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Zondo Commission – to date, Regiments has scored R305-million from Transnet

The commission of inquiry into state capture on Wednesday received a reconciliation of payments made by Transnet in respect of the locomotives deals that were the focus of its attention in May. The biggest shocker was the amount paid to Gupta-linked Regiments for R305-million for advisory services in relation to the R49-billion 1 064 locomotives deal of 2014.

Helen Walsh, Transnet's acting manager of governance, risk and compliance, outlined the costs to the entity incurred from 2013 to date, with regard to the three transactions for 95, 100 and later 1 064 locomotives. The commission had asked during the course of the May evidence of several former and current Transnet executives, that a breakdown be provided of how much was actually paid to the numerous contractors over time. Walsh's testimony was limited to shedding light on the invoices on record within Transnet's systems and the payments related to them; she could not be drawn to speculate on their justification or merit.

The 1 064 locomotives deal received the most attention as the transaction contained many elements and had various service providers associated with it. While several witnesses testified to the total cost being around R49-billion, from an initial estimated cost of R38-billion in 2012, Walsh put the total amount paid to date at R32.9-billion, as some further payments are outstanding in respect of various services.

Four manufacturers were secured for the deal, namely China South Rail (CSR); China North Rail (CNR); General Electric of the US; and Bombardier Transport of Germany. Because of the large value of the capital Transnet would need to cover these companies' costs for the manufacturing of diesel or electric locomotives, loan facilities were negotiated and entered into with financial institutions from the contractors' home countries.

At this stage of the procurement process Transnet sought advisory services on how to go about identifying the relevant financiers as well as negotiating with them. Acting group CEO Mohammed Mahomed told the commission during his testimony that he was advised in January 2014, shortly before the negotiations phase was to commence, that McKinsey – which had led a consortium contracted the previous year for the job – was pulling out because of their unhappiness with Transnet's rushed approach to the process. Mahomed was at this point the general manager of finance. Prior to this, a consortium member, Letsema Holdings, had been removed on the basis of a conflict of interest and replaced by Regiments, without conducting a new procurement event. In essence, Regiments became part of a consortium for a multimillion contract that it had not bid for.

The trend would continue when three months later, in April, McKinsey was pushed out of the lead advisor role by Regiments – one of that company's directors was Salim Essa, a known associate of the Gupta family. This was done on the basis of a cession agreement that none of the Transnet executives who testified could reliably vouch for, as it did not seem to be in any of the transaction records scrutinised as part of an investigation ordered by the previous board. The consortium's initial contract had been R35-billion, but evidence shared by MNS attorneys, which is tasked with investigating the transactions, revealed that upon

taking over McKinsey's role of consortium lead, Regiments and Transnet entered into an agreement to increase the contract value to R78-million.

From Walsh's testimony, however, it was established that to date Transnet has paid Regiments as much as R305-million in total, in respect of the locomotives deal. McKinsey was paid R11-million, although no documentation relating to this payment was included in Walsh's evidence submitted to the commission. The R11-million was not in respect of locomotives transaction advisory services, but re-allocated to another project, which Walsh only referred to as SWAT1, according to what McKinsey told her.

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