client and the Maintainer. The parties shall cooperate fully with each other to give effect to this Clause 2.9.2 and where possible to obtain joint registration of any Joint IP in both their names. Both the Client and the Maintainer shall be entitled to use the Joint IP and in the case of the Client to licence such Joint IP to any sub-licensee. Neither party may dispose, assign or otherwise transfer its undivided share in the Joint IP, without the prior written consent of the other party, which consent shall not be unreasonably withheld.

2.9.3 In circumstances where the MRS Agreement is not signed prior to expiry of the LOA Period (for whatever reason, other than due to a breach by the Maintainer of the terms of this LOA), the Client will in its discretion, pay the reasonable costs

Handwritten signature and initials in black ink, appearing to be 'S. K. 2/12'.

incurred by the Maintainer for the Joint IP. Other than the payment referred to in this Clause 2.9.3, there shall be no royalty, licence fee or any other amount payable by the Client to the Maintainer in respect of such Joint IP.

- 2.9.4 The parties acknowledge and agree that as part of the negotiations referred to in Clause 1.1, they shall enter into good faith negotiations to conclude a more comprehensive regime governing the development, use and licencing of all their respective intellectual property, which once finalised will replace the provisions contained in this Clause 2.9.

2.10 Centres of Excellence and Infrastructure Due Diligence

- 2.10.1 During the LOA Period and as part of the preparation for the commencement of the Maintenance Services under and in accordance with the MRS Agreement, the parties shall negotiate in good faith the following matters relating to the centres of excellence to be developed by the Maintainer:

- 2.10.1.1 identification of each centre of excellence;
- 2.10.1.2 the scope of work and work allocation (by component type) to each centre of excellence;
- 2.10.1.3 the machinery required to perform the scope of work and maintenance services at centre of excellence, including the cost of such machinery;
- 2.10.1.4 the technical skills required at each centre of excellence and training to be provided by the Maintainer to ensure the availability of such technical skills;
- 2.10.1.5 any other matters, in the opinion of the Client, required to be covered to ensure that the Maintainer is able to achieve the maintenance standards required to fully and effectively perform the Maintenance Services in accordance with the terms of the MRS Agreement.

- 2.10.2 During the LOA Period, the Maintainer shall carry out an assessment of the Transnet network and related rail infrastructure to satisfy itself as to the condition thereof. The results of such assessment shall form part of the KPIs agreed in the MRS Agreement and no relief (including for unscheduled maintenance costs) shall be agreed in the MRS Agreement for the condition of the network and related infrastructure, unless caused by a deterioration in the condition thereof

SG *W* *ZK*

after the commencement of the MRS Agreement due to a failure to maintain the condition of the network and related infrastructure.

2.11 Overhauls

For the purposes of the negotiations referred to in Clause 1.1, the parties acknowledge that in terms of the Maintainer's BAFO, it has offered overhaul maintenance, which the Client may accept (at its option) as part of the MRS Agreement and the Maintenance Services to be performed thereunder.

2.12 Maintainer capabilities and Client Due Diligence

2.12.1 The Maintainer represents and warrants that it has the necessary skills, capacity and expertise to maintain the Locomotives and to deliver the maintenance services in accordance with the maintenance levels and standards contemplated in Annexure C. The Client has relied on this representation and warranty when awarding this LOA to the Maintainer.

2.12.2 Without prejudice to Clause 2.12.1, the Client may (but is not obliged) during the LOA Period to conduct its own due diligence into the technical capabilities of the Maintainer in order to determine whether the Maintainer has the necessary skills, capacity and expertise to achieve the maintenance standards required by the Client to fully and effectively perform the Maintenance Services in accordance with the terms of the MRS Agreement. The Client is not bound to carry out this due diligence exercise and is entitled to rely on the representations and warranties made by the Maintainer under Clause 2.12.1.

3. Breach

Should the Maintainer breach any of the terms or conditions of this LOA (including any breach of its Interim Maintenance Services obligations under and in accordance with this LOA) and fails to remedy such breach within 10 days of receiving notice to do so, the Client may, without prejudice to any of its other rights or remedies under this LOA (including any rights under the On Demand Payment Guarantee) or at law, revoke the appointments of the Maintainer as preferred bidder (and maintenance provider) and forthwith terminate the Interim Maintenance Services and/or this LOA, including to demand repayment of the Start-Up Cost Payment and any and all other amounts owed to the Client in terms hereof.

4. Disputes and Dispute Resolution

4.1 Any dispute arising out of or in connection with this Letter of Award (including a dispute regarding the existence, validity or termination of this LOA) shall be referred to and finally resolved by arbitration.

4.2 Such dispute shall be determined by an arbitrator appointed by both Client and the Maintainer or failing such consensus, a senior counsel of not less than 15 years' experience selected by the Arbitration Foundation of Southern Africa (AFSA), who shall act in accordance with the Rules of AFSA and whose decision shall be final and binding, in the absence of manifest error in calculation, on the parties.

5. Notices

For the purposes of any communication or document to be made or delivered under or in connection with this LOA (including the Interim Maintenance Services), the Parties choose as their *domicilia citandi et executandi* their physical addresses hereunder (or such other address, not being a post office box or poste restante, of which the Party concerned may notify the other in writing). All legal process and notices given under this LOA may validly be served or delivered at such addresses and at no other addresses. For the avoidance of doubt, the Parties may not serve or deliver any legal process by way of electronic mail.

5.1.1 the Client:

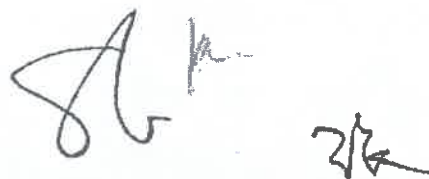
Physical address	Transnet SOC Ltd 150 Commissioner Street Johannesburg 2001
Email:	ndiphiwe.silinga@transnet.net
Attention:	Ndiphiwe Silinga

5.1.2 the Maintainer:

Physical address	CSR E-LoCo Supply (Pty) Ltd 1 st Floor 95 Grayston Drive Sandton Johannesburg 2196
Email	alton@csrzelc.com
Attention:	Wang Pan (Director, General Manager)

6. General

- 6.1 This LOA including the appointment of the Maintainer as maintenance provider in respect of the Interim Maintenance Services is governed by South African law.
- 6.2 This LOA may be executed in counterpart, and this has the same effect as if the signatures on the counterparts were on a single copy of the LOA.
- 6.3 This LOA (and the Annexures hereto) and those documents referred to in Clause 2.1 to the extent incorporated herein by reference, constitutes the sole record of the agreement between the Client and the Maintainer in respect of the Interim Maintenance Services.
- 6.4 The Maintainer may not assign any of rights or transfer any of its rights or obligations under this LOA without the prior written consent of the Client.
- 6.5 Neither Party shall reveal the content of this LOA or anything disclosed to the other Party in pursuance hereof to any third party, except with the prior express written consent of the other Party, and then only to the extent required to facilitate progression of the negotiations.
- 6.6 The MRS Agreement and all related documents will be prepared by the Client in negotiation with the Maintainer. Pending final approval of the MRS Agreement and such related documents, the Parties agree to agree to work diligently and in good faith to resolve and agree all outstanding matters in order to conclude the MRS Agreement and related documents within the LOA Period.
- 6.7 The MRS Agreement (once effective) shall automatically replace this LOA in all respects and shall govern the relationship between the Client and the Maintainer with respect to the Maintenance Services and the performance of all other obligations of the parties thereunder. This LOA applies to the LOA Period only and is not intended to regulate or apply to any period after the LOA Period, including any period under the MRS Agreement. Unless otherwise agreed by the Client, the Client shall not be bound by the terms of this LOA in relation to the MRS Agreement, which terms shall be negotiated and agreed between the parties in accordance with Clause 1.1.




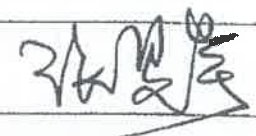

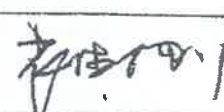
7. Disclaimer


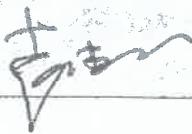
- 7.1 The Client reserves the right, with immediate effect, to terminate the NTR and/or to withdraw this Letter of Award and/or to revoke the appointments of the Maintainer as preferred bidder (and maintenance provider) at any time during the LOA Period without liability to compensate or reimburse the Maintainer or any other person pursuant to such termination, withdrawal and/or revocation, except as expressly provided for in this LOA.
- 7.2 The Maintainer shall not have any claim of whatsoever nature and howsoever arising against the Client, its officers, employees, servants, agents or advisors relating to the NTR, this Letter of Award or the performance of the Interim Maintenance Services except payment for the Interim Maintenance Services and any other amounts expressly referred to in this Letter of Award.
- 7.3 Except in relation to the Interim Maintenance Services, nothing in this Letter of Award or elsewhere constitutes a binding commitment by the Client to proceed with the maintenance arrangements contemplated by the NTR or to enter into the MRS Agreement. This Letter of Award and the maintenance arrangements contemplated herein (except the Interim Maintenance Services) is subject to signing the MRS Agreement (in form and substance satisfactory to both parties).

It is agreed between by the parties that the commencement date shall be the date of signing the LOA;

TRANSNET SOC Ltd.

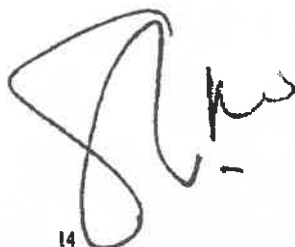
CSR E-Loco Supply (Pty) Ltd.

Signature: 	Signature: 
Print Name: SIYABONGA GAMA	Print Name: ZHANG MINYU
Title: Group Chief Executive	Title: Vice President
Date: 10 August 2016	Date: 2016-08-12
Witness: 	Witness: 

Signature: 	Signature: 
Print Name: HENRY [unclear]	Print Name: YUAN DEGANG



Blank



2/10

ANNEXURE A

The Key Principals for the Best and Final Offer

Technical/Operations	<p>•Transnet reserves the right to park 40% of its fleet at any point in time to meet TFR's changing operating demand. during that time, Transnet will exclude these locomotives from the monthly payment. A parked locomotive will qualify as "parked" after it has been stationary for 3 months at which point all payments attributable to that locomotive for the three months prior will be set off against any future fees. The condition of locomotive shall be checked and confirmed by both parties before park and reuse. Any damages or losses during park period shall not be the liability of CSR.</p>
	<p>•Transnet will ensure to rotate the parked locomotives every year so that any one single locomotive is not parked for more than a continuous 6 months.</p>
	<p>•Should a locomotive not be economically repairable post a wreckage then it will be excluded from the initial fleet size taken into account when calculating maintenance costs.</p>
	<p>•if locomotives are delivered late under the locomotive supply agreement, they will be excluded from the maintenance payment calculation. Only locomotives accepted by TFR will be used to calculate the monthly payment to CSR (i.e. available locomotives X agreed monthly price=total payment for the month)</p>
	<p>•if locomotives are reallocated between the depots allocated in the contract, there will be no payment to CSR for reallocating the locomotives.</p>
	<p>•Should Transnet need to move the fleet to other depots other than those specified within the NTR, the set-up costs associated to the move will be discussed and agreed by both parties. Transnet reserves the right to appoint a third party to verify and assess the proposal provided by CSR and benchmark any proposal against market conditions and arrive at a decision aligned to that.</p>
	<p>•Locomotives will be allowed a grace period of 8% of km's travelled (as shown in CSR's offer) to come in for a D1, D2 or E intervention. (i.e. if it is due, as per the agreed maintenance plan, at 1,000,000 km's, TE will be allowed to perform the intervention at any point between 1,000,000 and 1,080,000 km's.)</p>

Commercial	<p>•The escalation formula will apply to the entire contract, except for the line "stockholding" and the stockholding residual value which will not be escalated.</p>
	<p>•Special tools, software licenses and other purchase made in support of the contract (TE will supply CSR with the list of other purchases as soon as the list has been compiled.) will be transferred to Transnet at contract end at no cost.</p>
	<p>Joint Venture •CSR's Best and Final Offer for the maintenance services should not make any reference to the anticipated Joint Venture between CSR and Transnet Engineering as the Joint Venture did not form part of the NTR and is not recognized as a final, signed-off agreement.</p>
	<p>Rotable overhaul and repair CSR to acknowledge the component repair list within the NTR indicating the components that would be repaired at the Transnet Engineering Centres of Excellence, and commit to abide by it on the condition that both parties will agree on the overhaul and repair cost, period and quality.</p>
	<p>Penalties •Transnet reserves the right to set-off future payments against any non-compliance penalties, this statement holds true for the KPI targets proposed, as well as any other penalties across other areas (such as SD and LC)</p>
	<p>•In addition to the setting-off of payments against non-compliance penalties Transnet reserves the right to utilize the OEM financed performance bonds in the event that the OEM does not meet its Supplier Development and Local Content or KPIs. The OEM must then replenish the performance bond to the initial value of the bond within 30 days. The value of the bond to be held will be agreed at the beginning of each year.</p>
	<p>•Transnet proposes a change to the penalty structure as follows:</p>
	<p>•Penalties for unscheduled sheddings, parts unavailability and major failures will be capped (jointly) at 3.6% of total contract value.</p>
	<p>•Penalties for critical and catastrophic KPIs will be capped at 10% of total contract value.</p>
	<p>•The overall liability cap for performance KPIs will be 10% of total contract value</p>
	<p>•If the liability cap has been reached, and a locomotive is still in "parts unavailable status" then the locomotive will be excluded from the monthly payment.</p>

	<ul style="list-style-type: none"> •The OEM will be penalized and measured separately on the metrics of each of its fleets (20E, 21E and 22E). •A locomotive will be deemed to go into "parts unavailable status" if it has been stopped for more than 3 days due to no parts to be supplied after notification to CSR.
Supplier Development and Local Content	<ul style="list-style-type: none"> •The penalty proposed in the NTR will no longer be valid. The new penalty scheme will be as follows: •Should CSR not meet its Supplier Development and Local Content commitments, the penalty applied will be the equivalent of the outstanding Supplier Development value plus a 10% penalty on the outstanding value. •CSR is to provide Transnet with a Local Content plan illustrating milestone commitments across the contract with the BAFO in line with the NTR.
Additional Requirements	<ul style="list-style-type: none"> •In the event that the contractor wants to walk away from the contract due to the reason to be justified as the liability of CSR it would amount to repudiation, in which case the contractor will be liable for any maintenance costs above what Transnet would have paid CSR for the same services for the remainder of the contract period. •In the event that Transnet provides CSR with an advance payment for the maintenance, CSR will be required to take out an advanced payment guarantee (APG) against this advanced payment which Transnet will use to recover its costs if Transnet has to cancel the contract due non-performance
Commercial	<p>Stock</p> <ul style="list-style-type: none"> •Transnet reserves the right to: •Approve and sign off the list of rotatable materials to be purchased by CSR •To approve and sign off the periods associated to the procurement of the rotatables •Amend and align financing requirements to the purchase of the material •CSR will manage the pool of rotables, however, CSR is expected to keep a log of these assets showing the location and serial number of each of the assets. This list should be shared with Transnet on a monthly basis and any changes to the pool must be consulted with Transnet. It is understood by Transnet that although the rotatable pool is acquired and owned by CSR, these rotatables will be for the exclusive use of Transnet. •Although CSR will be managing the rotatable pool, these will be considered the property of Transnet therefore Transnet should be consulted and informed of any changes to the treatment of

	<p>the rotatable pool. Transnet Asset Management Rules should be taken into account in the management of the assets.</p>
	<p>•The parties will agree on a list of rotatables to be transferred at the end of the contract, these components must have gone through a major overhaul or are new. The fee agreed to be paid at the end of the contract for the rotatables will be withheld until CSR transfers the rotatables to Transnet.</p>
	<p>•CSR to provide Transnet with a competitive offer (lead times and price) for all items. No contract shall be concluded until the list of components is provided by CSR. This list will be part of the contract and will be used to order material for driver induced failures. In line with the NTR, this list will still be subject to "meet or release".</p>
	<p>•CSR will purchase rotatable stock for the 20E, 21E and 22E from Transnet at the cost at which the components were purchased by Transnet, which should be new or have gone through a major overhaul.</p>





The Maintenance Price Proposal for 12 Years

Final Version

CSR E-LoCo Supply (Pty) Ltd.

14th July, 2016



Content

- Part A Quotation Terms and Condition**
- Part B A-, B- and C-Maintenance Price**
- Part C D1-, E-, D2- and F-Maintenance Price**
- Part D Payment Condition**
- Part E Supplier Development and Local Content Plan**



Part A Quotation Terms and Condition



Quotation Terms and Condition

- All the prices here are for MRS contract model with assumed contract period from 1st Aug 2016 to 31st July 2028. The final contract period will depend on the effectiveness date of the Contract.
- All the prices here are based on maintenance service MRS specified by Annexure A: maintenance service specification of NTR.
- The quotation is base price on 28th September 2015, with the foreign exchange rate of 1USD=13.33 Rand. The final price shall be escalated by an escalation formula that will compensate for inflation and foreign exchange movements.
- Except the labour for the overhaul of 35 major components, all other labour should be Transnet's scope. 35 major components here mentioned include Draw gear and coupler, Traction motor, Gear Box, Pinions, Gears, U-Tub, Main Transformer, Traction blower and motor, Driver's desk, Driver's cubicle, Seats, windows, windscreen wiper, Brake resistor, Brake reservoirs, brake rack, air dryer, Toilet, Batteries, HVAC, Pantographs, VCB, HSCB, Cooling tower, HV Change-over switch, Roof insulator, Traction inverter, HV Cubicle, LV Cubicle, compressor, basic braking, Control power cubicle.
- All 35 items major components overhaul are assumed to be done locally.
- All the consumables such as carbon strip, brake block, water, sand, oil, grease, coolant, desiccant, Loctite should be Transnet's scope.
- The wheel set material will be part of the CSR's scope, and Transnet will do final machining of semi-machined wheels with its own cost supplied by CSR.
- Maintenance activities required in response to any wrecks, accidents, theft, vandalism, sabotage or Force Majeure event are not included in the scope of CSR.
- CSR will provide Transnet with a competitive offer (lead times and price) for all items before signing the Contract. This list will be part of the contract and will be used to order material for driver induced failures.
- The quotation will be expired on 30th September 2016. All offers submitted before 7th July 2016 shall be invalid.



CSR Quotation Terms and Condition

Escalation Formula

Please kindly check the **Annex 1 Escalation Formula 2.0** for detailed description of escalation formula



CSR Quotation Terms and Condition

Maintenance Level	Mileage for Interval (Km)	Estimated Year
A	45,000~50,000	3-month
B	90,000~100,000	6-month
C	180,000~200,000	1-year
D	500,000~540,000	3 rd to 4 th year
E	1,000,000~1,080,000	6 th to 8 th year
F	2,000,000~2,160,000	12 th to 16 th year

- Locomotives will be allowed a grace period of 8% of km's travelled to come in for a D1, D2 or E intervention.



CSR Quotation Terms and Condition

Maintenance Level	Mileage for Interval (Km)	Estimated Year	Description
D1	500,000~540,000	3 rd to 4 th year	The first D level maintenance
E1	1,000,000~1,080,000	6 th to 8 th year	The first E level maintenance
D2	1,500,000~1,620,000	9 th to 12 th year	The second D level maintenance
F	2,000,000~2,160,000	12 th to 16 th year	



Part B A-, B- and C-Maintenance Price



A-, B- and C-Maintenance Price

1.A-, B- and C-Maintenance Price (20E)

No.	Description	Year 1-3	Year 4-6	Year 7-12
1	Scheduled Material	64,739	64,739	64,739
2	Stock holding and Rotable	123,373	138,794	177,348
3	Unscheduled Material *	284,713	319,402	406,124
4	Technical design, field service, management, quality control & assurance, reliability management etc.	160,709	180,798	231,020
5	Tooling, software and equipment management	56,056	63,065	80,583
5.1	Special tools and test equipment	11,748	13,216	16,887
5.2	Maintenance management system including software, service and technical simulator etc. (Option **)	44,310	49,849	63,696
6	Labour and traveling cost	172,324	172,324	172,324
7	Insurance and others	40,879	45,989	58,764
	Subtotal Per Loco Per Year	902,795	985,111	1,190,902
	Locomotive Quantity to be Intervened	95	95	95
	Total price for 20E		1,216,867,510	

* CSR has already considered the warranty period of some components, such as traction motor.

**There is no impact to the KPI's as stipulated in the NTR, if the option is not selected.



A-, B- and C-Maintenance Price

2. A-, B- and C-Maintenance Price (21E)

No.	Description	Year 1-3	Year 4-6	Year 7-12
1	Scheduled Material	67,970	67,970	67,970
2	Stock holding and Rotable	127,128	143,019	182,747
3	Unscheduled Material*	281,378	315,584	401,098
4	Technical design, field service, management, quality control & assurance, reliability management etc.	155,338	174,755	223,299
5	Tooling, software and equipment management	56,058	63,065	80,583
5.1	Special tools and test equipment	11,748	13,216	16,887
5.2	Maintenance management system including software, service and technical simulator etc. (Option**)	44,310	49,849	63,696
6	Labour and traveling cost	172,324	172,324	172,324
7	Insurance and others	42,907	48,271	61,679
	Total Per Loco Per Year	903,103	984,988	1,189,699
	Locomotive Quantity to be Intervened	100	100	100
	Total price for 21E		1,280,247,048	

* CSR has already considered the warranty period of some components, such as traction motor.

**There is no impact to the KPI's as stipulated in the NTR, if the option is not selected.



A-, B- and C-Maintenance Price

3. A-, B- and C-Maintenance Price (22E)

No.	Description	Year 1	Year 2	Year 3	Year 4-6	Year 7-12
1	Scheduled Material	76,440	76,440	76,440	76,440	76,440
2	Stock holding and Rotable	359,898	359,898	116,943	150,566	174,230
3	Unscheduled Material*	0	0	242,955	311,133	437,969
4	Technical design, field service, management, quality control & assurance, reliability management etc.	139,016	139,016	139,016	178,914	237,955
5	Tooling, software and equipment management	54,446	54,446	54,446	70,072	93,196
5.1	Special tools and test equipment	11,410	11,410	11,410	14,684	19,530
5.2	Maintenance management system including software, service and technical simulator etc. (Option**)	43,036	43,036	43,036	55,388	73,666
6	Labour and travelling cost	131,047	131,047	131,047	131,047	131,047
7	Insurance and others	35,578	35,578	35,578	45,789	60,900
Total Per Loco Per Year		796,425	796,425	796,425	963,902	1,211,736
Locomotive Quantity to be Intervened		60	170	280	359	359
Total price for 22E		4,054,379,193				

* CSR has already considered the warranty period of some components, such as traction motor.

**There is no impact to the KPI's as stipulated in the NTR, if the option is not selected.



A-, B- and C-Maintenance Price

4. Total A-, B- and C-Maintenance Price Per Year (20E, 21E and 22E)

	Year 1 (million Rand)	Year 2 (million Rand)	Year 3 (million Rand)	Year 4 (million Rand)	Year 5 (million Rand)	Year 6 (million Rand)	Year 7 (million Rand)	Year 8 (million Rand)	Year 9 (million Rand)	Year 10 (million Rand)	Year 11 (million Rand)	Year 12 (million Rand)
20E	85.77	85.77	85.77	93.59	93.59	93.59	113.14	113.14	113.14	113.14	113.14	113.14
21E	90.31	90.31	90.31	98.50	98.50	98.50	118.97	118.97	118.97	118.97	118.97	118.97
22E	47.79	135.38	223.00	346.04	346.04	346.04	435.01	435.01	435.01	435.01	435.01	435.01
Subtotal	223.86	311.47	399.07	538.13	538.13	538.13	667.12	667.12	667.12	667.12	667.12	667.12
Total												R 6,551,492,774



Part C D1-, E-, D2- and F-Maintenance Price



D1-, E-, D2- and F-Maintenance Price

1. D1-Maintenance Price

No.	Description	20E	21E	22E
1	Scheduled Material	197,187	213,889	224,278
2	Technical Support	451,878	480,137	484,263
2.1	Technical Design	99,413	105,630	106,538
2.2	Field service, Quality control and reliability management	144,601	153,644	154,964
2.3	Project management (including logistics and procurement)	135,563	144,041	145,279
2.4	SD including local suppliers development, skills development, rural integration, etc.	72,300	76,822	77,482
3	Logistics and Insurance	33,682	35,994	36,706
	Subtotal Per Loco	682,747	730,020	745,247
	Locomotive Quantity to be Intervened	95	100	359
	Total D1-Maintenance price for 20E, 21E and 22E			R 405,406,512



D1-, E-, D2- and F-Maintenance Price

2. E-Maintenance Price

No.	Description	20E	21E	22E
1	Major components overhaul (8 items)	1,546,869	1,570,851	1,854,687
2	Major components overhaul (27 items)	810,419	848,927	856,482
3	Scheduled material for others	1,291,276	1,322,851	1,641,994
4	Technical Support	1,965,748	1,914,141	1,971,349
4.1	Technical Design	98,287	95,707	98,567
4.2	Field service, Quality control and reliability management	393,150	382,828	394,270
4.3	Project management (including logistics and procurement)	923,902	899,646	926,534
4.4	SD including local suppliers development, skills development, rural integration, etc.	550,410	535,959	551,978
5	Logistics and Insurance	349,466	350,094	353,557
	Subtotal Per Loco	5,963,779	6,006,864	6,678,068
	Locomotive Quantity to be Intervened	95	100	359
	Total E-Maintenance price for 20E, 21E and 22E			R 3,564,671,966

Note: 8 items are Traction motor, Main Transformer, Traction blower and motor, Pantographs, Cooling tower, Traction inverter, HV Cubicle, LV Cubicle.



D1-, E-, D2- and F-Maintenance Price

3. D2-Maintenance Price

No.	Description	20E	21E	22E
1	Scheduled Material	370,426	387,674	392,351
2	Technical Support	459,298	480,137	484,263
2.1	Technical Design	101,046	105,630	106,538
2.2	Field service, Quality control and reliability management	151,568	158,445	159,807
2.3	Project management (including logistics and procurement)	146,975	153,644	154,964
2.4	SD including local suppliers development, skills development, rural integration, etc.	59,709	62,418	62,954
3	Logistics and Insurance	42,245	42,905	43,767
	Subtotal Per Loco	871,969	910,716	920,381
	Locomotive Quantity to be Intervened	95	100	359
	Total D2-Maintenance price for 20E, 21E and 22E			R 504,325,355



D1-, E-, D2- and F-Maintenance Price

Summary of D1-, E-, and D2-Maintenance Price

No.	Description	20E	21E	22E
1	D1-Maintenance	682,747	730,020	745,247
2	E-Maintenance	5,963,779	6,006,864	6,678,068
3	D2-Maintenance	871,969	910,716	920,381
	Subtotal Per Loco	7,518,495	7,647,600	8,343,696
	Locomotive Quantity to be Intervened	95	100	359
	Sub total price	714,257,025	764,760,000	2,995,386,864
	Total E-Maintenance price for 20E, 21E and 22E		R 4,474,403,889	



D1-, E-, D2- and F-Maintenance Price

5. F-Maintenance Price

No.	Description	20E	21E	22E
1	Major components overhaul (8 items)	R 8,580,754	R 8,616,701	R 9,309,701
2	Major components overhaul (27 items)	R 3,613,953	R 3,613,953	R 3,939,015
3	Scheduled material for others	R 2,014,608	R 2,096,735	R 3,100,918
4	Technical Support	R 10,676,990	R 11,409,924	R 13,090,291
4.1	Technical Design	R 533,849	R 570,496	R 654,515
4.2	Field service, Quality control and reliability management	R 3,416,637	R 3,651,176	R 4,188,893
4.3	Project management (including logistics and procurement)	R 3,736,946	R 3,993,473	R 4,561,602
4.4	SD including local suppliers development, skills development, rural integration, etc.	R 2,989,557	R 3,194,779	R 3,665,261
5	Logistics and Insurance	R 1,196,315	R 1,280,575	R 1,469,168
	Subtotal Per Loco	R 26,084,631	R 27,017,888	R 30,909,093
	Locomotive Quantity to be Intervened	95	100	359
	Sub total price	R 2,476,039,909	R 2,701,788,824	R 11,096,364,330
	Total F-Maintenance price for 20E, 21E and 22E		R 16,276,193,062	

Note: 8 items are Traction motor, Main Transformer, Traction blower and motor, Pantographs, Cooling tower, Traction inverter, HV Cubicle, LV Cubicle.



Part D Payment Condition



Payment Condition

Milestone 1 (Advance Payment)	10% of the total A-, B- and C-Maintenance contract price to be paid on which date the maintenance agreement comes into effectiveness. 10% of the total D-, and E-Maintenance contract price to be paid on which date the maintenance agreement comes into effectiveness. The date will be negotiated and agreed to between TE & c CSR. *
Milestone 2	For A-, B- and C-Maintenance 90% of A-, B- C-Maintenance price to be paid every month during contract period. For D-, E-Maintenance 90% of each maintenance price to be paid after intervention.
Milestone 3	For F-Maintenance 100% of maintenance price to be paid after intervention.

* Note:

CSR would like to remind TE that 20E and 21E have already been put into operation nearly three years. D1 maintenance for 20E will come next March or April. We have to start preparation for D1 maintenance, such as technical design, procurement of scheduled material for D1 maintenance. The design period, procurement and lead time is about 6-8 months. That means we have to start the preparation at the end of this September or beginning of October.
At the same time, we have to start development of local suppliers for E maintenance, because it cost three to four years to develop the local suppliers successfully according to our experience. In order to avoid delaying of D, E maintenance, it is the right time to implement the advance payment for the D & E maintenance intervention.

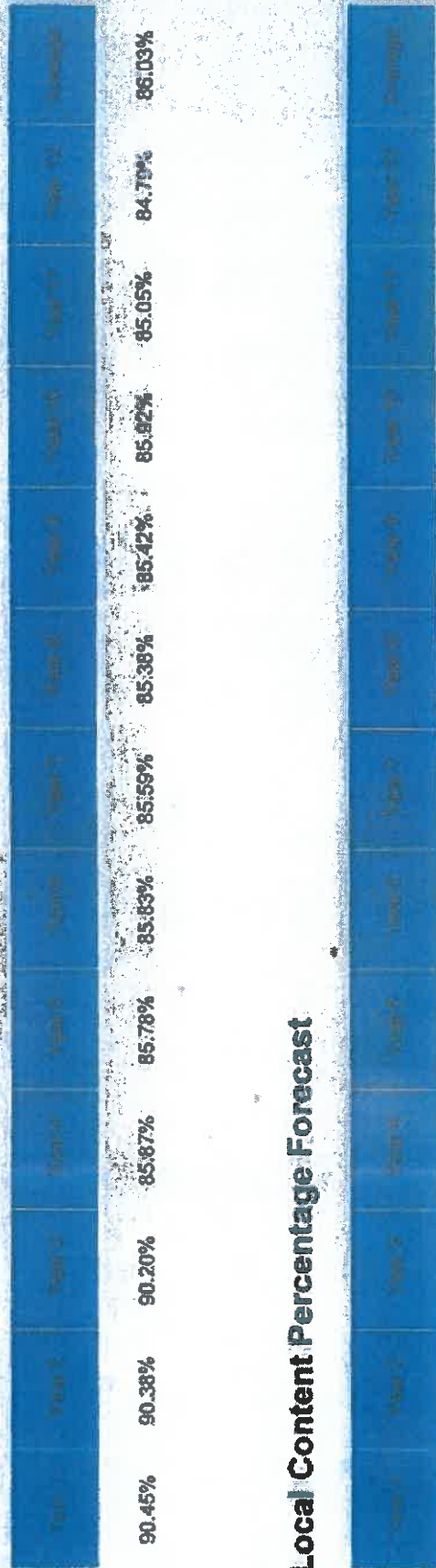


Part E Supplier Development and Local Content Plan



Part E

Supplier Development Percentage Forecast



Local Content Percentage Forecast





Thank You!

PAYMENT TERMS – ANNEXURE TO LETTER OF AWARD

Payment terms shall be as follows (All prices are exclusive of Vat):

	Milestone 1	Milestone 2			
	Start-up cost Rands	Total for 12 years	Monthly price per active locomotive Rands	Monthly price per active locomotive Rands	Monthly price per active locomotive Rands
			Years 1 - 3	Years 4 - 6	Years 7 - 12
20E	618 160 746	1 038 352 784	64 386	70 145	84 540
21E		1 092 403 260	64 409	70 135	84 450
22E		3 432 690 673	56 504	68 139	85 355
Total	618 160 746	5 563 446 717			
Grand total		6 181 607 463			

Milestone 1 (start-up cost payable in advance):

- 10% of the 12 year MRS value, for A, B and C maintenance interventions without option "Maintenance management system including software and technical simulator", shall be paid as per timeline indicated in clause 2.4.2 of the LOA.
- CSR will be required to take out an On Demand Payment Guarantee against this advanced payment, details of which is contained in the body of the LOA. This On Demand Payment Guarantee shall be issued from a financial institution approved by the client's treasury department.
- The full contract value may vary dependent on a number of items, amongst others, the final Loco New Build delivery schedule / deployment plan as well as locos that could be parked during the contract period. The above advance payment is based on loco quantities indicated by CSR in their quotation. If subsequently the number of Active Locos months change for any reason, Transnet will be credited (receive back a portion of the advance payment plus escalation thereon using the agreed escalation formula) for a reduction in the total number of loco months.

Milestone 2 (per Active Loco per month):

The start of payments for milestone 2 will be linked to a period of time following the payment of the advanced payment guarantees, but never, prior to CSR being able to discharge its obligations with regards to the technical specifications as defined in Annexure C.

This monthly price is split between:

Portion Excluding the Stockholding Content Price

- The 90% remaining charge (excluding the Stockholding Content Price), after deducting the advance payment made under milestone 1, will be paid as a charge per Active Loco per month in arrears.
- The actual monthly payment to be paid from the Client to the Maintainer for the maintenance of each locomotive will be based on the number of active locomotives. The number of active locomotives is defined as the number of locomotives agreed at the beginning of each month. Both parties will agree when a locomotive enters into "MRS status" which will be based on conditions such as whether the

locomotive is deployed to a depot where the Maintainer and Client are ready to maintain and if TFR has signed acceptance into service.

Stockholding Content Price

- The 90% of the Stockholding Content Price, after deducting the advance payment, will be paid monthly in arrears and will only be charged to the extent that rotables have already been bought. I.e. this financing charge will be adjusted in line with rotables financing requirements.
- Stockholding Content Price is not subject to escalation

Re-purchase of rotables at the conclusion of the contract

- At the conclusion of the contract, Transnet will buy back from CSR all rotables at a value of 40% of the value it was originally bought for.
- The 40% residual values relating to rotables will not be subject to escalation (value will be locked in when the rotables are procured).

Offsetting of payments

- Transnet shall set-off future payments against any money owed by CSR to Transnet (e.g. non-compliance penalties, this statement holds true for the KPI targets proposed, as well as any other penalties across other areas (such as SD and LC), etc.)

In addition to the setting-off of payments against non-compliance penalties Transnet may utilize the OEM financed performance bonds in the event that the OEM does not meet its Supplier Development and Local Content or KPIs. The OEM must then replenish the performance bond to the initial value of the bond within 30 days.

Other

- CSR should not that although the payment is split into "Portion excluding the stockholding content price" and "stockholding content price"; the total combined value will be used as the total contract value as defined in the penalties within annexure C.

ANNEXURE C

Technical Requirements

Note – This section includes excerpts from the NTR, note that where in bold (if not within a title), this indicates a change from the optimized NTR.

Services

1. BACKGROUND

The scope will be a combined parts and service agreement for each of the OEM fleets (20E, 21E and 22E), where the OEM will guarantee the availability of parts and the reliability of the locomotives.

2. MAINTENANCE SERVICE SPECIFICATION

The Table below provides the detailed service specification and obligations of the OEM for the MRS.

Table 1 – Maintenance service specification

Asset Management	
Maintenance strategy and long-term planning	<ul style="list-style-type: none"> • Prepare proposals for revisions of the Maintenance Plan for Transnet approval, to meet the required reliability targets • Undertake analysis to determine the impact of the proposed revised Maintenance Plan on operational performance, locomotive availability and reliability and total costs of maintenance
Asset performance monitoring	<ul style="list-style-type: none"> • Support Transnet's asset performance monitoring and reporting process through the provision of data on the services covered under this agreement • Provide advisory services on the performance monitoring systems and KPIs employed by Transnet • Establish a methodology and system to monitor the reliability performance of the locomotives and the OEM-critical and system-critical components under this agreement • Provide Transnet with bi-daily Fleet Reliability reports covering reliability performance, failure frequency, reliability trends and distribution across failure types for both locomotives and OEM-critical and system-critical components • Ensure full compatibility of the employed performance monitoring system with the existing Transnet information systems • Establish data continuity protocols to support a migration of the monitoring data, and methodology over to Transnet upon expiration of the agreement
Cost Monitoring	<ul style="list-style-type: none"> • Work with Transnet to define an agreed data interchange standard including data format and granularity, system interface and update frequency • Provide data on the unit cost of spares covered under the agreement • Provide data on the usage of spares covered by the agreement • Provide Transnet with information on the labour hours and costs associated with the Technical Assistance scope of this agreement • Assist Transnet as is reasonable with the generation of an integrated cost monitoring report and forecast • Provide data to Transnet on the manpower and ancillary costs associated with the additional service scope included under the agreement
Configuration and FMI management	<ul style="list-style-type: none"> • Advise Transnet of available Field Modifications and Upgrades and provide information on the impact of the modification, including but not limited to costs, fuel consumption, greenhouse gas emissions, asset reliability, tractive power, track speed, tolerable operating conditions, etc. • Support Transnet during the review, design verification, testing and approval stage of an FMI before embodiment • Verify the FMI against the fleet performance targets under this contract and advise Transnet of any impacts on locomotive performance • Develop the embodiment plan for any Transnet-approved FMI for the fleet under the agreement

	<ul style="list-style-type: none"> Quality control and approve the completed FMI embodiment to ensure that reliability targets and the FMI design objectives can be met
SOPs and Manuals	<ul style="list-style-type: none"> Provide technical advisory to Transnet in respect of an update or revision of the maintenance procedures and instructions as may be required from time to time to <ul style="list-style-type: none"> Incorporate actions from the reliability management process Reflect configuration changes following embodiment of an FMI Adapt the maintenance workflow as a result of Transnet's LEAN process Actively propose and advise required modifications to SOPs for Transnet's approval to meet the reliability targets under the contract
Reliability management	<ul style="list-style-type: none"> Establish a continuous reliability improvement process to improve the performance of the locomotives covered under this agreement, including the following sub-tasks: <ul style="list-style-type: none"> To record, classify and analyse information about technical failures and defects To identify and prioritize technical failures and defects with highest impact on locomotive performance To define the corrective actions to prevent recurrence of failures To advise Transnet in the implementation of the corrective actions To control effectiveness of corrective actions post implementation To provide reporting on the failure frequency and locomotive reliability over time Provide the required workforce with relevant expertise to execute the continuous reliability improvement process including all of its sub-tasks Provide the required information systems required for the execution of the continuous reliability improvement process; information systems must be compatible with Transnet's existing maintenance information systems Provide documentation of the proposed reliability improvement process to Transnet
Obsolescence Management	<ul style="list-style-type: none"> Notify Transnet if it becomes aware that a spare covered under the agreement is no longer available and a like-for-like replacement is not available (obsolete spare) Source a comparable part or component that is equivalent or better specification and quality and is fit for purpose to substitute the obsolete spare (replacement spare) Undertake any engineering redesign of the locomotive or way-side equipment (as applicable) as is reasonably necessary to allow the use of the replacement spare
Quality control and assurance	<ul style="list-style-type: none"> Undertake Level 1 Audits into quality lapses and other non-conform events in line with Transnet's Quality Management policies Support Transnet in the execution of Level 2 and 3 Audits with the provisions of technical expertise and assistance as may be required Establish and operate quality controls to oversee the maintenance activity carried out by the Transnet workforce and to guarantee the performance targets under the agreement Provide a monthly Quality Management report to Transnet, providing findings from quality control and assurance activities, recommended actions to improve quality performance and status update on actions being implemented
Maintenance Execution	
Loco servicing	<ul style="list-style-type: none"> N/a, servicing of locomotive during service including, refuelling and replenishment of running consumables (water, sand, cooling liquid, etc.) to be undertaken by Transnet
Daily locomotive commissioning checks	<ul style="list-style-type: none"> N/a, daily inspections required during commissioning of the locomotive for service to be undertaken by Transnet
Warranty	
Scheduled inspections and maintenance	<ul style="list-style-type: none"> Determine the scope, methodology and standard of the scheduled maintenance activities to be conducted in line with the Maintenance Plan including the A, B and C interventions to be performed at 3 months, 6 months and 12 months respectively. Provide Quality Assurance as required to support the reliability of the locomotive.
Wheel turning	<ul style="list-style-type: none"> The day to day maintenance of the wheels to keep the profiles within specifications will be the responsibility of TE. Replacement of wheel sets will be done once the wheel is below its minimum operational measurement at the cost of the OEM. Unless the locomotive is due for an E-overhaul, in which case the OEM will be responsible for all materials and TE will replace the wheel centres with its own labour at the centres of excellence.

Rotable/major component maintenance and refurbishment	<ul style="list-style-type: none"> • In order for the OEM to guarantee reliability, it is expected that they will need to ensure the quality of the rotable maintenance is adequate. Therefore, under this agreement, the OEM will own the maintenance of major components. This includes the replacement and maintenance of wheel sets (excluding wheel turning) • To achieve this, the OEM will need to propose a model where they certify local providers to have the ability to maintain these components. • It is expected that the OEM will, wherever possible, continue to make use of the same South African manufacturers that were used during the 1064 for manufacturing of major components. This will give the local manufacturer continuity post 1064. • Under the scope of the agreement, the OEM will need to provide adequate equipment to the service provider. • It is expected that the OEM will perform the necessary skills transfer to ensure that the local service provider can continue to perform the maintenance of these components once the proposed maintenance agreement period terminates. • The OEM will be allowed to form JVs with local suppliers or outsource, however, wholly owned companies are not allowed. • The OEM may not sign an exclusivity agreement with any of its suppliers that precludes these suppliers from working with other OEMs. • The OEM has committed to abide by the list provided in the original NTR (as a minimum) which indicated the components will need to be repaired at Transnet Engineering's centres of excellence under the condition that both parties agree on the overhaul and repair cost, period and quality.
Field services and locomotive recovery	<ul style="list-style-type: none"> • Activity to be undertaken by TFR/TE, however, the OEM may choose to provide support wherever it can improve the reliability of a locomotive.
Troubleshooting and defect repairs	<ul style="list-style-type: none"> • Undertake the required fault-finding, diagnostics and testing activities to determine the required repairs in response to a breakdown, defect and/or malfunction of the locomotive equipment • Capture the fault history, locomotive operations data and information on the corrective repairs to inform the reliability management process • This will include support to identify operator induced faults • Provide all materials required to repair all faults, including any wheels that need replacement outside of the E-overhaul.
Wreck repairs	<ul style="list-style-type: none"> • N/a, maintenance activity required in response to any wrecks, accidents, theft, vandalism, sabotage or Force Majeure event is not included in the scope of this agreement
Life-extending	
Overhaul events	<ul style="list-style-type: none"> • Determine the scope, methodology and standard of the overhaul maintenance activities • Certify the completion of the overhauls maintenance work in line with the agreed quality standards
Retrofits	<ul style="list-style-type: none"> • N/a, retrofitting of the locomotive is not included in the scope of this agreement
Maintenance support functions	
Workshop and depot management	<ul style="list-style-type: none"> • N/A, TE will maintain control of all the depots and workshops • As part of the agreement, TE will issue space to the OEM within its depots for parts storage and office space for its labour. The OEM should propose the space required for it to undertake its tasks.
Tooling and equipment management	<ul style="list-style-type: none"> • Provide all special tooling and test equipment to undertake the maintenance activities set out in the Technical Maintenance Plan • Recommend improvements to shop equipment that will enable TE to improve reliability and reduce dwell times (reduction target of 3% p.a.)
Lean process and work load levelling	<ul style="list-style-type: none"> • Support TE's work load levelling process to improve efficiencies and reduce dwell time figures in line with by 3% per annum reduction target • Provide advisory services to TE in respect of its lean management process • TE will undertake the work load levelling and lean processes under the agreement
Work order planning and controlling	<ul style="list-style-type: none"> • Support TE's work order planning processes and provide inputs to support the reliability targets under the agreement • As required, manage the interfaces between the work order planning and reliability management processes to ensure the locomotives meet the required reliability
Materials planning and procurement	<ul style="list-style-type: none"> • Note: <ul style="list-style-type: none"> – "OEM-controlled parts" are defined as all parts that are not considered a consumable or wet (i.e. panto strips, brake blocks, lubricants or sand)

	<ul style="list-style-type: none"> - "TE-controlled parts" are defined as panto strips, brake blocks, lubricants or sand. • Determine the inventory replenishment parameters in local warehousing facilities for "OEM-controlled parts" to assure parts availability as per the Service Level Targets • Procure "OEM-controlled parts" to ensure inventory levels in local warehousing facilities are in line with replenishment parameters • Retain ownership of "OEM-controlled parts" until such time that Transnet issues a purchase order for these parts • Provide Transnet with regular reporting on inventory levels for "OEM-controlled parts" and expected service levels <p>Note – material planning and procurement activities for "TE-controlled parts" are undertaken by Transnet</p>
Spare parts supply and warehouse management	<ul style="list-style-type: none"> • Note: <ul style="list-style-type: none"> - "OEM-controlled parts" are defined as all parts that are not considered a consumable or wet (i.e. panto strips, brake blocks, lubricants or sand) - "TE-controlled parts" are defined as panto strips, brake blocks, lubricants or sand. • Manage the supply chain for "OEM-controlled parts" to provide parts to Transnet on DDP-paid basis and in line with the Service Level Targets • Store the "OEM-controlled parts" in either Transnet's warehouses or at a facility in South Africa to ensure the Service Level Targets • Note – parts supply and warehouse management activities for "TE-controlled parts" are undertaken by Transnet <p>Note – materials required for operator induced faults will be excluded from the agreement, and will be ordered through procurement based on the lead times and pricing provided by the OEM. The OEM is to provide Transnet with a competitive offer (lead times and price) for all items. No contract shall be concluded until the list of components is provided by CSR. This list will be part of the contract and will be used to order material for driver induced failures. In line with the NTR, this list will still be subject to "meet or release".</p>
Check-sheet management	<ul style="list-style-type: none"> • Provide technical advisory to Transnet in respect to an update or revision of the maintenance check-sheets as may be required from time to time to <ul style="list-style-type: none"> - Incorporate actions from the reliability management process - Reflect configuration changes following embodiment of an FMI • Adapt the maintenance workflow as a result of Transnet's LEAN process • Update, revise and amend the SOPs and manuals as may be required from time to time to support the locomotive performance targets as set out in ANNEXURE B • Manage and control the consistent and conform usage of check-sheets during the execution of maintenance activities • Maintain an archive of all completed check-sheets for a period of no less than 12 months following completion of the maintenance intervention
Skills and knowledge transfer	<ul style="list-style-type: none"> • Execute the Capability Development Plan developed by the OEM and agreed to under the agreement in response to the Skills Development requirements set out in ANNEXURE C
Customer care and incident recovery	<ul style="list-style-type: none"> • N/a, activity is undertaken by TFR and TE

Performance expected

CSRs performance within the MRS contract will be measured as follows (as stipulated within the NTR):

1 Parts Availability

Parts availability reflects the OEM's service level performance in respect of assuring sufficient availability of spare parts for maintenance. The service level will be expressed through the number of days a locomotive is unavailable for service due to a required spare part not being available for maintenance. The metric shall be reported separately for each Sub-fleet under the agreement, with a Sub-fleet meaning

the collection of technically common locomotives serviced at a specific depot. The penalty will be applied on the aggregated metric from all the sub-fleets under the supervision of the OEM which shall be calculated on a monthly basis.

The technical assistant from the OEM and TE's chief technical assistant at each workshop will define the moment in which the locomotive is awaiting parts from the OEM. The locomotive will only be deemed to be awaiting parts once all other required services are completed and if the locomotive is not awaiting parts from other parties.

The requirements for material availability are based on the specific targets set for the different scheduled and unscheduled services. Materials will need to be available within the time frames agreed upon at each depot. Below is a sample of the typical targets within each depot for each type of service. The OEM will need to ensure that it can provide the parts with sufficient time for the installation to take place within the agreed workshop time frames.

Indicate workshop times for interventions:

Electric Locomotives

Scheduled Interventions	Target hours
A (90 & 270 days)	8 hours (1 shift)
B (180 days)	8 hours (1 shift)
C (Yearly)	24 hours (3 shifts)
D (every 3 years)	32 hours (4 shifts)

Unscheduled Interventions	Target hours
Minor Corrective Interventions	2 hours
Serious interventions requiring the replacement of a major rotatable component	8 hours (1 shift)
Serious interventions requiring a bogie change out	16 hours (2 shifts)
Serious interventions requiring an in-situ engine repair or engine change-out	24 hours (3 shifts)

The monthly locomotive days lost due to stock-outs for an individual locomotive shall be calculated as per the following formula:

Formula 2:

$$Z = X$$

Where:

Z is Monthly days-lost due to stock-outs

X is The number of days a locomotive is unavailable for service caused by the

unavailability of parts or materials required for locomotive maintenance during the measurement month.

2 Locomotive Reliability

Locomotive reliability reflects the service level of the OEM in relation to the continuous defect-free operation of the locomotive. The service level will be measured through the average number of faults per Locomotive in relation to distance travelled, expressed as Faults per million kilometres (FPMK) travelled. The metric shall be reported separately for each Sub-fleet under the agreement, with a Sub-fleet meaning the collection of technically common locomotives serviced at a specific depot. **The penalties will be applied to each individual fleet under the supervision of the OEM which shall be calculated on a monthly basis.** For the metrics to apply, the OEM will need to reach "critical mass". This will be defined as the day in which the OEM's 50th locomotive is accepted into the fleet.

The expected reliability will evolve through the contract and the respondent will be required to provide higher levels of reliability after the 2nd year of locomotive operation and again after the 5th year. Transnet requires the OEM to achieve average number of faults that are equal or lower than the target values.

The OEM will not be responsible for faults created by driver induced faults, however, the onus will be on the OEM to prove that the fault was not caused by a quality issue with the maintenance.

Failures will be measured in 4 categories:

1. Catastrophic in-service failures – Measured as failures where the locomotive cannot be removed from the track without a team being deployed to maintain the locomotive in-situ. The target for this failure is 0. It is expected that the OEM will not experience these types of failures throughout the life of the contract. The description of the penalty scheme and its measurement is included within section 3 of this annexure.
2. Critical in-service failures – Is measured as the number of trains that are cancelled due to a fault with the locomotive. The target is expressed in FPMK.
3. Major in-service failures – Is measured as the number of faults that cause delays to train departures of greater than 15 minutes.
4. Unscheduled sheddings – Measured as all mechanical failures to the locomotives, including critical, catastrophic and major failures.

A more detailed description of these failure categories and how they will be measured is included below.

Critical In-Service Failures

Trains cancelled cause immeasurable losses to Transnet and thus all efforts should be made to minimise the faults that cause any cancellation of trains. Each train cancellation suspected to be attributable to bad maintenance will be investigated by the OEM and Transnet to assess the cause.

These failures are defined as those failures that cause the cancellation of a train. Targets for these failures are expressed within this document as failures per million kilometres; however, the actual target will be calculated on a monthly basis. A hard target cannot be given within this document as it depends on the kilometres that each of the locomotives will travel each month.

To calculate the actual target, at the end of each month, the number of km's travelled by each locomotive will be assessed. The actual limit of cancelled trains will then be derived using the formula shown below.

Critical in-service failures	
Metric	Target Value
Number of trains cancelled during the first 2 years of operation of each locomotive	2.8 FPMK yr 0-2
Number of trains cancelled between the 3 rd and 5 th years of operation of each locomotive	2.3 FPMK yr 3-5
Number of trains cancelled after the first 5 years of operation of each locomotive	2.0 FPMK yr 5+

The limit of train cancellations allowed on any given month shall be calculated as per the following formula:

Formula 3:

$$Z = X * Y \div 1,000,000$$

Where:

- Z is Calculated train cancellations allowed for the month rounded up to the closest integer;
- X is Target as shown in the table above expressed in faults per million km's
- Y is The total distance travelled by all of the locomotives of a specific fleet during the calendar month being measured

Example:

$$Z = \frac{2.8 \text{ FPMK} * 800,000 \text{ kms}}{1,000,000} = 2.24$$

Rounded up => Z=3.

Thus, if the OEM experiences 4 cancellations, it will be penalised, but if it experiences 3 it will not.

The OEM shall be deemed to have exceeded the limit if the number of cancelled trains is higher than that allowed as per the above formula on any given month.

The definition of a failure as it affects train cancellations is based on mission reliability. Train cancellations will be attributed as an OEM failure whenever:

- A locomotive that fails in-service causing the train to be cancelled. Transnet will make every effort to replace the locomotive and run the train, however, if the train slot is missed, the driver will have to cancel the train. The failure could occur whilst starting the locomotive, as well as while the train is running.
- A cancellation is caused by an undersupply of locomotives that can be tracked back to either an undersupply of material or the reliability of the locomotives.

In the case of the FMA only, additional to the above, the OEM will also be penalised when:

- Cancellations can't be attributed to an undersupply of locomotives as per the agreed train plan this includes, but is not limited to, the OEM performing interventions within a longer dwell time than was envisioned.

Major In-Service Failures

Major in-service failures are defined as those that cause a greater than 15 min delay to a train at departure and/or en-route. As part of the locomotive supply agreements, the OEM should have trained Transnet sufficiently to undertake the duties required to prepare a locomotive for service. However, should the OEM want to provide additional support to Transnet to ensure locomotives do not cause delays to train departures, this will be at their own cost.

Transnet will manage the process for assessing the cause of each failure; the OEM will have an opportunity to investigate each of the faults assessed against it.

Major In-service failures	
Metric	Target Value
Failures that cause a 15+min delay to a train during the first 2 years of operation of each locomotive	10 FPMK
Failures that cause a 15+min delay to a train between years 3 and 5 of operation of each locomotive	5 FPMK
Failures that cause a 15+min delay to a train after the 5 th of operation of each locomotive	4 FPMK

The number of faults per million kilometres travelled shall be calculated as per the following formula:

Formula 4:

$$Z = X \div Y * 1,000,000$$

Where:

- Z is** Failures causing greater than 15 minute delays per million kilometres travelled;
- X is** The number of Faults, Defects or Malfunctions that cause a 15+ minute delay to a train at departure and/or en-route in relation to the Locomotives within the OEMs fleet during the calendar month being measured;
- Y is** The total distance travelled by the OEMs locomotives during the calendar month being measured

Unscheduled Sheddings

Unscheduled sheddings are measured as the total number of failures experienced by all the locomotives within the OEMs fleet. They will include all catastrophic, critical and major faults, as well as other faults that do not directly affect the execution of the train plan.

OEMs must make use of condition based maintenance technologies to reduce the number of faults. It is expected that the number of faults experienced by the locomotives will be reduced throughout the lifetime of the contract through the use of such technology.

Metric	Target value
Faults per million kilometres travelled during the first 2 years of operation of the locomotive	15
Faults per million kilometres travelled between the 3 rd and 5 th year of operation of the locomotive	10
Faults per million kilometres travelled after the 5 th year of operation of the locomotive	8

The number of faults per million kilometres travelled shall be calculated as per the following formula:

Formula 5:

$$Z = X \div Y * 1,000,000$$

Where:

- Z is** Faults per million kilometres travelled;
- X is** The number of Faults, Defects or Malfunctions in relation to the Locomotives within the OEMs fleet during the calendar month being measured;
- Y is** The total distance travelled by the OEMs locomotives during the calendar month being measured

The OEM is required to provide a Service Level Guarantee in respect of Locomotive Reliability for all of the metrics set out above (catastrophic, critical, major and unscheduled sheddings).

The warranty penalty mechanism will still apply for the period covered by the locomotive supply agreement.

3 PERFORMANCE GUARANTEES AND PENALTY MECHANISM

Transnet requires the OEM to provide a Service Level Guarantee in relation to the Service Level Requirements applicable to each of the Maintenance Service Options. Such Guarantee is to be provided through the submission of a Service Level Compliance Declaration, refer to paragraph 5 as part of the Respondents proposal. Through submission of the Service Level Compliance Declaration, the Respondent formally accepts the Service Level Requirements and the Penalty mechanism stipulated herewith as a binding contractual obligation of the proposed maintenance services.

Transnet considers the execution of a maintenance agreement in relation to the proposal submitted by the Respondent conditional on the inclusion of a penalty mechanism based on the following terms:

- A penalty shall be paid to Transnet if the OEM fails to meet any of the Service Level Guarantees provided under the agreement;
- Separate measurements and determination of penalties will be made in relation to each of the Service Level Guarantees provided under the contract;
- Transnet will issue a Penalty Certificate to the Service Provider within 30 days of the last calendar day of each month, indicating the Penalty amount accrued during that month;
- Penalty payments shall be made to Transnet within 10 (ten) business days of Transnet issuing the Penalty Certificate;
- Transnet reserves the right to off-set penalty payments against any invoices issued by the Service Provider in relation to the maintenance services provided;
- Payment of penalties represent a binding contractual obligation of the contractor and is excluded from any arbitration provisions the parties may choose to implement under the agreement;
- The issuance of a Penalty Certificate requires the OEM to develop and present to Transnet a corrective action plan to rectify the service level, eliminate all root causes for the failure to meet the guaranteed service level and demonstrate to Transnet how the corrective action plan will be implemented;
- Any costs associated with the implementation of the corrective action plan are the sole financial obligation of the Contractor and must not be recovered from Transnet;
- Transnet reserves the right to audit the Service Provider on the execution of the corrective action plan;
- A continued (3 months), recurrent (3 months over a 12 month period) or material failure to meet the Service Level Guarantees under the agreement shall constitute a breach of the agreement and provide Transnet the right to terminate the agreement at its sole discretion; and,
- The availability and reliability will be measured on a Transnet system and this is the system that will be used for all transactions and/or penalties.
- Penalty values will be escalated at the same rate as the contract payment on an annual basis.

3.1 Parts Availability

- Penalties for parts availability will be applied on a per day basis and the penalty period will begin at the moment agreed by both the TE and OEM technical advisors and terminated by the TE and OEM technical advisors once the OEM has delivered the material to the workshop.
- Penalties will apply to every locomotive that waits for material in the workshop which will be aggregated at the end of the month and can be applied to the payment made to the respondent.

Metric	Target value	Penalty ¹
Locomotive held back for material	0-48 hrs	R 1,750/day
	48hrs+	R 5,000/day
If the liability cap is reached and the locomotive is still "held back for material" status		Exclude from monthly payment (i.e. Transnet will not pay for maintenance on this locomotive)

3.1 Reliability

The OEM will be penalised for reliability in four ways. The penalties and the description of these are shown below.

Catastrophic in-service faults:

A catastrophic in-service fault will be defined as a fault where the locomotive locks up and blocks the track. The fault will be deemed as a catastrophic in-service fault when the locomotive cannot be moved back into a workshop on its own traction or be shunted back and a crew has to be deployed to rescue the locomotive in-situ.

These failures cause immeasurable losses for Transnet and therefore will need to be avoided at all costs. Below are the penalties that will apply to all catastrophic in-service faults. A process will be created to establish the source of the fault prior to assessing the penalty onto the respondent.

Metric	time	Penalty
Time the locomotive is blocking the track	1-12 hrs	1% of total monthly contract value for the fleet
	12-24 hrs	3% of total monthly contract value for the fleet
	>24 hrs	5% of total monthly contract value for the fleet

¹ These penalties will be escalated only a yearly basis at the same rate as is agreed between Transnet and the OEM for the overall contract.

The OEM should stipulate the required performance from the Transnet staff in terms of the recovery of the locomotives. The activities performed to recover the locomotives shall not form part of the scope of the respondent. However, the respondent is encouraged to suggest productivity improvements that will reduce recovery times throughout the contract life. The penalty above can be assessed several times during a single month should the OEM experience more than a single catastrophic in-service fault.

It is expected that the OEM will not experience any catastrophic in-service faults during the lifetime of the contract. Every catastrophic in-service fault will require the OEM to perform a thorough analysis of the cause and to present a mitigation plan to Transnet to prevent it from occurring again. Should the OEMs mitigation plans not be satisfactory or prove to be successful, Transnet reserves the right to cancel the contract.

Critical Failures:

Penalties for critical failures will be assessed based on the number of trains cancelled above the calculated target described within this annexure. Trains cancelled cause immeasurable losses to Transnet and thus all efforts should be made to minimise failures that cause any cancellation of trains.

Metric	Above calculated target	Penalty
Trains cancelled above target	1	2.5% of total monthly contract value for the fleet
	2	5% of total monthly contract value for the fleet
	3+	10% of total monthly contract value for the fleet and OEM is given an opportunity to rectify performance before Transnet has the right to terminate

Major Failures:

Penalties for major failures will be assessed for faults measured as those that cause a greater than 15 min delay to a train departure.

Metric	Above target	Penalty
Faults per million kilometres travelled	0-1	1.2% of total monthly contract value for the fleet
	1-2	3.6% of total monthly contract value for the fleet
	2+	7.2% of total monthly contract value for the fleet and OEM is given an opportunity to rectify performance before Transnet has the right to terminate

Unscheduled Sheddings:

Penalties assessed for unscheduled sheddings will be above and beyond any other penalties assessed for major, critical and catastrophic failures. The OEM is encouraged to make use of condition based maintenance technologies to minimise all in-service failures and perform unscheduled sheddings where necessary. However, the OEM will need to work with Transnet to ensure that locomotive maintenance does not affect locomotive availability.

Metric	Above target	Penalty
Faults per million kilometres travelled	0-1	0.3% of total monthly contract value for the fleet
	1-2	0.9% of total monthly contract value for the fleet
	2+	1.8% of total monthly contract value for the fleet and OEM is given an opportunity to rectify performance before Transnet has the right to terminate

3.2 Liability Cap

- The OEM's liability due to performance will be capped at a maximum of **10.0%** under all three contract options.
- The liability cap will be broken down as follows:
 - Parts unavailability and major failures will be capped (jointly) at 3.6% of total contract value.
 - Penalties for critical and catastrophic KPIs will be capped at 10% of total contract value.

ANNEXURE D

SATS 1286.2011

D

Annex

Local content declaration – summary schedule

(C1) Tender No. GSM/1507/H296
 (C2) Tender description: 554 Electric Locomotive Maintenance 12 years
 (C3) Designated product(s): Rolling stock and components
 (C4) Tender Authority: Transnet
 (C5) Tendering entity name: CSR
 (C6) Tender exchange rate: USD R 13.33
 (C7) Specified local content % 60%

Note: VAT to be excluded from all calculations

Calculation of local content						
Tender item no's	List of items	Tender price - each (excl VAT)	Tender value net of exempted imported content	Imported value	Local value	Local content % (per item)
(C8)	(C9)	(C10)	(C12)	(C13)	(C14)	(C15)
	Electric Locomotives Maintenance for 554 Locomotives	11,025,896,663	11,025,896,663	2,644,624,560	8,381,272,103	76.01%

(C20) Total tender value net of exempted imported content 11,025,896,663
 (C21) % of exempt imported content -
 (C22) Total Tender value net of exempt imported content 11,025,896,663
 (C23) Total imported content 2,644,624,560
 (C24) Total local content 8,381,272,103
 (C25) Average local content % of tender 76.01%

Tender Summary			
Tender Qty	Total tender value	Total exempted Imported content	Total Imported content
(C16)	(C17)	(C18)	(C19)
1	11,025,896,663	-	2,644,624,560
Per value	11,025,896,663	-	-

Signature of tenderer from Annex B

Date:

Siyabonga Gama, Group Chief Executive

TRANSNET



Our Ref No: SG/22074

Mr Zhou Qing'He
The Chairman
CRRC Zhuzhou Locomotive Co Ltd
Tianxin Zhuzhou
Hunan
CHINA
412001

Dear Mr Qing'He

MATERIALS AND RELIABILITY SUPPORT ("MRS") CONTRACT SIGNING

We refer to the previous correspondence on the signing of the MRS Contract.

Transnet is a State Owned Company ("SOC") and has to conduct its business, incur expenses and procure materials and services in compliance with but not limited to, The Constitution of the Republic of South Africa and the Public Finance Management Act.

We had reached finality on the negotiation of the MRS contract and were ready to sign, however due to the corruption allegations that surfaced through the media on the 1064 procurement, we had to negotiate the newly proposed representations/warranties clauses.

Further to the above, Transnet SOC has commissioned a forensic investigation on the allegation of corruption relating to the procurement of the 1064 locomotives, to ascertain the parties' involvement or non-involvement in the alleged corruption practices. The forensic investigation commissioned has not yet been finalized.

The proposed representations/warranties clauses have been negotiated and agreed upon between CRRC and Transnet. We have since amended the MRS Contract to incorporate the additional clauses. Ultimately, Transnet SOC would prefer to resign the complete MRS Contract with the proposed representations/warranties clauses as opposed to signing the addendum.

Transnet SOC Ltd
Registration Number
1990/000980/30

Carlton Centre
150 Commissioner
Street
Johannesburg
2001

P.O. Box 72501
Parkview, Johannesburg
South Africa, 2122
T +27 11 308 2309
F +27 11 308 2315

Directors: LC Mabase (Chairperson) SI Gama* (Group Chief Executive) Y Potse GJ Mabilela PEB Mthimba ZA Ngobese VM Nkomo SG Stogner
GJ Pita* (Chief Financial Officer)
*Executive

Group Company Secretary: ME Khumalo

www.transnet.net

Office of Nokuthula Khumalo, Group Company Secretary

TRANSNET



TO WHOM IT MAY CONCERN

CERTIFIED EXCERPT FROM THE MINUTES OF THE SPECIAL BOARD OF DIRECTORS OF TRANSNET SOC LTD MEETING NO. 2-16/17FY HELD ON 28 JULY 2016 AT 15:15 AT 1659 CAMBOURNE CIRCLE, HIGHGATE VILLAGE, DAINFERN

3.2 Maintenance Agreement for Locomotives

RESOLVED that the Board:

- Recommended that the Shareholder Minister approves the business case and award of the maintenance services to *China South Rail ("CSR")* in terms of the option in the Locomotive Supply Agreement(s).
- Approve delegation of authority to the Group Chief Executive or his designate to approve and sign all relevant documentation and amendments (i.e. LOI, Contracts and subsequent amendments) pertaining to this matter on behalf of the Company post the Shareholder Minister's approval.

2-16/17FY/1*

Certified a true excerpt.

Kind regards

NOKUTHULA KHUMALO
Group Company Secretary
Date: 14 December 2016

Transnet SOC Ltd
Registration Number
1990/000900/30

Carlton Centre
150 Commissioner
Street
Johannesburg
2001

P O. Box 72501
Parkview, Johannesburg
South Africa, 2122
T +27 11 308 2466
F +27 11 308 2430

Directors: LC Mabaso (Chairperson) SI Gama* (Group Chief Executive) Y Forbes GJ Mahlaela PEB Mathakga ZA Nqdee VM Nkonyane SD Shane
BG Stagman PG Williams GJ Pita* (Chief Financial Officer)

*Executive

Group Company Secretary: NE Khumalo

www.transnet.net

Transnet SOC Ltd
Registration
Number
1990/060900/30

Carlton Centre
150 Commissioner
Stk. Johannesburg
2001

P.O. Box 72501
Parkview
South Africa, 2122
T +27 11 308 2526
F +27 11 308 2312

TRANSNET



www.transnet.net

MEMORANDUM

To : Thamsanqa Jiyana; Chief Officer Advanced Manufacturing; Transnet Engineering
From : Clayde Chidasha; Acting Chief Financial Officer; Transnet Engineering
Date : 18 June 2018
RE : REQUEST TO RECALL ADVANCE PAYMENT GUARANTEE (APG) FOR THE PRE-PAYMENT MADE BY TRANSNET TO CRRC.

PURPOSE:

1. In terms of a signed Letter of Award ("LOA") between Transnet and CRRC E-loco (CRRC, formerly CSR), Transnet Group Finance made an advance payment to CRRC on 1 October 2016 of an amount equal to 10% of CRRC's Best and Final Offer ("BAFO") being R618 million excluding VAT (R704,5 million including VAT). This amount was then transferred by Group Finance into Transnet Engineering's (TE) current account thereby increasing TE's overdraft and finance charges.
2. The maintenance arrangement has not been implemented yet as the process to finalise its operationalization is in progress.
3. Considering the working capital requirements of Transnet, it would be desirable if this amount is paid back to Transnet pending the finalization of the maintenance arrangements.
4. The purpose of this memorandum is to:
 - Obtain the approval of the COAM to recall the On Demand Guarantee; and
 - Sign all the relevant documentation to recall the Guarantee.

BACKGROUND:

5. Transnet issued a Notice to respond (NTR) in August 2015 to the 1064 OEM's for the provision of maintenance spares and reliability services. TE has subsequently issued a letter

of award (LOA) to CRRC for the supply of spares and other materials and certain technical support services for the 559 locomotives that have been supplied by CSR, now CRRC.

6. The prepayment mentioned above, was made and approved after all the governance processes were followed; the approval of such pre-payment was for the increase for the unforeseen capex. We annex hereto a copy of the approved memorandum dated 26 October 2016 annexed hereto as annexure "A".
7. There is currently a draft MRS agreement between TE and CRRC which document the outcomes of the negotiations between TE and CSR and hence implement the key provisions of the LOA and mark the commencement of maintenance services. Although the prepayment was made on 1 October 2016, CRRC has not yet begun with executing plans to maintain the 559 locomotives.

DISCUSSIONS & LEGAL IMPLICATIONS:

8. The terms of the APG are that prior to the issuing a demand payment on the guarantee, TE will firstly inform CRRC of their intention to recall the APG.
9. All legal issues have been considered and the APG can be recalled. This recall will not amount to any breach of contract by TE or CRRC as the agreement between the Parties will still remain and Parties will engage each other to ensure that the maintenance services do take place in the future.
10. After this request to recall the APG has been approved, all the steps required to be followed in terms of the provisions of the APG will be followed to implement a successful recall of the funds.
11. The recalling of the APG will not impact the delivery of the 1064 and payment of the advance payment can be made when both parties are ready to execute the agreement.

FINANCIAL IMPLICATIONS:

12. The recalling of the guarantee will increase Transnet's cash resources by R618 million with interest cost savings of approximately R70 million per annum.

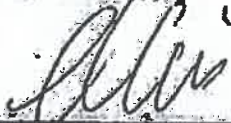
BUDGET IMPLICATIONS:

13. The recalling of this payment was not budgeted for in the current financial year. Transnet will benefit financially from this recall.

RECOMMENDATION:

14. It is recommended that Chief Officer: Advance Manufacturing approves the recalling of the on-demand guarantee.

COMPILED BY:



CLAYDE CHIDAUSHE
 Acting Chief Financial Officer
 TRANSNET ENGINEERING

Date: 27 / 07 / 2018


RECOMMENDED/NOT RECOMMENDED BY:



ZONDI MASWANGANYI
 General Counsel
 TRANSNET ENGINEERING

Date: 30 / 07 / 2018

APPROVED/NOT APPROVED BY:



THAMSANQA JIYANE
 Chief Officer: Advanced Manufacturing
 TRANSNET ENGINEERING

Date: 07 / 08 / 2018

NOTED BY:

MOHAMMED MAHOMEDY
 Interim Chief Financial Officer
 TRANSNET SOC Ltd.

Date: ____ / ____ / 2018