THE PROCUREMENT OF TRANSNET'S 95

VOLUME 3A

MARCH 2019

MNS

MNCEDISI NDLOVU & SEDUMEDI
ATTORNEYS

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LIST OF ABBREVIATIONS

Below is a list of abbreviations used in the Report

Abbreviation	Description
ADC	Acquisitions & Disposals Committee
BADC	Board Acquisitions and Disposals Committee
B-BBEE	Broad-Based Black Economic Empowerment
BOD	Board of Directors
CAPIC	Capital Investment Committee
CFET	Cross Functional Evaluation Team
Constitution	The Constitution of the Republic of South Africa, 1996
CSR	CSR E-Loco Supply Proprietary Limited (now CRRC E-Loco Supply Proprietary Limited)
DoA	Delegation of Authority
ETC	Estimated Total Cost/s
GCE	Group Chief Executive
GFB	General Freight Business
GCSCO	Group Chief Supply Chain Officer
PFMA	Public Finance Management Act 1 of 1999 (as amended)
PMO	Project Management Office
PPPFA	Preferential Procurement Policy Framework Act 5 of 2000
PPM	Procurement Procedures Manual
PRECCA	Prevention and Combating of Corrupt Activities Act 12 of 2004
RFP	Request for Proposal/s
TE	Transnet Engineering
TFR	Transnet Freight Rail
TFRIC	Transnet Freight Rail Investment Committee
TIA	Transnet Internal Audit

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LIST OF ROLE PLAYERS

Below are the names of persons who played a role in the procurement of the 95 Electric Locomotives referred to in this Report and exhibits:

Name of Persons	Description of role or capacity
Mr Brian Molefe	• Former Transnet Group Chief Executive (GCE) (2011-2014)
Mr Garry Pita	• Former Group Chief Supply Chain Officer (GCSCO) (2010 - 2015)
Ms Lindiwe Mdletshe	• Former Commodity Manager, Transnet Freight Rail (2012-2015)
Mr Mafika Mkwanazi	Former: • Chairperson of the Transnet Board of Directors (2010 - 2014) • Member of the BADC
Min. Malusi Gigaba	• Former Minister of Public Enterprises (2010 – 2014)
Min. Pravin Gordhan	• Former Minister of Finance (2009 – 2014), (2015 - 2017)
Mr Siyabonga Gama	Former • Chief Executive of Transnet Freight Rail (2006 - 2016) • Chairperson of Transnet Freight Rail Investment Committee
Mr Thamsanqa Jiyane	• Current Chief Officer Advanced Manufacturing: Transnet Engineering (2015 - current) • Former Chief Procurement Officer, Transnet Freight Rail (2012 - 2015)
Mr Wang Pan	• Deputy Director: CSR E-Loco Supply

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LIST OF COMMITTEES

Below are the committees that were in place and / or established during the procurement of the 95 Electric Locomotives, and which are referred to in this Report and exhibits

Structure	Names of members
BOD	Members (2012) • ME Mkwanazi (Chairperson) • B Molefe (Group Chief Executive) • A Singh (Chief Financial Officer) • BD Mkwanazi • T Mnyaka • MP Moyo • NBP Gcaba • MP Malungani • NK Choubey • MA Fannuchi • Y Forbes • HD Gazendam • N Moola • NR Ntshingila • I Sharma • IB Skosana • E Tshabalala • DLJ Tshepe
BADC	Members (2012) • I Sharma (Chairperson) • Y Forbes • M Mkwanazi • N Njeke • D Tshepe • On 13 January 2013, it was recommended that N Mnxasana be appointed as a member. • Njeke was retired as a member on 25 June 2015.

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CFET	Members (2012) • Abdool Lutchka • Benny Steyn • Dave Hansen • Devendran Govender • Edith Mufamadi • Elvis Tshivhilinge • Frikkie Harris • Gerhard Breedt • Graham Paverd • Hendrik Fourie • Henk Kruger • Itumeleng Fanampe • Jan van Tonder • Joel Mathonsi • John Kannemeyer • Keith de Vos • Kenneth Diedricks • Laasen Govender • Lindiwe Mdletshe • Londiwe Shabalala • Luwig Borchard • Mesham Sivnaraim • Nick Breytanbach • Nkululeko Gobhozi • Nomusa Kumalo • Phil du PLessis • Robert Frohling • Sanjiv Sewpaul • Sara Assegai • Seloke Fabiao • Shaun Phillips • Thabiso Motsamai • Thato Morake • Trevor Downward • Vilvalingum Nair • Vincent Malale • Wesley van Heerden • Wiehen le Roux • Willem Kuys • Willie Coetzee • Winfried Mors

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LIST OF ENTITIES

Name of entity	Role of entity
CSR Zhuzhou Electric Locomotive Co, Ltd	("CSR") Awarded a tender to manufacture the 95 Electric Locomotives
SSMM Rail Solutions Consortium ("Muki Projects")	("Muki Projects") bidder for the manufacturing of the 95 Electric Locomotives
Nelesco 85 (Pty) Ltd ("Nelesco")	("Nelesco") bidder for the manufacturing of the 95 Electric Locomotives
Saturn Railway Solutions (Pty) Ltd ("Saturn")	("Saturn") bidder for the manufacturing of the 95 Electric Locomotives
Siemens Limited ("Siemens")	("Siemens") bidder for the manufacturing of the 95 Electric Locomotives
Surtees Railway Supplies (Pty) Ltd ("Surtees")	("Surtees") bidder for the manufacturing of the 95 Electric Locomotives

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LIST OF EXHIBITS

Exhibit	Document
1.	Transnet 2011/12 Transnet Corporate Plan
2.	Transnet 2011 Locomotive Fleet and Modernisation Plan
3.	Memorandum for approval to proceed with the acquisition of 43 diesel and 95 Electric Locomotives dated 26 July 2011
4.	Excerpt of BADC minutes of the meeting held on 3 August 2011, certified on 6 April 2018
5.	Transnet Business Case for the 95 (138) Locomotives dated August 2011
6.	Minutes of the Board Meeting of 31 August 2011
7.	PFMA s54(2)(d) Notification to the Minister of Finance – 5 October 2011
8.	PFMA s54(2)(d) Request for Approval to the Shareholder Minister – 24 October 2011
9.	Minister of Public Enterprise approval for the procurement of 95 GFB Electric Locomotives– 21 December 2011
10.	Tender advertisement of 6 December 2011
11.	Request for Proposal document for the acquisition of the 95 Locomotives
12.	Mr She Yongjum's email to Ms Lindiwe Mdletshe dated 14 December 2011
13.	Ms Lindiwe Mdletshe's email to Mr She Yongjum dated 15 December 2011
14.	CSR's email to Ms Lindiwe Mdletshe dated 20 December 2011 with the Outward Remittance document
15.	Transnet Procurement Procedure Manual of 26 May 2009
16.	Mr Garry Pita's email to Mr Wang Pan of CSR dated 16 December 2011 and Mr Wang Pan's email to Mr Garry Pita of 19 December 2011
17.	Mr Wang Pan's email to Mr Brian Molefe dated 19 January 2011
18.	Memorandum for evaluation criteria change dated 6 June 2012
19.	The Cross Functional Evaluation Team Report
20.	Schedule 1 of the Locomotive Supply Agreement between Transnet SOC Limited and CSR E-Loco Supply Proprietary Limited
21.	Spreadsheet of Class 20 E Locomotive Commissioning and Warranty records
22.	Spreadsheet detailing Delayed and Early Delivery Penalties
23.	Locomotive Supply Agreement between Transnet SOC Limited and CSR E-Loco Supply Proprietary Limited
24.	Email dated 15 January 2019 from TFR to MNS explaining the calculation of penalties using assumptions
25.	Email dated 17 January 2019 from TFR to MNS advising that information is still being sought to respond our query

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CHAPTER 1:
INTRODUCTION AND BACKGROUND

1.0. 1 Mncedisi Ndlovu & Sedumedi Attorneys ("MNS") was appointed by Transnet SOC Limited ("Transnet") to conduct an investigation into the procurement of 95 Electric Locomotives to ascertain whether the procurement process followed had complied with the applicable legal framework.

1.0. 2 Transnet's five-year 2011/12 Corporate Plan[1] made provision for the acquisition of electric locomotives for the General Freight Business ("GFB").

1.0. 3 On 20 April 2011, the Transnet Board of Directors ("the Board") approved the Locomotive Fleet Modernisation Plan[2] ("Locomotive Fleet Plan"), subject to the Board Acquisitions and Disposals Committee ("the BADC") confirming and finalising the affordability of the locomotives that were to be acquired.

1.0. 4 Based on the Locomotive Fleet Plan and a memorandum[3] dated 26 July 2011, prepared by Mr Siyabonga Gama ("Mr S Gama"), the BADC on 3 August 2011, approved[4] that Transnet proceed with a transparent procurement process to acquire 45 Electric Locomotives in the 2012/13 financial year ("FY") and a further 50 Electric Locomotives in the 2013/14 FY for deployment in the GFB.

1.0. 5 The BADC further resolved that Transnet submit an application in terms of s54(2) of the Public Finance Management Act No. 1 of 1997 ("PFMA") to the Minister of Public Enterprises ("the Shareholder Minister") for the approval of the acquisition of the 95 electric locomotives[5]. The Board subsequently approved the procurement of the 95 Electric locomotives on 19 August 2011.

1.0. 6 It was only after both the BADC and the Board had approved the procurement of the 95 Electric locomotives that the Business Case[6] was prepared on 21 August 2011, and submitted to both the Transnet Freight Rail Investment Committee ("TFRIC") and Transnet Capital Investment Committee ("CAPIC") for the acquisition of the 43 diesel and 95 electric (total 138) locomotives at an Estimated Total Cost ("ETC") of R3.649 billion[7]. Of this amount, R2.659 billion was an ETC for the 95 locomotives.

1.0. 7 The decisions of both the TFRIC[8] and CAPIC[9] were subsequently adopted by the

[1] *Exhibit 1, Transnet's five-year 2011/12 Corporate Plan.*
[2] *Exhibit 2, Locomotive Fleet and Modernisation Plan.*
[3] *Exhibit 3, Memorandum of 26 July 2011 seeking approval for the acquisition of 43 diesel and 95 locomotives.*
[4] *Exhibit 4, the excerpt of BADC minutes of the meeting held on 3 August 2011, certified on 6 April 2018.*
[5] *The balance of the 43 diesel locomotives from the initial 138 envisaged in the Locomotive Fleet Plan would be procured through a confinement process with General Electric.*
[6] *Exhibit 5, Business Case of 21 August 2011.*
[7] *R2. 659 billion of this amount was an ETC for the 95 locomotives.*
[8] *Transnet Freight Rail Investments Committee.*
[9] *Transnet Capital Investments Committee.*

Board on 31 August 2011[10], which resolved that:

1.0.7.1 Transnet procure 45 Electric Locomotives in the 2012/13FY and a further 50 Electric Locomotives in the 2013/14FY for deployment in the GFB operations;

1.0.7.2 a s54(2) of the PFMA application to the Shareholder Minister for approval of the acquisition of the 95 Electric Locomotives be submitted. The Group Chief Executive is authorised to delegate the resolution; and

1.0.7.3 Transnet Engineering ("TE") be the preferred subcontractor for the acquisition of the 95 electric locomotives.

1.0. 8 On 5 October 2011, the erstwhile Transnet Chairperson Mr Mafika Mkwanazi, notified[11] the Minister of Finance[12], and on 24 October 2011 requested approval[13] from the Minister of Public Enterprises[14], the Shareholder Minister, in terms of s54(2)(d) of the PFMA, for the intended significant capital expenditure. The ETC for the 95 Electric locomotives transaction was identified as R2.659 billion.

1.0. 9 On 21 December 2011, the Shareholder Minister approved[15] the procurement of 95 Electric locomotives at an ETC of R2.7 billion with a condition that Transnet provides the ministry with a comprehensive briefing on Transnet's engagement with the competitive supplier development plan, and in particular, the supplier development and localisation components for the acquisition.

[10] *Exhibit 6, Minutes of the Board meeting of 31 August 2011.*
[11] *Exhibit 7, s54(2)(d) PFMA Notification dated 5 October 2011.*
[12] *Honourable Minister Pravin Gordan.*
[13] *Exhibit 8, s54(2)(d) PFMA Application dated 24 October 2011.*
[14] *Honourable Minister Malusi Gigaba.*
[15] *Exhibit 9, s54(2)(d) PFMA Approval dated 21 December 2011.*

CHAPTER 2: PROCUREMENT PROCESS

2.1 Payment and collection of the RFP documents

2.1.1 On 6 December 2011, Transnet issued the RFP for the acquisition of the 95 Electric locomotives. The RFP was advertised in the Business Day newspaper under Tender Notice HOAC-HO-7801.

2.1.2 The tender advertisement[16] provided the following regarding the RFP collection and payment thereof:

> *"RFP documents may be obtained on and after Tuesday, 06 December 2011, at the RECEPTION, TENDER ADVICE CENTRE, INYANDA HOUSE 1, GROUND FLOOR, 21 WELLINGTON ROAD, PARKTOWN, JOHANNESBURG during office hours 08h00 to 15h00. A R20,000.00 (inclusive of Vat) non-refundable tender charge is required per tender.*
>
> *Note*
>
> *1....*
>
> *2. The deposit slip must reflect the RFP number and the Company Name. Receipt/s to be presented prior to collection of the tenders.*
>
> *3. Receipt are to be submitted when collecting the RFP document. ... "*

2.1.3 The RFP documents[17] also specified that bidders should comply with the same requirements that were mentioned in the advert regarding the collection and payment. The relevant provisions of the RFP document provided as follows:

- *"on or after the 6 December 2011 the RFP documents may be inspected at, and are obtained from the office of the Secretariat, Room Inyanda No1, Ground Floor, 21 Wellington Road Parktown, Johannesburg on payment of an amount of R20,000.00;*
- *This amount is not refundable;*
- *A receipt of such payment must be presented when collecting the RFP documents and submitted with your proposal".*

2.1.4 Both the tender notice and the RFP further advised potential bidders to send tender-related enquiries to Ms Lindiwe Mdletshe ("Ms L Mdletshe"). For this purpose, Ms L Mdletshe and her colleague Ms Sarah Assegai's email addresses were provided on the tender notice.

2.1.5 On 14 December 2011, Ms L Mdletshe received an email from a representative of

[16] *Exhibit 10, Tender notice for the acquisition of the 95 locomotives.*
[17] *Exhibit 11, Request for Proposal for the supply of 95 new electronic locomotives for the General Freight Business dated March 2014.*

CSR Zhuzhou Electrical Locomotive Co. Ltd ("CSR") in particular Mr She Yongjum ("Mr S Yongjum")[18]. The purpose of the email was to establish whether:

2.1.5.1 the RFP documents could be downloaded from the Transnet website; if not

2.1.5.2 it was compulsory for the tender document to be collected in person; alternatively, if CSR could transfer money into the TFR[19] bank account where-after the RFP documents could be delivered to it?

2.1.6 In response to the above-mentioned enquiry, Ms L Mdletshe on 15 December 2011[20] indicated *inter alia* that:

2.1.6.1 the RFP documents were not available for downloading on the Transnet website;

2.1.6.2 payment of R20,000.00 was required in order to obtain the RFP documents as per the RFP advert;

2.1.6.3 proof of payment ought to be submitted upon collection of the RFP documents; and

2.1.6.4 after the money had been deposited, proof of payment should be forwarded to sarah.assegai@transnet.net or Lindiwe.Mdletshe2@transnet.net and the documents would then be emailed to CSR.

2.1.7 On 20 December 2011[21], CSR responded to Ms L Mdletshe advising that it:

2.1.7.1 had made payment for the purchasing of the RFP documents;

2.1.7.2 were unable to make payment in ZAR currency; and

2.1.7.3 had requested its bank, the Bank of China, to debit its account with the equivalent US dollars and pay the required amount in South African Rands to Transnet.

2.1.8 The email from CSR further attached a document from the Bank of China confirming the debit effected from CSR's bank account as instructed. The following is a re-typed extract from the Outward Remittance document that was attached to CSR's email[22]:

"We confirm the following funds have been debited from your account. If you have any pro...please contact us as soon as possible. The contact Tel No: 0731-28817041 2011/12/20

Transaction Type: Outward Remittance Transaction date:

Cheque no:

Remitter's A/C No.: 601557366040

[18] *Exhibit 12, Email from CSR to L Mdletshe dated 14 December 2011, enquiring about the collection of the bid documents.*
[19] *Transnet Freight Rail.*
[20] *Exhibit 13, Email from Lindiwe Mdletshe to CSR dated 15 December in reply to letter of 14 December 2011.*
[21] *??*
[22] *Exhibit 14, Email from CSR to L Mdletshe submitting the Outward Remittance.*

Remitter's name: 1/CSR ZHUZHOU ELECTRIC LOCOMOTIVE

Debit CCY/AMT: USD/2,380.00

Beneficiary A/C No: 203158598

Beneficiary: Transnet Freight Rail

Beneficiary Bank:

Business Ref. No: TTI2690110000386

Draft No.

Remittance CCY/AMT: USD /2,380.00

Buying Rate: 0.000

Selling Rate: 0.0000

SAFE Declaration/Verification No: 4302000010111220A001

2.1.9 Upon receipt of this email, Ms L Mdletshe, on 20 December 2011 sent CSR a chain of emails attaching the RFP documents and also signed the RFP collection list on behalf of CSR.

2.1.10 The issue that must be determined is whether the RFP advertisement and the related documents required potential bidders to provide proof of payment of the deposit, or whether the payment has to first reflect in the Transnet bank account before the RFP documents could be collected.

2.1.11 The ex *facie* reading of both the tender notice and the actual RFP documents suggest that all that the bidders were required to do, was to present proof that they had indeed made payment to Transnet's bank account that had been specified in both the tender notice and the RFP documents.

2.1.12 In the ordinary course, such proof is normally signified by the production of a deposit slip which could either be a bank stamped receipt or a bank generated EFT receipt.

2.1.13 It is our view that it might be practically impossible to expect bidders to obtain proof that indeed the payment made had actually reflected in the Transnet bank account before the RFP documents could be collected. The impracticality of such an interpretation is informed by *inter alia* the following:

2.1.13.1 once bidders deposit the required R20, 000.00 payment into a Transnet designated account, it is impossible for the bidder to establish if indeed such payment has reflected in the Transnet bank account. The processes that lead to confirmation of when deposits will reflect in the beneficiary account are under the control of the banking system; and

2.1.13.2 a Supply Chain Management official responsible for the issuance of RFP documents to bidders, does not ordinarily have access to the

Transnet bank account to confirm that payment has indeed reflected in the account prior to bidders collecting RFP documents. The SCM official releases the RFP documents to bidders purely on the strength of the proof of payments signified by deposit slips/receipts presented by bidders.

2.1.14 On the face of it, the Outward Remittance document from the Bank of China which was sent to Ms L Mdletshe confirmed that:

2.1.14.1 CSR's account had been debited with an amount of USD 2,380.00;

2.1.14.2 Transnet Freight Rail ("TFR") was the intended beneficiary of the debited amount; and

2.1.14.3 the debited amount from CSR's account would be credited into the stipulated TFR bank account.

2.1. 15 Given the fact that the Outward Remittance had all the elements that signified the debiting of CSR's account in favour of Transnet's bank account with the required deposit amount, it was therefore reasonable for Transnet to release the RFP documents to CSR on the strength of the Outward Remittance document.

2.1. 16 Should it have happened that, the deposited amount did not eventually reflect in Transnet's bank account, we are of the view that the PPM[23] of 2009 provided adequate safeguards against such risks. Clause 3.7.3 reads, *inter alia*, as follows:

> "... at the tender opening, the number of responses received must be checked against the number of payments received". *(our emphasis)*

2.1. 17 Transnet had confirmed receipt of deposit payment by CSR, during the tender opening stage in line with clause 3.7.3 of the PPM.

2.2 Improper engagements between Transnet and CSR prior to and after the issuance of the RFP

2.2. 1 A review of Transnet records suggests that CSR at all material times had a special relationship with Transnet. This is apparent from the communication exchange between Transnet officials and CSR, both prior to and after the tender notice and during the issuance of the RFP documents for the 95 electric locomotives.

2.2. 2 On 16 December 2011, Mr Garry Pita ("Mr G Pita"), the erstwhile Group Supply Chain Officer, addressed an email to Mr Wang Pan ("Mr W Pan") of CSR titled "95 electric locomotive for South Africa[24]".

2.2. 3 The relevant extract from Mr G Pita's email provided as follows:

[23] *Exhibit 15, Transnet Procurement Policy Manual, 26 May 2009.*
[24] *Exhibit 16, G Pita's email to CSR dated 16 December 2011 and CSR's email to G Pita in reply dated 19 December 2011.*

"Dear Mr Wang Pan

My CEO, Mr Brian Molefe advised me that you met in early December. He also stated that CSR Zhuzhou Electric Locomotive showed interest in participating in our next tender for 95 electric Locomotives. I wish to advise you that this tender has been released and is available from Transnet Freight Rail. I am not sure whether CSR is aware of this and has already bought the tender documents.

Regards

Garry Pita

Group Chief Supply Chain Officer

....."

2.2.4 In response to Mr G Pita's email, Mr W Pan indeed confirmed the prior meeting he had with Mr Brian Molefe ("Mr B Molefe"), the then Group Chief Executive and stated the following:

"Dear Mr. Pita,

Thank you for your e-mail.

We were very pleased to have the chance to meet with your Group CEO, Mr Brian Molefe at the beginning of December. We expressed our interest in your tender for 95 Electric Locomotives and the South Africa market as well.

Regarding the tender document, we are contacting with Mr. Lindiwe Mdletshe and transferring the money to your account for getting the document. Due to only the SA Rand is acceptable, the money transferring process is a little bit complicated. But we believe that we could get the tender document within this week.

You are very kind to facilitate us your support on the tender document if we need and inform you.

Thank you again for your concern.

Best regards

Sincerely yours,

Wang Pan (Alton)

Deputy Director

Overseas Business Division CSR Zhuzhou Electric Locomotive Co., Ltd."

2.2.5 Subsequent to this correspondence, there was further email correspondence between the CSR and Transnet officials after the tender notice, which further confirms the special preference that CSR enjoyed with Transnet officials.

2.2.6 On 19 January 2012, Mr W Pan sent an email to Mr B Molefe[25], an email titled "Visit

[25] *Exhibit 17. CSR's email to B Molefe dated 19 January 2012(erroneously dated 2011).*

in SA for 95 New Electrical Locomotives". In his email, Mr W Pan thanked Mr B Molefe for giving CSR an opportunity to participate in the tender for the supply of the 95 Electric locomotives and advised him that CSR was, at the time, preparing its submissions. He further advised Mr B Molefe that CSR is a reputable company and requested to meet with Mr B Molefe between January and February 2012 together with Transnet's technical group to discuss and optimize the technical specifications ("own emphasis")

2.2.7 Mr B Molefe responded[26] to Mr W Pan by thanking him for the letter and stating that he had forwarded the email to Mr S Gama who would process and respond to the request. Mr S Gama was indeed copied in the response by Mr B Molefe.

2.2.8 In view of all the above interactions between CSR and Transnet, the following can be deduced:

2.2.8.1 Mr B Molefe met and discussed the tender for the acquisition of 95 Electric locomotives with CSR, prior to the closing date to submit the bids; and

2.2.8.2 Mr G Pita played an active role in ensuring that CSR was aware of the tender and the availability of the RFP documents.

2.2.8.3 Mr S Gama was aware of the engagements between CSR and Transnet during the procurement process.

2.2.9 The special relationship that CSR enjoyed with Transnet, as evidenced by the meetings held and email correspondence between the parties, was unfair in that it created a reasonable apprehension and perception that Transnet might have been biased in favour of CSR.

2.2.10 Our courts[27] have consistently held that in reviewing an administrator's decision, it is not necessary to establish actual bias, what needs to be proved is a reasonable apprehension of bias. The fact that none of the other bidders enjoyed the same preferential engagements that CSR had with Transnet's most senior executives, lays credence to a reasonable apprehension that Transnet was biased in favour of CSR.

2.3 Irregular Changes to the B-BBEE criteria

2.3.1 The evaluation criteria in the RFP was stipulated as follows:

Stage 1	Stage 2	Stage 3
B-BBEE & Supplier Development 60%	**Technical** 80%	Price/SD/B-BBEE

2.3.2 For the purposes of stage 1 evaluation, it was required that only bidders who met the minimum threshold of 60% on SD and B-BBEE would be evaluated further in stage 2.

[26] *Exhibit 18, Mr B Molefe's email to CSR dated 19 January 2012*

[27] *BTR Industries South Africa & Others v MAWU 1992 (3) SA; President of the Republic of South Africa v SARFU 1999(4) SA 147 CC*

2.3.3 Compliance with the 60% threshold for SD and B-BBEE was a mandatory requirement in the RFP and failure by the bidders to comply with that minimum threshold would result in such bidders being disqualified from further evaluation.

2.3.4 On 6 June 2012, Mr Thamsanqa Jiyane ("T Jiyane"), the then Chief Procurement Officer at TFR and Mr S Gama, the then CE at TFR recommended[28] to the GCE, Mr B Molefe that the evaluation criteria for stage 1 be amended by removing B-BBEE as a criterion for compliance.

2.3.5 The reasons that were provided for the change to the evaluation criteria were, *inter alia*, that:

2.3.5.1 a foreign supplier[29] who did not have a local office was disadvantaged and it would be unfair if the evaluation continued to include B-BBEE;

2.3.5.2 the Codes of Good Practice in terms of the B-BBEE Act[30] allowed for foreign companies, if registered locally as a start-up enterprise, to be deemed to have a B-BBEE status of Level 4 in the first year of operation; and

2.3.5.3 it was unfair to both local and foreign suppliers to evaluate them on B-BBEE in stage 1.

2.3.6 On a strict application of the stage 1 evaluation criteria, CSR was disqualified from proceeding to the next stages of evaluation as it scored zero for BBBEE. However in order to ensure that CSR progressed to the next level of evaluation, the evaluation criteria was changed by removing the BBBEE requirement in stage 1.

2.3.7 It was irregular for Transnet to amend the evaluation criteria during the evaluation stage because

> *"Tenderers prepare their tenders based on the specifications laid down in a call for tenders. As a general rule, therefore, an organ of state should not be allowed to make changes to tender specifications after a call for tenders has been advertised. It is in the interest of fairness and transparency (and also competitiveness) for organs of state to abide by the tender specifications initially provided*[31].

2.3.8 The change in the evaluation criteria compromised the fairness, transparency and competitiveness of the procurement process on the grounds that there might have been other potential bidders who did not participate in the bidding process on the assumption that they were not going to comply with the stage 1 threshold as publicly advertised.

2.3.9 Besides the fact that it was unlawful to change the evaluation criteria during the evaluation process, the reason that was advanced for such a change was legally

[28] *Exhibit 19, Memorandum dated 06 June 2012, by Mr Gama requesting Mr Molefe to approve the shortlisting of the tenderers.*
[29] *The foreign supplier referred to herein was CSR.*
[30] *Act 53 of 2003*
[31] *Bolton, The Law of Government Procurement in South Africa, p182.*

flawed. The reason that was provided in both the CFET report[32] and in Mr S Gama's memorandum were that:

> *"the Codes of Good Practice in terms of the Broad Based Black Economic Empowerment Act of 2003 allow for foreign companies if registered locally as start-up enterprise to be deemed to have a B-BBEE status of level four in the first year of operation."*

2.3. 10 The impression that was created by the memorandum was that CSR was a start-up enterprise and thus, it qualified to be deemed a level four B-BBEE contributor. The Codes of Good Practice, 2007 ("the Codes"), define a start-up enterprise as:

> *"a recently formed or incorporated Entity that has been in operation for less than 1 year. A start-up enterprise does not include any newly constituted enterprise which merely is a continuation of a pre-existing enterprise." (our emphasis)*

2.3. 11 For the purposes of B-BBEE scoring, start-up enterprises were measured on the same basis as Exempted Micro Enterprises ("EMEs")[33]. The benefit of being measured as an EME[34] was that EMEs automatically qualified for Level 4 contributor status, as long as independent confirmation was provided that their status was indeed that of EMEs.

2.3. 12 Applying these principles from the Codes to CSR was legally flawed on the following grounds:

2.3.12.1 CSR had been in existence as a company (albeit foreign) for a period in excess of one year; and

2.3.12.2 CSR was not incorporated as an entity in South Africa as it only expressed an intention to incorporate an entity in South Africa, once it became a preferred bidder.

2.3. 13 It is clear that CSR did not meet the requirements of a start-up enterprise and thus could not be deemed to have earned level four B-BBEE status as indicated in Mr S Gama's memorandum of 6 June 2012.

2.4 Non- Submission of the Tax Clearance Certificate

2.4. 1 The RFP required bidders to submit Tax Clearance Certificates ("TCC") as mentioned under section 4 of the proposal form of the RFP, which provided as follows:

> *"Respondents are required to forward a valid copy of their company's Tax Clearance Certificate with their proposal"*

2.4. 2 The TCC was one of the returnable documents required by the RFP and the RFP further provided that:

> *"Failure to furnish ALL returnable documents may lead to the disqualification"*

[32] *Exhibit 20, CFET Report.*
[33] *Paragraph 6 of the Codes.*
[34] *An EME is defined in the Codes as an entity with an annual turnover of less than R5 million.*

2.4.3 A review of the RFP submissions by CSR indicate that CSR did not provide the TCC as required by the RFP and was eventually awarded the bid to supply the 95 Electric locomotives to Transnet.

2.4.4 Non-submission of the TCC is a contravention of the PPPFA Regulation 14, which states that "no bid may be awarded to any bidder whose tax matters have not been declared by the South African Revenue Services to be in order". Similar provisions are also contained in Treasury Regulation 18.

2.4.5 The question that needs to be answered is whether CSR, as a foreign-based entity, also fell under the jurisdiction of SARS in order for SARS to declare its affairs to be in order.

2.4.6 Section 256(3) of the Tax Administration Act 28 of 2011 provides that:

> *A senior SARS official may provide a taxpayer with a tax clearance certificate only if satisfied that the taxpayer is registered for tax and does not have any —*
> *(a) tax debt outstanding, excluding a tax debt contemplated in section 167 or 204 or a tax debt that has been suspended under section 164 or does not exceed the amount referred to in section 169(4), or*
> *(b) outstanding return unless an arrangement acceptable to SARS has been made for the submission of the return*

2.4.7 The Tax Administration Act applies[35] to persons who are liable to comply with the provisions of the Tax Act. The implication of all this is that SARS can only issue tax clearance certificates to persons or entities who are regarded as taxpayers and liable to pay tax to SARS for the purposes of the Tax Administration Act.

2.4.8 A foreign-based entity that is not liable to pay tax to SARS as required by either the Tax Administration Act or the Income Tax Act, is accordingly not capable of, or required to provide a TCC issued by SARS.

2.4.9 The non-submission of a TCC by CSR, when it had no tax obligations in South Africa at that time, was thus not irregular.

2.5 Non- recoverability of the delayed penalties not levied

2.5.1 Transnet failed to impose delay penalties amounting to R1 696 448 633[36] ("one billion six hundred and ninety-six million four hundred and forty-eight thousand six hundred and thirty-three") against CSR for 86 delayed locomotives[37].

2.5.2 Delay penalties for all 86 locomotives ought to have been imposed by TFR as required by Clause 9.1.1 of the LSA which provides as follows:

> *"If the acceptance of a locomotive occurs after its scheduled acceptance date (a delay), the Contractor shall subject to the delay penalty cap, pay a delay penalty to the Company in respect of that delayed locomotive at the applicable rate"*

[35] *Section 4(1) of the Tax Administration Act.*
[36] *Exhibit 21, Email dated 15 January 2019 from TFR to MNS explaining the calculation of penalties using assumptions.*
[37] *Exhibit 22, Spreadsheet detailing Delayed and Early Delivery Penalties*

2.5.3 The delay penalties ought to have been imposed by Transnet on or before the acceptance of the final locomotive, being 17 June 2017 as per Clause 1 of the LSA.[38]

2.5.4 We have established that no delay penalty certificate detailing the delay penalty amount and delay penalty period was issued by TFR to CSR as required by Clause 9.6 of the LSA.[39]

2.5.5 Despite numerous inquiries made to TFR and TE respectively, we have received no reason for the failure to levy the requisite penalty amount.

2.5.6 We have been advised by TFR[40] that information relating to this failure is still being sought and shall be provided, whilst TE is yet to respond to our inquiry.

2.5.7 Even if Transnet were to attempt to now claim these delayed penalties from CSR, such claim will be unsuccessful as the claim has now prescribed[41].

2.6 Conclusion

2.6.1 The procurement process that led to the appointment of CSR was irregular in that:

2.6.1.1 the evaluation criteria were changed to specifically benefit CSR; and

2.6.1.2 there was an improper engagement between CSR and Transnet officials before and after the RFP was issued, which engagements suggest that CSR was given special treatment at the disadvantage of the other bidders.

[38] *Delay penalty period means each consecutive period of three calendar months following the effective date and ending on the last day of March, June, September, and December of each year, provided that, when all the locomotives to be delivered under this Agreement have been accepted, the last such period shall end on the Acceptance Date of the final locomotive.*

[39] *"...If any delay Penalty or any Delay Penalty Credit arises during a Delay Penalty period, the Engineer shall issue a Delay Penalty Certificate on the last day of the delay penalty period, indicating the (a) Delay Penalties which have accrued during that period..."*

[40] *Exhibit 23, Email dated 17 January 2019 from TFR to MNS advising that information is still being sought to respond our query.*

[41] *Ordinarily, in terms of the Prescription Act, such a claim would have prescribed on 15 June 2018 being the lapse of a 3-year period after the liability had arisen.*

CHAPTER 3: RECOMMENDATIONS

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

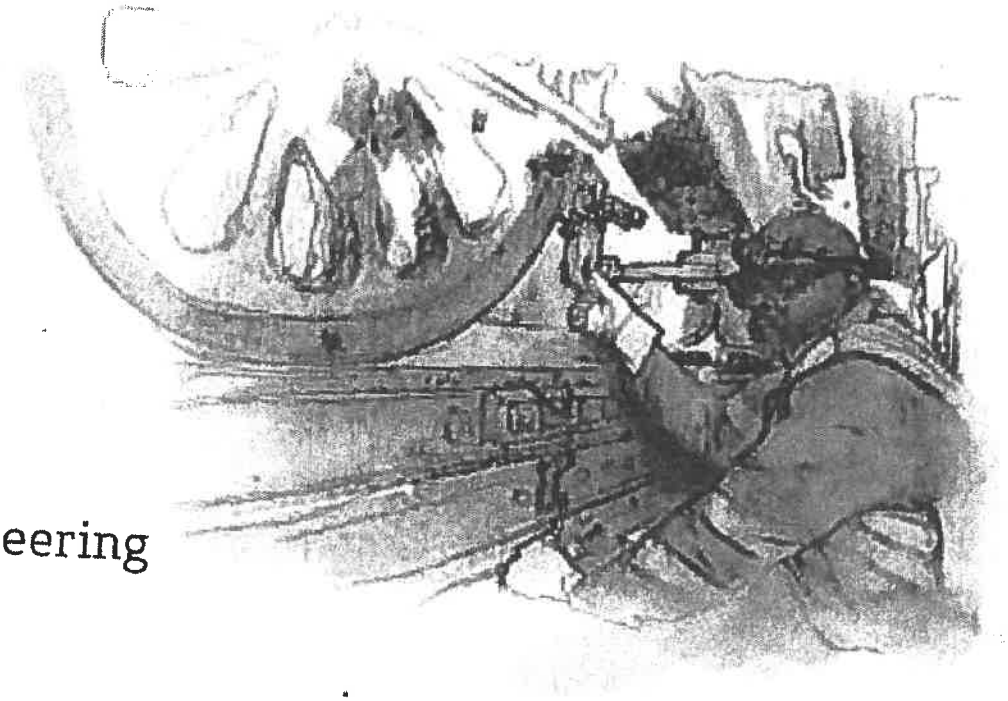
3.1 institute disciplinary proceedings against Mr T Jiyane for the role he played in changing the evaluation criteria during the evaluation process;

3.2 refer and/or report some of its former executives[42] to the Judicial Commission of Enquiry into allegations of State Capture for their further investigations.

[42] *Messrs B Molefe and S Gama*

REPORT 3(A)

REPORT 3(A) – EXHIBIT 1



Transnet Rail Engineering

Rail Engineering

Executive summary

The Transnet Rail Engineering (Rail Engineering) strategy is a multi-faceted approach supporting Transnet to accommodate the lower [illegible] of rolling stock in South Africa and more [illegible] to support Freight Rail in its pursuit of volume growth. The maintenance depots continue to focus on improving operational efficiencies by concentrating on availability and reliability of rolling stock particularly in the heavy modes of Freight Rail. The restructuring and overall [illegible] of the depots are geared to provide Freight Rail with additional capacity through new product based incentives and wagons.

Internally Rail Engineering continues to focus on improving operational efficiencies and quality working environment through the implementation of a Six Sigma principle, safety and environmental initiatives. Rail Engineering will continue to forge and strengthen partnerships with original equipment manufacturers (OEMs) with the aim of enhancing the existing skills and knowledge and create new market opportunities as Rail Engineering intends to market its capabilities in the African continent with the view of increasing its external revenue.

Rail Engineering plans for a net increase in revenue from R9.8 billion in 2010/11 to R10.5 billion in 2011/12 which equates to an increase of 7%. Revenue within the Transnet Group is expected to increase by 5.5% from R20.6 billion to R21.7 billion. External revenue is budgeted to increase by 30% to R1.63 billion from R1.25 billion. Operating expenses are expected to increase by 12% from R4.4 billion in R5.2 billion from 2010/11 to 2011/12. Variable cost will increase in line with production and fixed cost will increase by 12.3% to R4.5 billion. Employee numbers will increase by 1% over the coming year and salary per employee will increase by 7% (increase in salary, negated by 1% increase in employee numbers). Budgeted capital expenditure for 2011/12 amounts to R445 million (including borrowing costs of R25 million) and total capital expenditure over the five year period amounts to R1.8 billion. The budgeted revenue of R10.5 billion translates into R1.3 billion operating profit for 2011/12, yielding a return on total assets of 17.4% and a positive Shareholder value add of R270 million. Net working capital is expected to decrease over the five year period, both in Rand value (2010/11 estimate R1.8 billion, 2011/12 budget R1.6 billion) and as a percentage of revenue (2010/11 estimate 20%, 2011/12 budget 17%).

Overview of business operations

Rail Engineering

Rail Engineering is an Operating Division of Transnet Limited and provides maintenance, repair, upgrade, remanufacturing and support services to Freight Rail and other businesses in Southern Africa.

Rail Engineering's vision, mission, values and objectives are:

Vision

Rail Engineering aims to be a world class company, by ensuring quality, cost-effective rail [illegible] and strengthening [illegible].

Mission

Rail Engineering is a leading rail engineering business that strives to please the customer through [illegible] maintenance, refurbishing, upgrading and modular tuning while exceeding all its stakeholder expectations.

Values

Rail Engineering's values are underpinned by integrity, honesty, trust and respect. It highly values [illegible] and [illegible] teamwork, employee [illegible] and [illegible] Rail Engineering's [illegible].

Corporate objectives

Rail Engineering's corporate objectives are:

- [illegible]

Key business segments

Rail Engineering operates in the rolling stock maintenance, refurbishment, repair, upgrade, new builds and support services sectors by using an:

- [illegible]

In keeping with its product diversification focus Rail Engineering is [illegible] the following [illegible]:

- [illegible]

The wagon, locomotive and coach businesses are the primary customer facing businesses of Rail Engineering and generate the majority of sales revenue to Rail Engineering.

The other five businesses provide a support role within the organisation with the exception of the [illegible] which has a substantial proportion of its activity focused directly on servicing Freight Rail.

Employee profile (as at January 2011)

Rail Engineering			
Male			
Age	7811	4125	11 013
Total	1 [illegible]	1%	1 990
All Engineering	8518	4484	13 003
Non-engineering	547	993	9%
Total	8 [illegible]	5 [illegible]	12 003
	8518	3 484	13 003

Significant assets items

Rail Engineering has property, plant and equipment (PPE) to the value of R3.5 billion in 2010/11, comprising a composite mix and six new depots for an all weather working environment of 147 hectares in [illegible] depots.

Equipment ranges from machine tools, manual and robotic welding stations, jigs and fixtures, computer numerical control (CNC) lathes, machine tools, bending, punching and laser cutting machines, [illegible] and cleaning machines, shot blasting and spray painting booths, compressors, heat treatment, steel, cast iron and non-ferrous furnaces, gantry cranes, stand by generators and electronics workshops to support rolling stock and engineering equipment, computer aided design (CAD) and finite element analysis (FEA), a proposed design office and the company's SAP business system.

Geographical spread

Rail Engineering has plants and depots spread throughout South Africa, [illegible] a network of [illegible] the [illegible] transversal, the six main plants are located at the following main cities:

- Cape Town
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]

These factories serve as regional centres for the satellite depots and provide them with support services. There are a total of 132 depots. Out-of-service heavy maintenance and [illegible] are undertaken at the factories while the depots concentrate on lighter maintenance of rolling stock.

Besides Cape Town, Port Elizabeth and Durban, other particularly [illegible] to Rail Engineering [illegible] are Saldanha Bay, Richards Bay and East London.

Rail Engineering (continued)

Major geographical spread

The map below depicts the alignment of Rail Engineering with Freight Rail corridors

Regulatory environment

The regulatory environment impacting Rail Engineering comprises labour, safety and economic legislation. The critical acts are summarised in the table below.

1	Occupational Health and Safety Act	Act No 85 of 1993	Department of Labour	• Health and Safety Committees	• Maximum fine upon conviction R500 000 • Imprisonment • Suspension of operations
2	Basic Conditions of Employment Act	Act No 75 of 1997	Department of Labour	• Fair treatment of employees • Basic conditions of employment	• Imprisonment • Penalties
3	National Environmental Management Act	Act No 107 of 1998	Department of Environmental Affairs	• Pollution prevention	• Criminal proceedings
4	Public Finance Management Act	Act No 1 of 1999	National Treasury	• Transparent financial management in the region of state • Transparent efficient and effective management of revenue, expenditure, liabilities and assets • Towards responsible, accountable, transparent and effective management	• Fine • Imprisonment

Market analysis

Market size and market share

Rail Engineering's target market is South and southern Africa rolling stock which operates on 1 067mm and 1 000mm track gauge. Marketing to other regions which include these gauges as well as 2 435mm track gauge, is also underteken.

The market in South Africa for maintenance refurbishment and new build of rolling stock constitutes approximately R[illegible] billion per annum of which Rail Engineering currently has a 50% share. Significant fluctuations occur in the market size from year-to-year owing to the changes in demand.

The economic recession experienced has a major effect on these fluctuations. In the past 10 years has been characterised by under investment. Over the past three decades, the average new builds per year in locomotive and diesel locomotives has ranged from zero to 300. The future is expected to see the average of 80 to 120 per year in all of automotive types.

In the wagon segment, the refurbishments segment, conversions and new builds, Rail Engineering is one of the major player in the South Africa. Intermodal, wagon and tank markets and the main supplier to Freight Rail. In spite of this environment and this, Rail is leveraging its core competencies strategically, combined with customer and industry [illegible] to South Africa's logistic chain key transport corridors.

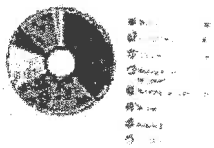
The total external sales for the 2010/11 financial year amounts to approximately R[illegible] bn.

Analysis of sales external to Rail Engineering (2010/11 estimate)

Business	
Sales from main line freight (wagon)	[illegible]
Passenger Rail (Metrorail, Gautrain, Shosholoza)	17
Other R&S	9
	4

When considering all businesses (including internals), apart external, the contribution to total sales is as follows

Businesses calculated on basis of internal and external sales



Customer profile

Current and potential customers can be categorised as follows:

- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]

Marketing initiatives

Rail Engineering's marketing initiatives cover the following product and service groups and develop specific strategies to consolidate market position and grow market share.

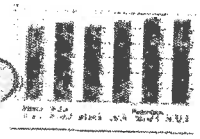
Marketing initiatives per category

Product/service	Initiatives
Heavy maintenance refurbishment	• Maintain high asset availability to ensure a safety and reliability improvement strategy, a [illegible] and structural refurbishing having lifecycle effectiveness
Fleet maintenance, repair and upgrade	• Maintain high locomotive service levels to ensure availability and reliability improvement through [illegible] Optimise OEM certification to allow for consistent spares strategies. Market services to [illegible] and [illegible] customers
Component maintenance, repair and upgrade	• Maintain and develop capacity for existing [illegible] fleets. Strategic market support for new locomotives. Market [illegible]
Wagon overhaul	• Overhaul [illegible] of wagon components [illegible] existing customers. Market [illegible] existing or potential customers
Locomotive new builds	• Focus [illegible] and [illegible] to [illegible] on [illegible] types. Market locomotives to all existing or potential customers
Coach new builds	• Design and prototype new [illegible] coach with [illegible] and [illegible] OEM and new coach. Develop [illegible] partnership [illegible] and [illegible] to [illegible]
Rolling stock testing services	• Focus on testing equipment to maintain high service levels and to cover future and current demand
Auxiliary support services	• Extension [illegible] to additional products and equipment and market [illegible]

The above initiatives will be supported by planned marketing activities including:

- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]

Sales projections 2011 – 2015



The sales projections shown in the graph are based on the expected construction of wagons in the medium-term, owing to the production of wagons relating due to the effectiveness of technology in previous and present designs. This is particularly evident in the outstanding correction initiatives of the standardisation of coal wagons that have more than three times the lifespan of their predecessor. Another factor impacting sales growth is the high technology upgrade of locomotives which has extended the life and improved the performance of the existing South African fleet, thereby reducing the demand for new builds.

In wagon maintenance, Rail Engineering is still responding to weight-bearing countries which continues to have success in winning tenders due to strong competition from domestic and international companies.

In the African market, fleets of the neighbouring countries for both 1 067mm and 1 067mm track gauge, the cost of transport and travelling time positioning rolling stock continues to double and is more less attractive than a South African base. Rail Engineering's at only a small foothold in the market in Ghana, Tanzania, Sudan and Congo for wagons. In wagon assembly, the plant formerly at Chamdor, Indian Brazil has and Eastern European-based companies.

Freight Rail's rolling stock demand and also Rail Engineering's high service levels, as well as maintenance, upgrade, conversion and manufacturing plans are closely linked to wagon and locomotive demand.

Product quality and high customer service levels continue to be strongly influenced by the level of engineering technology. These factors are embedded in the operational and product development strategies for rolling stock in order to retain and develop market share.

Through a combination of strategic alliances and its product development and operational capacity, Rail Engineering is confident it will remain the most competitive rolling stock supplier.

Competitive supplier development programme

The competitive supplier development programme [illegible] initiated by the South African Government to develop a local industry by means of skills and technology transfer.

For Rail Engineering, the programme began with the Electro-Motive Diesel Company (EMD) contract for assembly of 50 Class 34 diesel locomotives at Rail Engineering's factory in Pretoria and was followed by the award of 100 new Class 43 diesel locomotives to General Electric (GE)/GESAT, which was the largest, to date, CSDP agreement being signed in South Africa.

Skills transfer for Rail Engineering's workforce has positive practices such as Lean Six Sigma and is further extended to other suppliers as the South African supply chain will be given the opportunity to join a global supply chain for locomotive parts and components.

EMD commenced in 2010/11 with the implementation of CSDP, including certification of Rail Engineering's train-to-motor and engine maintenance facilities as centres of excellence. Local assembly of specific component parts is also being put based practices required for the 100 GE locomotives.

GE has started with the skills transfer programme and Rail Engineering's employees benefited from [illegible] through training in [illegible] and practices required for the 100 GE locomotives.

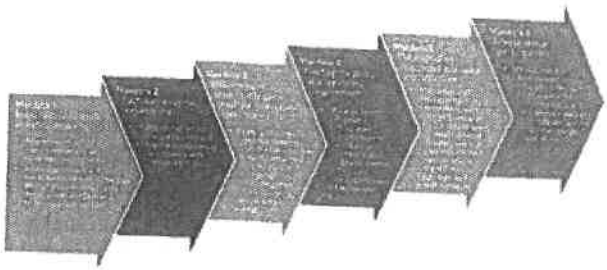
The programmes of the two OEMs will continue in the 2011/12 financial year focusing on the assembly of the GE locomotives, certification of Rail Engineering's maintenance facilities as centres of excellence (COE) and the transfer of knowledge to manufacture new components such as bogies.

The agreements with the OEMs require local content [illegible] to be [illegible] and local engineering and local supplier [illegible] to support [illegible] South Africa through [illegible] and job creation.

Operational plans

Transnet's mandate of "to deliver infrastructure of strategic importance to South Africa" [illegible] with [illegible] at each [illegible] acceptable benchmarks. Transnet's Rail Engineering's strategic initiatives and key [illegible] goal to the achievement of this mandate are detailed below.

The non-operational aspects of these strategies are detailed in the ensuing sections.



Rail Engineering (continued)

[illegible] business

Performance in business together

- [illegible]

Operations and service delivery

Key factors and trends in the locomotive business

- [illegible]

The key performance indicators for maintenance of Transnet Freight Rail's locomotive fleet are

Key performance indicator	2011/12 target	1st quarter target	Actual performance to end target
Locomotive availability			
• 3E8	95.0%	93%	• Upgrade of Class 10E and other locomotives
• Class	90.0%	89%	• 8 proved available expected
• Total	87.8%	92.5%	• Comparison with upgrade programme of the Class and new Class 19E locomotives
Locomotive availability (%)			
• 3E8	28	22	• Upgrade of Class 10E and other locomotives
• Class	33	23	• Experienced maintenance problems and new Class 19E locomotives
• Total	29	15	• Comparison with upgrade programme of the Class and new Class 19E locomotives

Additional availability measurements will be developed in conjunction with Freight Rail. The new measurement system will be assessed and baselined annually. The addition of the availability measurement system will be fully implemented in the 2012/13 financial year.

[illegible] Mitigation plan

Key priority	Key actions	Target date
1 Reduce 3E8 locomotive [illegible] number of [illegible] in 2015/16	• Improve efficiency from 10E locomotives and be able to close the gap from 9E locomotives. Rail Engineering will provide the capacity to upgrade the required locomotives • With [illegible] locomotives [illegible] the gap to [illegible] the locomotives. The [illegible] locomotives which [illegible] provide the required service • [illegible] locomotives [illegible] to reduce unnecessary movements and [illegible]	• 18 months lead time to roll out to improve availabilities • 12 months lead time [illegible] to train additional [illegible] to provide the service • 12 months lead time
2 Renewal of infrastructure for [illegible]	To increase [illegible] of the 10E locomotives from [illegible] 50 locomotives To support the [illegible] programme for [illegible]	• 50 months lead time
3 Demonstrate ongoing efficiency and [illegible]	• Improve the [illegible] availability of locomotives to support the [illegible] of Freight Rail • [illegible] • [illegible] • Improve the [illegible]	• Ongoing • 12 months lead time

Key priority	Key actions	Target date
4 Transnet's partnership [illegible]	To increase the [illegible] by providing [illegible]	• 12 - 15 months lead time

Technology

The development of locomotive technology is generally left to a small group of international OEMs who are able to utilise research and development costs through high volumes of sales.

[illegible]

Examples of these OEM relationships are

- [illegible]

Free [illegible] Both the control and the power systems of these locomotives [illegible]

This aged fleet has baselined [illegible] technology upgrades [illegible] have been done [illegible] and others which have been completed on OEMs. Traction motor upgrades have also been completed on [illegible] which combined with better control, has led to an overall improvement in availability. This improvement has been [illegible] on the Class 34 fleet where [illegible] upgraded.

Technology [illegible] has led to [illegible] based upon

Reliability improvements	• [illegible]
Component exchange	• Locomotives designed for [illegible] components to enable easy [illegible]
Rationalised maintenance	• Examples of the [illegible]

Performance improvement is not the only objective of upgrading plans. Focus is also directed at the various systems and subsystems (e.g. time to system [illegible]). Improvements in availability and reduction of [illegible] are achieved through [illegible] improvements in operational availability and reduction of [illegible].

One of the advantages of having a modern control system is its [illegible] and [illegible] against any [illegible] [illegible] required which is critical for [illegible] investigations.

Rail [illegible] plans

Rail [illegible] business [illegible]

- [illegible]

Efficiencies and service delivery

The following are key focus areas in the wagon business

- [illegible]

[illegible]	[illegible]	[illegible]	[illegible]
Wagon availability			
• [illegible]	[illegible]	[illegible]	• Troubleshooting of wagons and [illegible] to depots • Complete roll out of [illegible]
• Export coal	[illegible]	[illegible]	• Improve [illegible]
• Export iron ore	[illegible]	[illegible]	
Wagon reliability (failures per million km)			
• [illegible]	[illegible]	215	• Root cause [illegible]
• Export coal	[illegible]	212	• Ensure [illegible]
• Export iron ore	[illegible]	[illegible]	• Ensure [illegible]

[illegible] Key measurements in the development [illegible] engine fleet. The power assure [illegible] will be established [illegible] established. [illegible] with the [illegible] in the 2012/13 financial year.

[illegible]

[illegible]	[illegible]	[illegible]
1 Increase [illegible]	• Multi-Year [illegible] Rail Engineering will have to support the [illegible] starting at [illegible]	
	• [illegible] • Export traffic – Increase [illegible] wagons [illegible] – New build [illegible] wagons [illegible] • Steel [illegible] • New build [illegible] wagons (Capital [illegible]) • Automotive traffic – New build [illegible] (Capital [illegible])	Provide funding for new build [illegible] wagons and fleet [illegible] – R [illegible] million • Provide funding for new build [illegible] wagons over five years – R [illegible] billion • Provide funding for new build [illegible] wagons – 2011/12 and 2012/13 [illegible] million
2 Provide [illegible]	• Coal traffic • [illegible] • New build [illegible] wagons [illegible]	• Provide funding to accelerate [illegible] programme (820 wagons – R270 million) • Provide funding for new build [illegible] wagons over five years – R1.25 billion
	• Telecoal: Start new build from 2011/12	
Facilitate [illegible]	• Management [illegible] • New build [illegible] wagons [illegible] • Using 2011/12 – 12 months [illegible]	• Provide funding for new build [illegible] wagons over five years – R1.68 billion [illegible]
4 Deliver [illegible]	• Implement [illegible]	

Technology

The wagon business is [illegible] wagon building and [illegible] designs [illegible] the [illegible] high stability (HS) bogie [illegible] the most popular [illegible] coal body designs [illegible] 7 000 wagons in the coal and iron ore [illegible]

In collaboration with product development, engineering research and development [illegible] has led to improvements over the years in the structures and systems comprising the main cargo wagon designs. These improvements have enabled the wagon business to retain and grow market share in [illegible] the past [illegible] years.

Technological support is expected from wheel, bearing and brake system manufacturers for [illegible] freight and heavy haul applications.

Fleets of freight

The application of newer technology and materials on general freight wagons has [illegible] increased significantly over the past five years. These improvements are demonstrated by [illegible] of the wagons.

These improvements are:

- [illegible]
- [illegible]
- [illegible]
- [illegible]

Obsolete technology with metal bearing wagons, which in 2004/05 accounted for 25% of the fleet have now been reduced to 9% and are ready to fleet planning and upgrade interventions. Of the remaining 5 000 which exist, [illegible] wagons will be fitted with Spectaflow D-type roller bearing bogies.

The design of high pressure tank wagons (1 930 kPa pressure rating) for the conveyance of [illegible] has been completed. High technology production and process equipment is being installed for the manufacture of these wagons.

Heavy haul

Whole Goods are [illegible] 20 tons/axle, the heavy haul lines are predominately at 26 and 30 tons/axle in [illegible] attention to the railway [illegible] and the need for [illegible] to cope with the increased forces of the bogies [illegible] to the development of special technology [illegible] in the [illegible] demands. On the iron ore line the regular [illegible] 342 wagon [illegible] with a gross mass of 120 to [illegible]

Corrosion resistance has been an important factor in the life cycle of heavy haul wagons. Replacing of coal line wagons in 2011/12 has now been completed which will ensure safe service life.

Currently the Transnet SOC Intermodal conducts an annual [illegible] 350 to 400 wagons per month. This new testing system has several advantages over the old [illegible] in terms of [illegible] handling, failure diagnosis and [illegible] All coal line wagons will be fitted with ECP by the end of the 2011/12 financial year.

Technology maintenance

The roll out of the vehicle health system (VHS) on general freight lines is almost complete with some 2 000 wagons outstanding. Heavy haul lines have been equipped with [illegible] for many years, although these are being upgraded to the new system. The one time wagon programme has accelerated and hence the VHS is now complete. Coal and wagons are on a regular replacement cycle as the existing equipment requires upgrading.

VHS acts as the table for the [illegible] use of [illegible] condition monitoring systems (ITCMS) already in use, including hot [illegible] detectors, shock bogie detectors and wheel profile measuring systems by linking the measurements taken with the correct wagon, bogie or wheel in question. Currently on the export coal and iron ore lines this is being manually interrogated. The efficient analysis of the huge amount of data requires specific software for which the user requirements have been compiled. Potential suppliers will now be sought.

The VHS combined with the measurement technologies will allow for a condition based maintenance regime to be implemented on general freight which will enable the achievement of the benchmark targets of 92% availability and 0.3 faults per million km. Facilitate more the accurate measurement of wheel profiles [illegible] will now be possible and [illegible] be significantly improved from the current manual method of checking especially [illegible] on general freight. This assures for better planning around movements of wagons in and out of depots and workshops facilities which has benefits for availability and cost of repair.

The existing [illegible] of Rail Engineering's business systems SAP – maintenance module is being implemented, and the integration of VHS data, [illegible] data, maintenance history and condition [illegible] will enable predictive maintenance in the future. Possible [illegible] of sub-optimal performance can be detected long before actual failure, allowing for increased reliability and significant saving [illegible]

Rail Engineering (continued)

Coach business

The coach business focuses on the refurbishing, upgrading, new build and maintenance of suburban, intercity and mainline passenger coaches.

The business has a staff complement of approximately 370 and an asset base of R700 million. It is strategically positioned for its customers across one with facilities at Salt River (Cape Town), Durban and Koedoespoort and a mobile repair depot at Salmacp. The product portfolio focuses on the heavy one half overhaul and upgrade of the passenger coaches and the maintenance of the rolling stock. The maintenance depot complements the fleet team.

Rail Engineering [illegible] the passenger rail market for [illegible] investment [illegible] in new equipment, study development, product servicing [illegible] and design. The objective of the business is the [illegible] maintained with the creation of Rail Engineering to [illegible] PRASA. The business is also geared towards ensuring that Rail Engineering is positioned to play a major role in the manufacturing of new rolling stock for the passenger rail market. As such Rail Engineering is engaging various OEMs with the view of forming partnerships. On the product development front Rail Engineering has embarked on the development of a coach body suitable for the South African suburban and main line passenger market.

Strategic activities include

- [illegible]

Technology

The coach business has its core in-house design and product development capacity specialising in the overhaul of passenger rail carriages and associated components. Finite elements analysis is mainly outsourced locally but [illegible] to the structural design prototype and develop many types of coaches as well as mechanical and electrical systems.

The passenger operation and system enhancements through better technology are

- [illegible]

Plans to source technology

- [illegible]

Competitive advantages

Rail Engineering has five [illegible] that [illegible] the business: customer facing, [illegible] and being the coach business [illegible] business.

- [illegible]

Wheel business

Overview of the wheel business

The wheel business is the main supplier of railway wheel sets for the South African rail sector. The business produces freight wagon, locomotive and passenger coach wheels for freight rail, PRASA as well as regional rail authorities and operators. The wheel sets supplied presently are the 1 067 mm Cape gauge rail line. The business has [illegible] facilities that are geographically well located in support of the coach, locomotive and wagon maintenance depots and factories within South Africa. These are at Koedoespoort (Pretoria), Germiston (east of Johannesburg), Bloemfontein, Salt River (Cape Town) through Epsom Capul and Durban. The Salt River business has a mobile wheel set [illegible] to support the train line.

The Wheel business employs about 555 people with an asset base of R700 million and the core skills required in the business include chemical and metallurgical engineers, turners and machinists plus non-destructive testing specialists. The key factors that affect the business are fluctuations in the demand for wheel sets from the railway market, the [illegible] stock to bring the [illegible] reference in technology and investment in [illegible] and [illegible] tools.

Technology

The machinery used by the Wheel business consists of wheel profiling lathes, CNC [illegible] CNC vertical boring mills, wheel assembly presses, over speed testing machines plus a wide range of quality tools and equipment. The business recently invested in new capital to replace the [illegible] machines plus a wide range of quality tools and equipment. The business recently invested in new capital to replace the [illegible] machines, bore boring tools and removal equipment, RPM test benches, assembly presses were also bought to improve the handling of the rings as a component of the wheel. The [illegible] to improve the quality of work done and the safety of wheel [illegible]

Operational plans

[illegible]	[illegible]	[illegible]
Operational efficiency improvements	• Continue leveraging Lean Six Sigma to help improve quality and reduce waste	Continuous
Grow volumes	• Market products in the mining industry and hang bearing customers with an emphasis on gauge markets	Continuous
Reduce operating cost	• Change roping on [illegible] machines to reduce rejects and reduce waste	2011/12
[illegible]	[illegible]	Continuous

Rolling stock equipment business

Overview of the rolling stock equipment business

The rolling stock equipment business (RSE) is able to manufacture modern technically advanced rolling stock components. Its services include the manufacture of parts and assemblies for locomotives, coaches and wagons. It is also capable of rail upgrade and repair components so as to cost effectively extend the lifespan of the rolling stock. RSE's customers are from the railway and rolling stock as well as other industries. With the majority of its business emanates from the South African [illegible] RSE is fully able to take on work from other African countries.

RSE employs about 1 200 people at its facilities in Durban, Springfield, Bellville, Salt River, Bloemfontein and Koedoespoort.

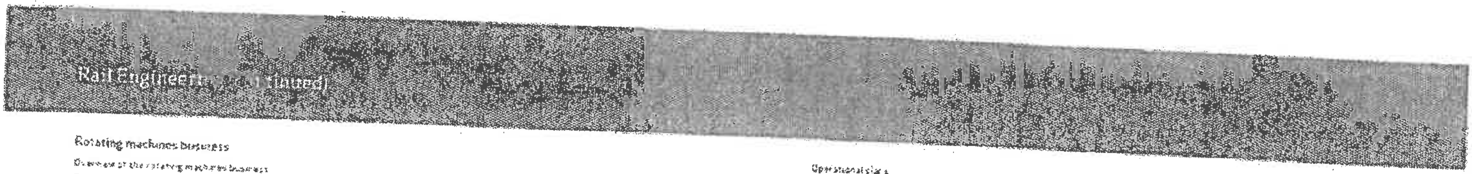
Technology

RSE uses the most modern automated welding, machining and metal processing equipment in the rail market. RSE has invested approximately R100 million in such equipment to increase production capacity and improve efficiency.

- Robotic welding machines [illegible]
- CNC lathes, milling and drilling [illegible]
- Sizing and metal [illegible]
- [illegible]
- Electro 3D [illegible]

Operational plans

Key [illegible]	[illegible]	[illegible]
Operational efficiency improvements	• Continue leveraging Lean Six Sigma to help improve quality and reduce waste	Continuous
Grow volumes	• Market products in the mining industry and hang bearing customers with an emphasis on gauge markets	Continuous
Reduce operating cost	• Change roping on [illegible] machines to reduce rejects and reduce waste	Continuous



Rotating machines business

Overview of the rotating machines business

The business focuses on the refurbishing, upgrading, rewinding and maintenance of locomotive and suburban coach rotating machines. The business has facilities in Salt River, Durban and its largest facility is in Koedoespoort. The main products are DC traction motors. The [illegible] capabilities include armature, coil and magnet frame refurbishing ranging from light to heavy repairs. The skill sets required to ensure these capabilities are mainly electrical fitters, armature winders, fitters, welders and electricians.

Being an internal operations support business, 95% of the work originates from [illegible] whilst the balance comes from the local suburban train market and is awarded on a tender basis. The business is a well established DC motor refurbisher but has limited capacity for large AC machines at present. The current strategy is to equip the business adequately with AC [illegible] capabilities in the 2011/12 financial year. The rotating machine business employs about 740 people with an asset base of R400 million.

Technology

Transnet has purchased new locomotives with AC propulsion systems, namely the 15E, 19E and GE Class 43 locomotives. Locomotive technological improvements will render the motor alternator set in the 6E/18E locomotive obsolete in the next five years and accordingly, a switch to insulated gate bipolar transistor (IGBT) will negatively impact sales by R50 million per annum. It is therefore imperative that rotating machines equips itself with AC skills and capabilities to ensure its order book is preserved.

To ensure a superior quality product, rotating machines is currently obtaining OEM accreditation. The accreditation will be an enabler to improve quality as well as enable rotating machines to become the preferred supplier of motors for sub-Saharan markets.

To ensure rotating machines retains its market and also gears up for the future AC market, it will invest in the following: AC test facility, AC tools and equipment, armature coil production [illegible] analysis), [illegible] product outlines, automatic bar to bar testing capability and automatic washing machines.

Operational plans

Key focus area	Strategic initiatives	Target date
Operational efficiency improvements	• Establish AC capability to support the 15E, 19E and GE 43 [illegible] locomotives • [illegible] and improve quality	2011/12 Continuous
Grow volumes	• OEM accreditation by [illegible] and GE to increase capacity • Set up an armature coil and stator coil production facilities	Mar 2011/12 End 2011/12
Quality and reliability improvement	• Initiate quality assurance training, matching of specifications and have technical forums with customers	Mar 2011/12

Auxiliary business

Overview of the auxiliary business

The auxiliary business offers both products and services for rail, cargo as well as [illegible] and wagon cleaning. Supplying [illegible] manufactured, imported [illegible] tarpaulins [illegible] other PVC material products, cleaning and cargo protection equipment, including [illegible] within South Africa.

The business has four facilities that are geographically well situated in support of the Freight Rail auxiliary services, ancillary equipment, wagon preparation, containers and transport services and passenger coach cleaning services for mainline luxury (Blue and Shosholoza) trains. These are done at 37 maintenance sites and factories situated in Koedoespoort, Germiston, Salt River and Durban. The auxiliary business employs about 500 people with an asset base of R50 million.

Technology

The recent investment of R14 million into warehouse management software will allow the business to streamline operational processes [illegible] planning, dispatching and receiving by reducing the overall process time and costs. The investment also provides for further savings with regard to the management of Rail Engineering leased vehicles. This will also lead to tighter logistics control, improved predictability and further savings for customers.

Furthermore, the business intends to invest in machinery and equipment required to undertake structural repairs on refrigerated containers during 2011/12. Currently glass fibre reinforced plastic (GRP) technology is being developed that is competing to become a substitute for tarpaulins. However, it has not yet been sufficiently developed to provide a cost-effective alternative.

Operational plans

Key focus area	Strategic initiatives	Target date
Operational efficiency improvements	• Implement Lean Six Sigma projects to improve quality and productivity • Implement warehouse management software to streamline operational processes	2011/12 End 2011/12
Reduce operating cost	• Maintain the stock value level [illegible]	Continuous
Volume growth	• Target [illegible] cargo handling activities within Port Terminals • Market products within South Africa and neighbouring countries	Mar 2011/12 Continuous

Foundry business

Overview of the foundry business

The foundry business operates in two locations, producing approximately 240 tons of spheroidal graphite iron, 500 tons of cast iron and 60 tons of steel casting every month for railways and related industries. A second operation produces brass and copper castings primarily for suspension bearings and some of the products are brake blocks, permanent way components, [illegible] castings, [illegible] wheels, [illegible] axle boxes and counterweights. Castings for the mining industry include grinding balls and pulleys.

The business has foundries in Koedoespoort and Bloemfontein employing about 340 people. The major customers for the foundry business are PSE and wagon businesses, Freight Rail, mines and other African railways.

Technology

The foundry business will invest a R12 million capex spend during the 2010/11 financial year and R8 million during the 2011/12 financial year to convert one 30 ton furnace [illegible] the latest [illegible] technology for pattern design. [illegible] there will be an installation of a sand reclamation plant [illegible] Bloemfontein and Koedoespoort [illegible]

Operational plans

Key focus area	Strategic initiatives	Target date
Operational efficiency improvement	• Better control of [illegible] • Single maintenance [illegible] • Physical [illegible] • Install [illegible] • [illegible]	End 2010/11 End 2010/11 Mar 2011/12 Mar 2011/12 End 2010/11
Reduce operating cost	• 30% cost saving by installing sand reclamation plant • Use mild steel off-cuts from Rail Engineering [illegible] • Minimum [illegible]	2011/12 Continuous 2011/12
Improve safety performance	• Improve safety [illegible]	End 2011/12
Grow volumes	• Increase capacity of the 240 ton foundry [illegible] business from R[illegible] to R[illegible] million by 2013 • Outsource [illegible] assembly	End 2012/13 End 2011/12

Risk, safety and environmental management

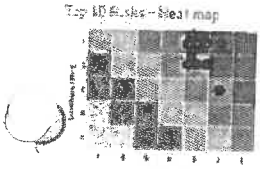
Risk management plan

Rail Engineering has continued to consolidate and embed the Enterprise-wide risk management (ERM) [illegible] operational businesses and support functions. This has been realised through [illegible] management's continued support and commitment to the ERM framework and process by maintaining a strong visible oversight role.

Rail Engineering's 'top 10' risks [illegible] operating businesses and support functions [illegible] the Quantum Leap [illegible] timeframes are clearly defined [illegible]

Rail Engineering (continued)

Top 10 Risks – Heat map



Top 10 Risks and mitigation plans

[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

Risk indicators

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Safety

Safety indicators

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Environmental plan

Environmental management plan

[illegible]	[illegible]	[illegible]	[illegible]
Develop guidelines on asbestos management	- The Asbestos Management [illegible] [illegible]	- Continue with [illegible] [illegible]	2011 – 2013
Effective management of pollution control systems	- Freight Rail and Capital Projects has completed [illegible] [illegible]	- Implementation of [illegible] controls [illegible] with the Freight Rail [illegible] Programme [illegible]	2011 – 2013
Develop a waste management strategy	- Waste audit was conducted [illegible] [illegible] the waste management strategy has not been approved	- Waste management [illegible] strategy and development of [illegible] waste management plans	2011 – 2013
[illegible] Environmental Management Act (NEMA)	- [illegible] Department of Environmental Affairs [illegible] Quality Act - There are currently no 2010/11 capital projects that require an EIA	- [illegible]	[illegible]
[illegible]	- The specification has been drawn up for [illegible]	- Development of [illegible] Engineering	2011 – [illegible]
[illegible]	- A [illegible] October 2010 [illegible]	- Enforcement of [illegible] - Climate change management - Implementation of [illegible]	2011 – [illegible] 2011 – [illegible]

Environmental management indicators

[illegible]	[illegible]	[illegible]	[illegible]
Number of [illegible] incidents	[illegible]	Zero	- Conduct environmental risk assessment - Develop objectives, targets and management plans in line with the outcomes of the risk assessment - Roll out the [illegible] Programme in line with the [illegible] plan - Continuation of the current asbestos management [illegible] - Development of the applicable [illegible] management, waste management, [illegible] management, etc. - Effective [illegible] ISO 14001 system - Conduct environmental [illegible] training [illegible] - Develop an annual environmental awareness programme - Establish a [illegible] forum with Freight Rail to engage on [illegible] issues and [illegible]

Capital investment plan [illegible]

Capital investment plan by asset types

	Budget	Forecast				
[illegible]	2011/12 R million	2012/13 R million	2013/14 R million	2014/15 R million	2015/16 R million	Total five years R million
Buildings and structures	[illegible]	60	55	55	50	[illegible]
Machinery, equipment and furniture	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Borrowing costs capitalised	25	25	10	10	10	80
Total including capitalised borrowing costs	470	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

The table below outlines the [illegible] component of the five-year capital investment plan. Foreign currency amounts are converted to South African Rand.

	Budget	Forecast				
[illegible]	2011/12 R million	[illegible]	[illegible]	[illegible]	[illegible]	Total five years R million
Rand direct exposure	[illegible]	[illegible]	[illegible]	[illegible]	50	[illegible]
Rand-denominated investments	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Borrowing costs capitalisation	25	25	10	10	10	80
Total including capitalised borrowing costs	470	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Approximately [illegible] of Rail Engineering's capital investment plan is sourced from local agents [illegible] foreign [illegible] exchange.

Top 10 projects by ETC

[illegible]	ETC [illegible]	Five-year planned spending R million	Status [illegible]
1 [illegible]	[illegible]	[illegible]	[illegible]
2 [illegible]	[illegible]	27	Approved
3 [illegible]	[illegible]	32	Approved
4 Refurbishment of Class [illegible]	[illegible]	32	Approved
5 [illegible]	[illegible]	7	Approved
6 [illegible]	[illegible]	8	Approved
7 [illegible]	[illegible]	28	Approved
8 Set up of production line for the manufacture of [illegible] diesel locomotives	[illegible]	55	Not yet approved
9 Set up of production line for the manufacture of [illegible] wagons	[illegible]	40	Not yet approved
10 [illegible]	18	18	Not yet approved
Other projects	[illegible]	[illegible]	Not yet approved
Borrowing costs capitalised		[illegible]	
Total including capitalised borrowing costs		1 659	

Human capital plan

Employee headcount per grading category

	Estimate	Budget				
	2010/11	2011/12				
A	1	1	1	1	1	1
C	9	10	10	10	10	10
D	17	17	17	17	17	17
E	50	50	50	50	50	50
F	225	220	225	225	225	225
G	597	597	597	597	597	597
H and upwards	850	860	860	860	860	860
	10 848	10 756	10 754	10 755	10 753	10 753
Temporary workforce staff	12 343	12 833	11 895	11 895	11 894	11 895
Contractors	600	697	652	660	587	585
Total headcount of employees	13 600	13 530	13 551	13 573	13 481	13 613

Rail Engineering Rail Engineering [illegible] (growth strategy)

Human capital initiatives

Objective	Initiative	Target date	Intervention
Collaborate with DBSA on technology transfer (training)	• Develop employee review framework for Rail: - Class 1/E - Class 1/E and - Class 2/1 239 • SCP leader on training • SCP leader on training • Training strategy	March 2012	• Competent workforce with a clear pipeline to meet business needs • Competent workforce with a clear pipeline to meet SCP's and system
Continuous improvement initiatives to improve service to customers	• Continuous improvement initiatives • Start the performance management process • Change management initiatives • Reports to create a new performance process • Improve recruitment process	March 2012	• Sound labour relations, a motivated workforce, off conditions, stability

Objective	Initiative	Target date	Intervention
Develop skills pipeline for artisan technical and engineering skills	• Create retirement and improve retention: - Structured training scheme (SBS) – 2 [illegible] - P1 and P2 – 35 - Technicians in training (TIT) – 55 - Graduates in training (GIT) – 35 - Engineers in training (EIT) – 40	March 2012	• Fully employed engineers to deal with and replace retirees technical and engineering skills
Institutionalise the implemented succession information (SSIS) and management of service (MSS) plans	• Institutionalisation of SSIS and MSS at Rail	March 2012	• Embedded culture of using technology in leave application and approval processes
Create and promote sound labour relations environment	• Develop and implement policy on labour relations • Implement quality policy on labour management	March 2012	• Sound labour relations between management and unions/employees
Design optimal structure to support business plans and strategies	• Develop optimal structure as [illegible] • Leverage population • Feedback on competitiveness of external environment	March 2012	• Sustainable business of generational workforce that will support its strategies • Determine the competent needed for strategies and strategies • Define roles of the strategic units, the proposed structure • Create position descriptions for these positions • Develop human capital management with [illegible] information at the [illegible] • Training and development plan to ensure that support and provide capacity to implement the [illegible] system • Feedback [illegible] on [illegible] business
Comply with Employment Equity Act and achieve and set targets	• Implement [illegible] EE Plans • Review the EE objectives at [illegible] • Develop employment plan of the EE plan • Employee [illegible] training and feedback to all management structures	March 2012	• Transformed organisation reflecting the demographics of South Africa and [illegible]
Up-skill Rail Engineering workforce with Lean and Six Sigma competencies	• Lean Six Sigma training phase 3 roll out • Introduction • Leadership training • Statistics training • Green belt • Black belt	April 2012	• Better succeed in [illegible] with Lean and Six Sigma competencies to improve efficiency and production cost, best operations and support services

Financial plan

Revenue is budgeted to increase by 7% in nominal terms (1% in real terms) from R8.8 billion (2010/11) to R10.5 billion (2011/12). External revenue is expected to increase by 9.5% (6% in real terms) and 2.5% reduction in volumes) from R8.3 billion to R9.5 billion. External revenue is budgeted to increase by 30% (from R765 million to R985 million) due to increase in customers requiring the necessary rolling stock and [illegible] and trading [illegible] budget.

Operating expenses are expected to increase by 10% from R8.4 billion to R9.2 billion from 2010/11 to 2011/12. Variable cost will increase in line with production and fixed cost will increase by 13% to R4.8 billion. Employee costs are budgeted to increase by 1% over the coming year and sales per employee will increase by 6.7% (increase in sales negated by 1% increase in employee numbers).

Budgeted capital expenditure for 2011/12 amounts to R4.5 million (including commitments of R2.5 million) and total capital expenditure over the five-year period amounts to R[illegible] billion.

The budgeted revenue of R10.5 billion translates into R1.1 billion operating profit for 2011/12. This yields a return on capital employed of 37.4% and generates positive shareholder value added of R470 million.

Net working capital within the employee [illegible] is expected to decrease over the five-year period. Both in nominal value (2010/11 project on R1.9 billion, 2011/12 budget R1.7 billion) and as a percentage of revenue (2010/11 project on 23.4, 2011/12 budget 17%).

Rail Engineering (continued)

Assumptions used in developing the financial plan

The key business specific and other relevant assumptions used in the plan are reflected in the table below

[illegible]	Budget 2011/12	[illegible]	[illegible]	[illegible]	[illegible]
Revenue					
Price (%)					
Cost escalation	6	6	6	6	6
Salary (%)					
Electricity (%)	5.0	5.2	5.3	5.7	5.4
Material (%)	25.0	25.0	18.5	19.0	3.5
Other operating costs (%)	5.0	5.0	4.8	5.2	4.3
Working capital	5.6	5.5	4.2	5.2	4.3
Debtors days					
Creditors days	45	45	45	45	45
Inventory days	75	75	75	75	75
	133	133	125	125	125

Income statement

	[illegible]	Budget 2011/12	[illegible]	[illegible]	[illegible]	Projections	[illegible]	[illegible]
Revenue	9 767	10 475	921	14	[illegible]	13 867	11 365	[illegible]
Revenue external	703	989	226	25%	1 599	1 590	1 720	1 530
Internal revenue and recoveries	8 99[illegible]	9 486	155	5%	8 856	8 157	9 [illegible]	9 944
Raw materials and consumables	(9 553)	(9 189)	[illegible]	[illegible]	(5 [illegible])	(5 726)	[illegible]	[illegible]
Personnel costs	(1 533)	(1 743)	[illegible]	(4 2)	[illegible]	(1 [illegible])	(1 [illegible])	[illegible]
Fuel	(82)	(34)	[illegible]	[illegible]	(36)	[illegible]	(43)	(36)
Electricity	(188)	(188)	(2[illegible])	(26 2)	(2 [illegible])	(2 [illegible])	[illegible]	[illegible]
Material	(1 [illegible])	(1 274)	[illegible]	(1 2[illegible])	[illegible]	(2 [illegible])	[illegible]	[illegible]
Other operating expenses	(7 [illegible])	[illegible]	[illegible]	[illegible]	[illegible]	(4 [illegible])	(4 [illegible])	[illegible]
Profit from operations before depreciation, amortisation and non-listed items	431	1 286	[illegible]	[illegible]	1 107	1 171	1 [illegible]	1 [illegible]
Depreciation and amortisation	(156)	(168)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit from operations before items listed below	1 275	1 100	[illegible]	[illegible]	9[illegible]	9[illegible]	1 [illegible]	8[illegible]
Impairment of assets and fair value adjustments	(18)	(1)	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit from operations before net finance costs	1 [illegible]	1 099	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net finance [illegible]	(176)	(163)	2	62	[illegible]	(26)	-	-
Profit before taxation	1 [illegible]	936	[illegible]	[illegible]	810	[illegible]	1 [illegible]	[illegible]
Taxation	(254)	(261)	33	12 2	[illegible]	(2[illegible])	[illegible]	[illegible]
Profit for the year	255	675	[illegible]	[illegible]	582	661	[illegible]	[illegible]

Analysis of operating expenses

	[illegible]	Budget 2011/12	[illegible]	[illegible]	[illegible]	[illegible]
Raw materials and consumables	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Personnel						
Fuel	3 593	3 743	3 [illegible]	3 [illegible]	3 [illegible]	3 [illegible]
Electricity	32	34	34	43	43	44
Material	153	168	2[illegible]	230	253	267
Other operating costs	3[illegible]	4 274	[illegible]	4 [illegible]	4 [illegible]	4 [illegible]
Total	783	970	1 [illegible]	1 067	1 122	1 175
	8 [illegible]	9 189	9 [illegible]	9 [illegible]	10 [illegible]	10 [illegible]
Personnel costs						
Previous year charge	3 [illegible]	3 583	3 [illegible]	3 [illegible]	3 [illegible]	3 [illegible]
Increase due to headcount	(145)	41	(1[illegible])	7	(9[illegible])	(20[illegible])
Increase due to escalation	45	109	167	164	183	200
Total	3 543	3 743	3 [illegible]	3 [illegible]	3 [illegible]	3 [illegible]
Fuel						
Previous year charge	30	32	34	34	4[illegible]	43
Increase due to escalation	2	2	2	9	3	3
Total	32	34	36	43	45	46
Electricity						
Previous year charge	88	183	184	209	23[illegible]	253
Increase due to [illegible]	[illegible]	-	[illegible]	1	-	(3)
Increase due to escalation	18	35	44	25	22	17
Total	183	168	229	234	253	267
Material						
Previous year charge	3 [illegible]	3 812	4 274	4 067	4 [illegible]	4 [illegible]
Increase due to [illegible]	328	216	[illegible]	207	[illegible]	(347)
Increase due to escalation	132	246	226	215	[illegible]	229
Total	3 [illegible]	4 274	4 067	4 [illegible]	4 [illegible]	4 [illegible]
Other operating expenses						
Previous year charge	873	799	875	1 [illegible]	1 [illegible]	1 [illegible]
Increase due to [illegible]	3	3	-	-	-	(3)
Increase due to escalation	74	51	48	49	55	57
Other expenses	(1[illegible])	136	-	-	-	-
Total	783	970	1 [illegible]	1 067	1 122	1 175

Rail Engineering (continued)

Balance sheet

R'000	Budget	Projections				
ASSETS						
Non-current assets						
Property, plant and equipment and intangibles	3 534	3 818	4 062	4 310	4 145	4 181
Other non-current assets	3 931	3 815	4 059	4 307	4 142	4 178
Current assets	3	3	3	3	3	3
Inventories	3 267	3 146	2 822	3 053	3 136	3 127
Trade and other receivables	1 487	1 455	1 378	1 463	1 526	1 529
Other current assets	1 766	1 677	1 437	1 590	1 610	1 598
Total assets	14	14	14	14	14	14
	6 801	6 964	6 834	7 113	7 282	7 312
EQUITY AND LIABILITIES						
Capital and reserves	3 [illegible]	4 018	4 072	4 267	4 356	4 394
Non-current liabilities	1 775	1 906	734	1 [illegible]	446	1 [illegible]
Long term borrowings	1 [illegible]	1 135	518	771	1 [illegible]	1 529
Long term provisions	59	59	59	59	58	59
Other non-current liabilities	65	124	157	1 [illegible]	1 [illegible]	1 [illegible]
Current liabilities	1 695	1 037	1 438	1 442	1 732	1 769
Trade and other payables	1 363	1 207	1 276	1 182	1 221	1 [illegible]
Current provisions	214	212	185	218	267	2[illegible]
Short term borrowings	21	21	21	21	2	2
Other current liabilities	17	17	17	17	17	1
Total equity and liabilities	6 801	6 964	6 834	7 113	7 282	7 312

Cash flow statement

R'000	Budget	Projections				
Cash flows from operating activities	1 101	964	1 052	992	1 [illegible]	953
Cash generated from operations	1 [illegible]	1 [illegible]	1 107	1 [illegible]	1 [illegible]	1 [illegible]
Changes in working capital	[illegible]	153	212	[illegible]	[illegible]	1[illegible]
Cash generated from operations after working capital changes	1 5[illegible]	1 429	1 319	1 695	1 [illegible]	1 [illegible]
Net finance costs	[illegible]	[illegible]	[illegible]	[illegible]	–	
Taxation paid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cash flows from investing activities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capital expenditure	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capitalised borrowing costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cash surplus/(shortfall)	[illegible]	494	617	569	744	713

Financial indicators

Indicators	Budget	Projections				
EBITDA margin (%)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gearing (%)	1[illegible]	1[illegible]	19[illegible]	15.7	[illegible]	[illegible]
Return on average total assets (excluding CWIP) (%)	34.2	26.8	12.1	13	–	–
Asset turnover (excluding CWIP) (times)	2[illegible].1	1[illegible]	[illegible]	1[illegible]	14.2	14.[illegible]
Cash interest cover (times)	1.[illegible]	1.63	1.[illegible]	3.66	3.[illegible]	1.[illegible]
	2[illegible]	7.[illegible]	13.5	13.3	12[illegible]	12[illegible]

Sensitivity analysis

Item	Budget	Projections			
Volume impact on revenue	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Value impact on operating expenses	184.7	10[illegible]	159.7	11[illegible]	1[illegible]
Borrowing balance impact on profit	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fuel consumption impact on profit	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Percentage change in electricity tariff increase	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Salaries increase impact on operating costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Electricity consumption impact on profit	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Employee cost impact on profit	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Rail Engineering (continued)

Summary of key performance indicators

	Budget					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Financial indicators						
EBITDA margin (%)	14.4	18.3	10.3	11.7	11.1	11.1
Gearing (%)	34.3	28.2	17.1	7.0	-	-
Return on average capital employed, (excluding CWIP) (%)	20.1	12.4	14.4	15.4	16.4	14.4
Asset turnover (times)	1.36	1.57	1.42	1.66	1.55	1.60
Cash interest cover (times)	7.8	7.4	20.5	31.3	120.5	120.0
Infrastructure investment finance						
Capital investments (R million)	479	448	384	390	252	236
Expenditure on maintenance (R million)	170	182	171	206	217	219
Operational efficiency and productivity						
PRASA						
Locomotive availability (actual %)	89.8	89.8	90.0	91.0	91.0	91.0
Locomotive utilisation (km per locomotive)	30	27	27	28	29	30
Wagon availability (actual %)	91.1	91.8	91.5	91.0	91.1	91.1
Wagon utilisation (kilometres per wagon)	0.78	0.76	0.73	0.65	0.61	0.55
Export road						
Locomotive availability (actual %)	87.4	90.5	91.0	91.0	91	91.0
Locomotive utilisation (km per locomotive)	43	39	42	47	50	51
Wagon availability (actual %)	97.6	97.5	97.5	97.5	97.5	97.5
Wagon utilisation (kilometres per wagon)	0.4	0.38	0.35	0.33	0.33	0.32
Export rail port						
Locomotive availability (actual %)	87.4	89.3	91.0	91.0	91.0	91.0
Locomotive utilisation (km per locomotive)	19	28	29	31	33	35
Wagon availability (actual %)	96.7	97.5	97.5	97.5	97.5	97.5
Wagon utilisation (kilometres per wagon)	0.3	0.38	0.10	0.09	0.09	0.08
Weighted average						
Weighted locomotive availability total fleet (actual %)	90.1	89.8	90.2	91.0	91.7	91.7
Weighted locomotive utilisation total fleet (km per locomotive)	27	27	26	28	29	31
Weighted average availability – total fleet (actual %)	94.1	94.5	95.0	95.4	95.8	96.0
Weighted average utilisation (km per wagon) (actual %)	1.41	0.34	0.32	0.30	0.28	0.26
Customer satisfaction index (%)	75	78	80	82	85	85
Human capital						
Employees per supervisor	75.3	73.8	75.0	77.0	77.1	77.1
Training spend as % of payroll costs	3.1	4.3	4.3	4.3	4.3	4.3
Employee turnover (%)	3.8	3.8	3.8	3.8	3.8	3.8
Revenue per employee (R million)	0.75	0.79	0.81	0.87	0.91	0.91
Risk, safety and environment						
Lost time injury (% of employees)	1.42	1.1	1.0	1.0	1.0	0.9
LTIR	2.93	2.86	0.75	0.71	0.69	0.67
Number of safety incidents	2.7	105	97	91	87	80
Number of waste and environmental incidents	Zero	Zero	Zero	Zero	Zero	Zero

* Year-on-year change in the value of key ratios

Conclusion

Rail Engineering's business improvement is the heart of Freight Rail to meet its aspirations and targets by ensuring availability and reliability of the rolling stock particularly on the core corridors, but also to achieve the lowest total ownership cost. Operational efficiency will be improved by all Rail Engineering businesses.

The Lean Six Sigma programme is being rolled out to all the businesses of Rail Engineering. The objective is the elimination of waste and variation in all aspects of the operation.

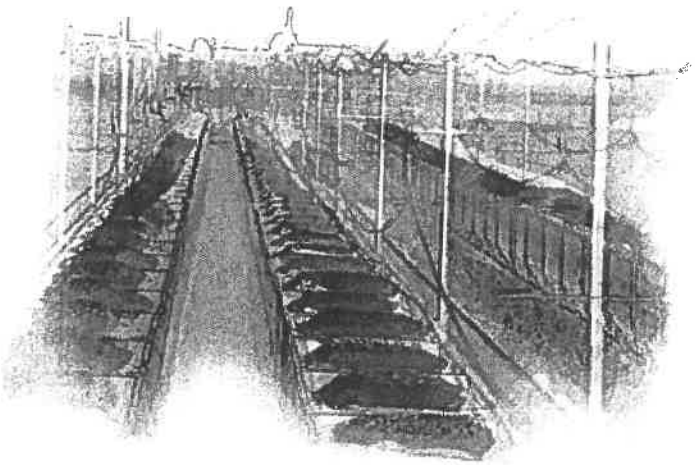
The nature of Rail Engineering's business requires strict compliance to safety and environmental standards in order to comply with these standards, safety and environmental initiatives are being rolled out and the focus of these initiatives is to drive down the disabling injuries (DI) and promote a conducive working environment.

In the African market Rail Engineering intends to intensify its marketing activities with the objective of expanding its footprint in this market.

Besides, to support for Freight Rail, Rail Engineering is commissioned to overhaul passenger locomotives and its main external customer PRASA through investment in plant and equipment for heavy maintenance, upgrades as well as refurbishments. These include prototyping of a new underbody coach for subsurban and main line operations.

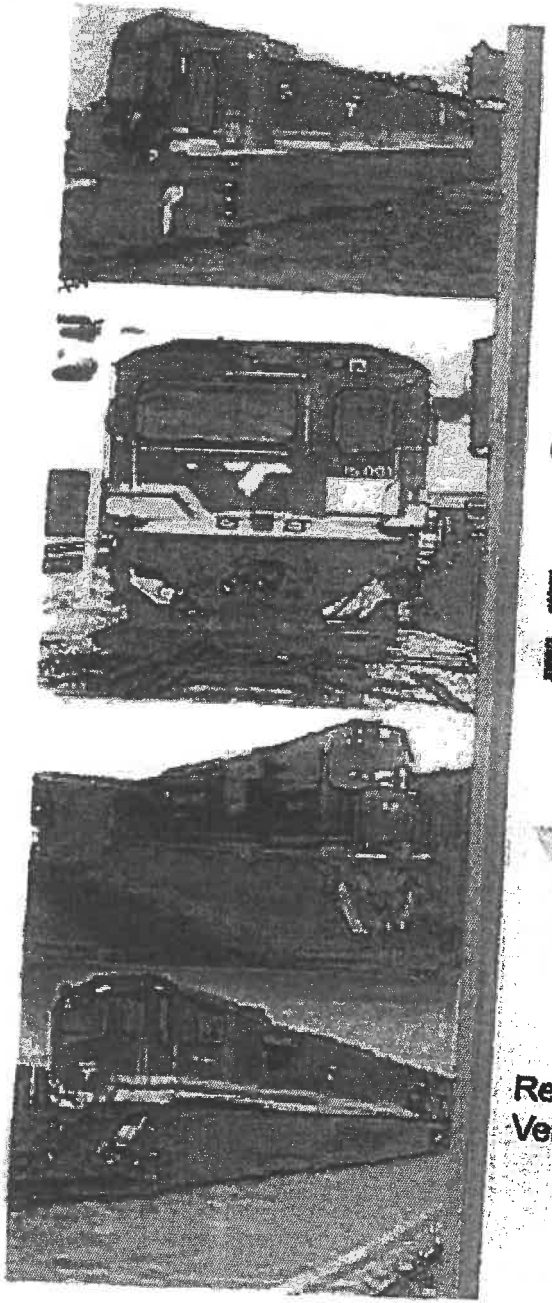
Rail Engineering is playing an important role in the South African government's ESKOM Skills and technology transfers will benefit the sector if industry and support an increase in revenue and local job creation.

Rail Engineering is [illegible] in the year of [illegible] in 2011/12. Budgeted capital expenditure for 2011/12 amounts to R485 million after taking borrowing costs of R25 million and total capital expend runs over the five-year period amounts to R1.6 billion. The budgeted revenue of R10.5 billion translates into R1.1 billion operating profit for 2011/12, yielding a return on total assets of 17.4% and a positive shareholder value add of R278 million.



REPORT 3(A) – EXHIBIT 2

Annexure A



CONFIDENTIAL

LOCOMOTIVE FLEET AND MODERNISATION PLAN

TRANSNET

Delivering on our commitment *to you*

Reference Date: 20 April 2011
Version: 2.04

2 Business Plan Volume Exclusions

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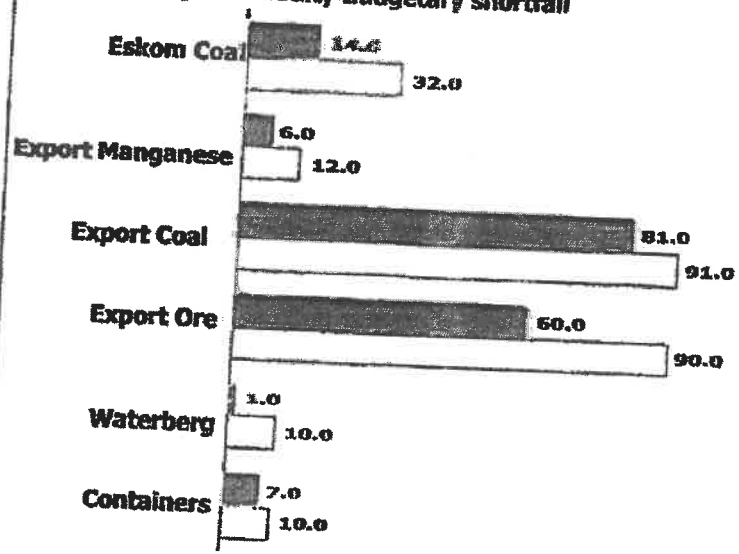
KEY NOTES AND ASSUPTIONS

- Fleet requirements are calculated to include the following volumes
  - a) Export GFB to 110.7 mta (15/16)
  - b) Coal to 81mta (14/15)
  - c) Export Ore to 60mta (12/13)
- **Shunting loco requirements included however these are still to be finalised**
- **Key Commodity Budgetary shortfall**



Included in the 110.7 mt Budget

Potential Demand

Commodity / Flow	Capital Required - Unfunded
Eskom Coal	* Additional capital required (TFR and Eskom) still to be quantified
Export Manganese	* Relocated terminal : ~R10b (Saldanha or Ngqura)
Export Coal	* Cost and timing of expansion to 91mt unknown
Export iron Ore	* Re-signalling * Only funded to 60mt
Waterberg Coal	* Short term ~R7b (Infra and Rolling Stock)
Containers Current budget 587k TEUs (10/11) to grow to 838k TEUs (14/15)	* Kascon Phase 1 : ~R0,5b * Ngqura hinterland : ~R3.2b (Per TCP) * (Infrastructure beyond 2 trains per day) * Pretcon / Cascon : requires approximately R 75m funding * City Deep : approximately R1bn additional funding required

3 Five Year Locomotive Requirements and Cost as per Business Plan

TRANSNET

		11/12	12/13	13/14	14/15	15/16	16/17
	Diesel Commitment/Purchase	36	62				
GFB	Diesel Commitment		14	32	[illegible]	[illegible]	[illegible]
	Diesel Runout						
	Electric Commitment/purchase	0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Electric Runout				3	7	19
	Shunter Commitment/purchase						
	Shunter Runout	0	0	0	0	0	5
	Branchline commitment/purchase						
	Branchline Runout	9	8	0	0	0	3
	Baseline to sustain all GF Runouts	0	46	63	49	49	49
	Baseline without Branchline	0	46	63	49	49	49
Ore	Electric Commitment/purchase	3	22	10			
	Diesel Commitment/Purchase						
Coal	Electric Commitment	47	12				
	Electric Commitment/purchase		14	[illegible]	[illegible]		
	Diesel Commitment/Purchase						
	Total Base Line	0	60	87	70	49	49
	Total Base line without Branch line	0	60	87	70	49	49

Sectors	Locomotive Types	Cost to purchase new locomotives 2011/12	2012/13	2013/14	2014/15	2015/16	TOTAL SPEND OVER 5 YEARS
Ore line	Electric 50kV	R 146	R 1 137	R 548	R 0	R 0	R 1 831
	Diesel corridors (21 t/a)	R 0	R 0	R 0	R 0	R 0	R 0
	Shunters dual elect. (18 t/a)	R 0	R 0	R 0	R 0	R 0	R 0
Coal line	Dual electric 3/25kV (26 tons/axle)	R 0	R 503	R 915	R 848	R 0	R 2 266
	19E committed	R 1 594	R 431	R 0	R 0	R 0	R 2 026
	Diesel corridors (21 t/a)	R 0	R 0	R 0	R 0	R 0	R 0
	Shunters dual elect. (18 t/a)	R 0	R 0	R 0	R 0	R 0	R 0
GFB	Dual electric 3/25kV (21 tons/axle)	R 0	R 1 151	R 1 220	R 1 293	R 1 370	R 5 033
	Diesel corridors (21 t/a)	R 0	R 362	R 849	R 494	R 523	R 2 228
	43 Diesel Committed	R 878	R 1 602	R 0	R 0	R 0	R 2 480
	Shunters dual elect. (18 t/a)	R 0	R 0	R 0	R 0	R 0	R 0
	Branchline dual elect. (18 t/a)	R 0	R 0	R 0	R 0	R 0	R 0
	Total	R 2 618	R 5 187	R 3 532	R 2 635	R 1 894	R 15 864

4 FLEET REQUIREMENTS – EFFICIENCY TARGETS

TRANSNET

The locomotive requirements calculations were based on the number of trains that would have to be executed to satisfy the traffic file. The three main factors that influenced these calculations are as follows:

a. Operating Model

- Siding to Siding (S-S) Traffic
- Hub to Hub Traffic (H-H) Traffic
- Siding to Hub to Siding (S-H-S) Traffic

b. Corridor Model

- Standardising locomotive deployment to a corridor (aligned with standardised locomotive maintenance depots)
- Operating only diesel locomotive on certain flows (to reduce locomotive traction changes that reduces efficiencies)
- Revising service designs and train plans for regular and repetitive schedules
- Implementing security solutions required for that particular corridor
- Ring fencing and assembling pools of wagons depending on the supply chain strategy for a particular commodity

c. Operational Efficiency Targets

Locomotive resources required are determined by the operations model which informs efficiency improvements for the different traffic types as well as locomotive deployment strategies.

Below is table indicating the projected efficiency targets as per Transnet Freight Rail Business Plan.

Locomotive Efficiencies (GTK 000 / Locomotives / Month)	Estimate 2009/10	Budget 2010/11	Projections			
			11/12	12/13	13/14	14/15
General Freight Mainline[1]	5 232	5 337	5 595	5 809	5 975	6 133
General Freight B-Fleet[2]	4 788	4 878	5 139	5 353	5 516	5 673
General Freight Shunting[3]	3 816	3 957	4 211	4 415	4 568	4 716
Coal Line	15 465	16 238	17 050	17 903	18 798	19 739
Ore Line	3 7451	44 808	45 584	53 283	55 630	57 945

Note 1: Includes Mainline and narrow gauge excludes Shunters and B-Fleet
Note 2: Includes Mainline and B-Fleet excludes Shunters
Note 3: Includes Mainline, B-Fleet and Shunters

5 Fleet Requirements -Corridor View

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1
- •18E
- •37 GM/ 39 GM
- • Rock Phosphate
- • Magnetite
- • Coal
- • Chrome / Ferrochrome

2
- •7E
- •34 GM /
- •35 GE(NLPI)
- •General
- • Coal
- • Overborder Traffic

- •7E
- •34 GM
- • Coal
- • Iron Ore
- • Chrome / Ferrochrome

4
- •9E
- •15E
- •33 GE
- •34 GE
- •Export Iron Ore
- •Gypsum

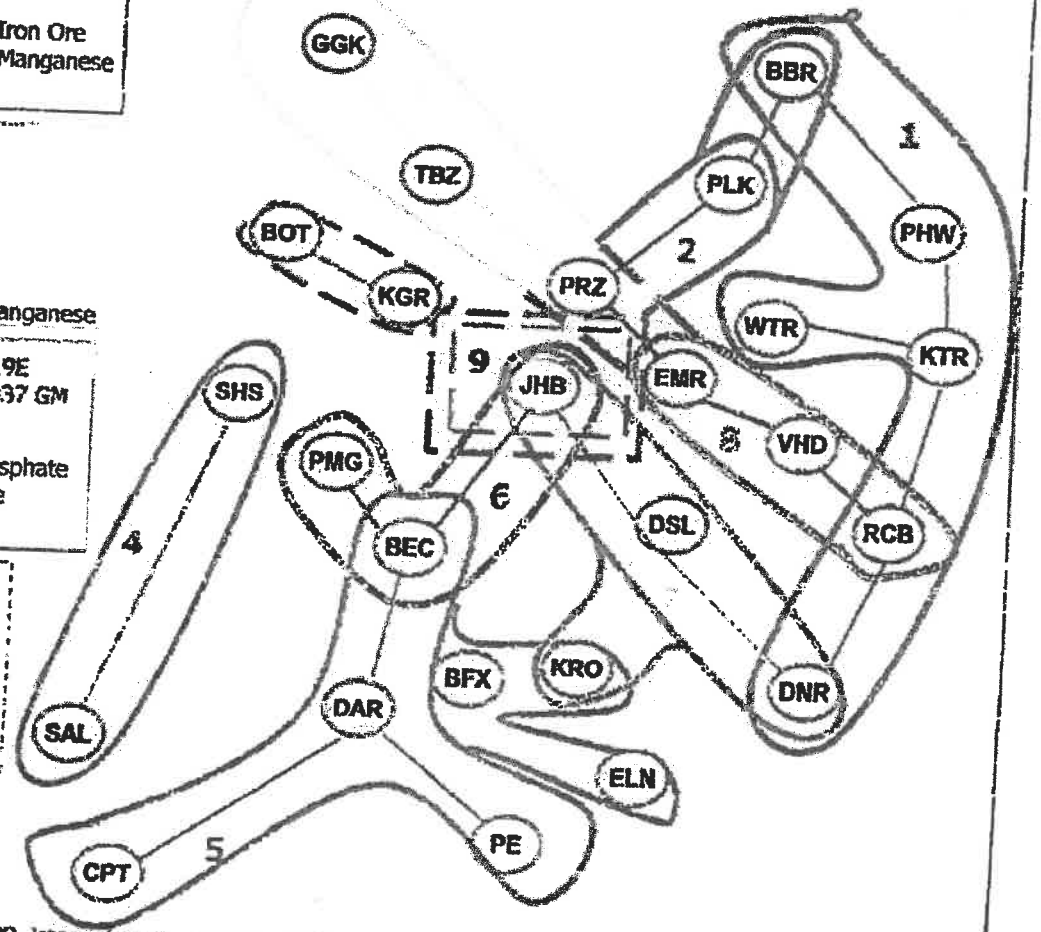
5
- •6E •18E
- •7E •34 GE
- •10E •35 GE
- •Containers
- •General
- •Automotive
- •Manganese
- •Agriculture
- •Domestic Coal

6
- •6E •34 GE
- •10E
- •18E
- •Domestic Iron Ore
- •Domestic Manganese

7
- •6E
- •18E
- •34 GE
- •Steel
- •Containers
- •Fuel
- •Domestic Manganese

8
- •7E 19E
- •9E •37 GM
- •11E
- •Rock Phosphate
- •Magnetite
- •Coal

9
- •6E
- •10E
- •18E
- •X 39 GM
- •Cement
- •Coal



Botswana (BOT), Krugersdorp (KGX), Johannesburg (Reef Complex) (JHB), Danskraal (Ladysmith) (DSL), Durban (Complex) (DNR), Thabazimbi (TBZ), Pyramid South (PRZ), Emelo (EMR), Vryheid (VHD), Richards Bay (RCB), Belt Brgde (Musina) (BBR), Polokwane (PLK), Phalaborwa (PHW), Witbank (WTR), Komatipoort (KTR), Sishen (SHS), Saldahna (SAL), Posmasburg (PMG), Beaconsfield (Kimberley) (BEC), Bloemfontein (BFX), Kroonstad (KRO), East London (ELN), Post Elizabeth (PE), De Aar (DAR), Cape Town (Bellville) (CPT)

6 Current Locomotive Fleet Types

TRANSNET

Locomotive Fleet			
	Class	Group	Technical
Diesel Locomotives	33	GE	18
	34	GE	189
	34	GM	123
	35	GE	129
	35	GM	96
	36	GE	101
	36	GM	87
	37	GM	70
	38	X38	37
	39	GM	55
	91	GE	7
	Total		912
Electric Locomotives	6E	6E	9
	6E1	6E	209
	7E	7E	66
	7E1	7E	40
	7E2	7E	46
	7E3	7E	68
	7E4	7E	16
	8E	8E	62
	9E	9E	30
	10E1	10E	89
	10E2	10E	60
	11E	11E	45
	14E1	14E	8
	15E	15E	27
	18E	18E	460
	19E	19E	47
	Total		1282
Total Locomotives Fleet Size			2194

Total Diesel type : 11

Total Electric type : 16

7 Future Locomotive Fleet Types

TRANSNET

KEY NOTES AND ASSUMPTIONS

- All new locomotives are based on the following five broad categories:

Locomotive Type	Locomotive Use
Electric Heavy Haul – Type 1 50kV 30 ton per axle	Specifically used on the Ore Line
Electric Heavy Haul – Type 2 3kv 25kV Dual Voltage 26 ton per axle	Operations on Coal Line or GFB Corridor where this axle load is permitted
Electric General Purpose – Type 3 3kv 25kV Dual Voltage 21 ton per axle	To be used on all GFB Corridors
General Purpose Diesel – Type 4 300kN-350kN maximum tractive effort and 21 tons per axle with AC traction motors	To be used across all corridors including the Coal and Ore Export Lines
Trip and Shunting loco – Type 5 Dual Voltage Electro-diesel, small, efficient low power diesel of around 750kW supported by a 25kV and 3kV electric power pickup and transformer. 18 ton per axle load and double cab for ease of shunting	To be used as mini haulers and shunters in yards and branch lines

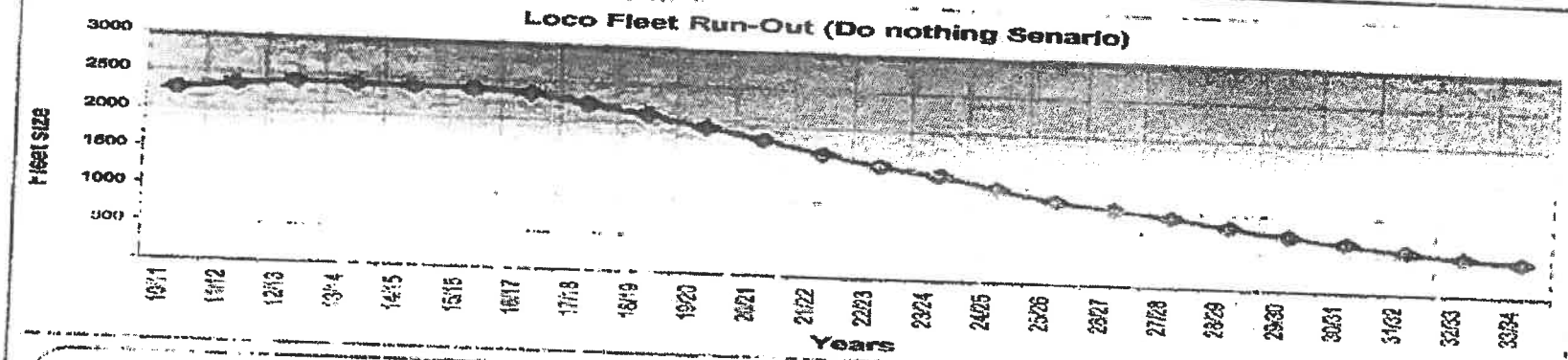
- All fleet sizes reflected are at the end of each financial year
- All prices are escalated at a 6% year on year increase

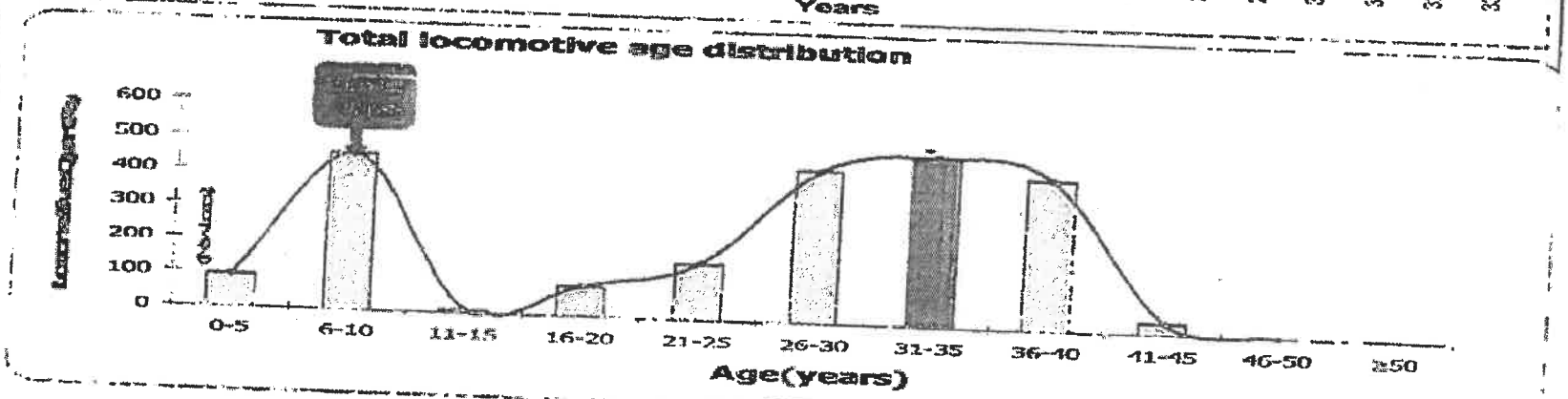
8 Current Fleet Status

TRANSNET

Fleet Quantity Overview, Locomotive Age Distribution And Run Out (Do Nothing Scenario) – as at 12 December 2010

	GFB	Coal	Ore	Total
BEZ Locomotive	593	26	16	635
Active Locomotives	1601	360	174	2135
Total Fleet	2194	386	190	2770





9 Business Plan vs Market Volumes

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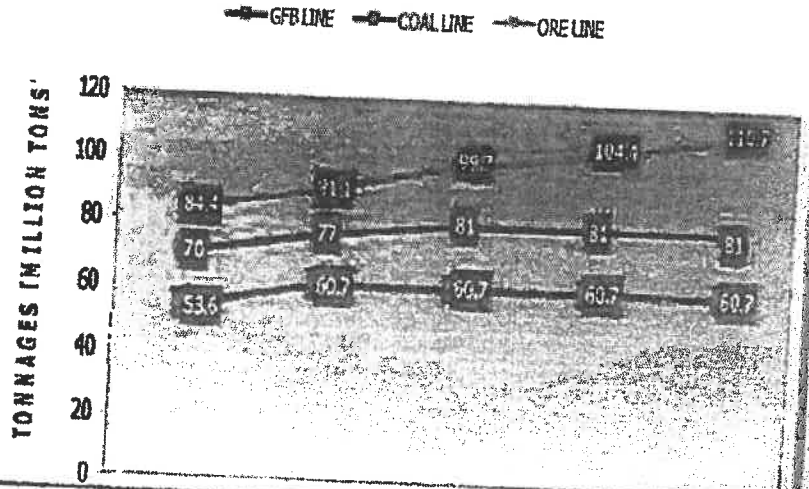
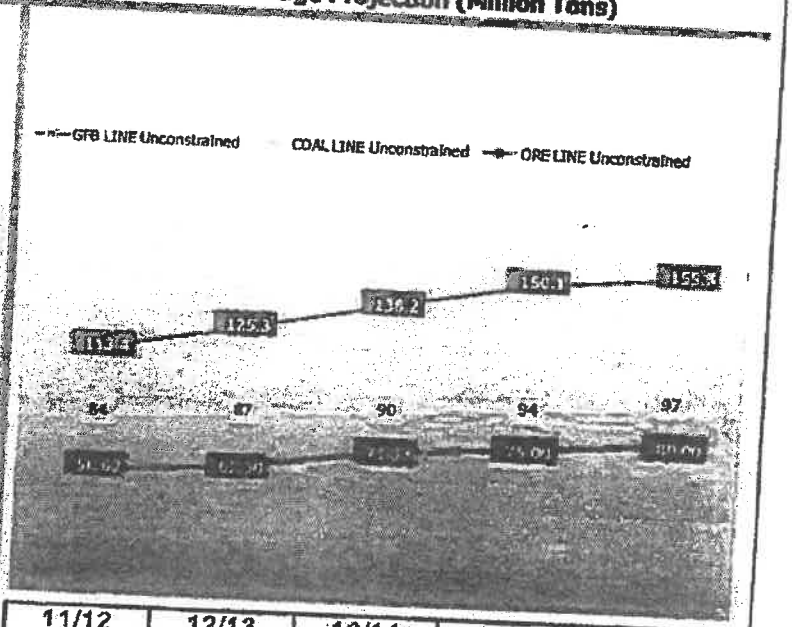
Business Tonnage Projection (Million Tons)



	11/12	12/13	13/14	14/15	15/16
GFB LINE	84.4	91.1	99.7	104.4	110.7
COAL LINE	70	81	81	91	91
ORE LINE	53.6	60.7	60.7	60.7	60.7

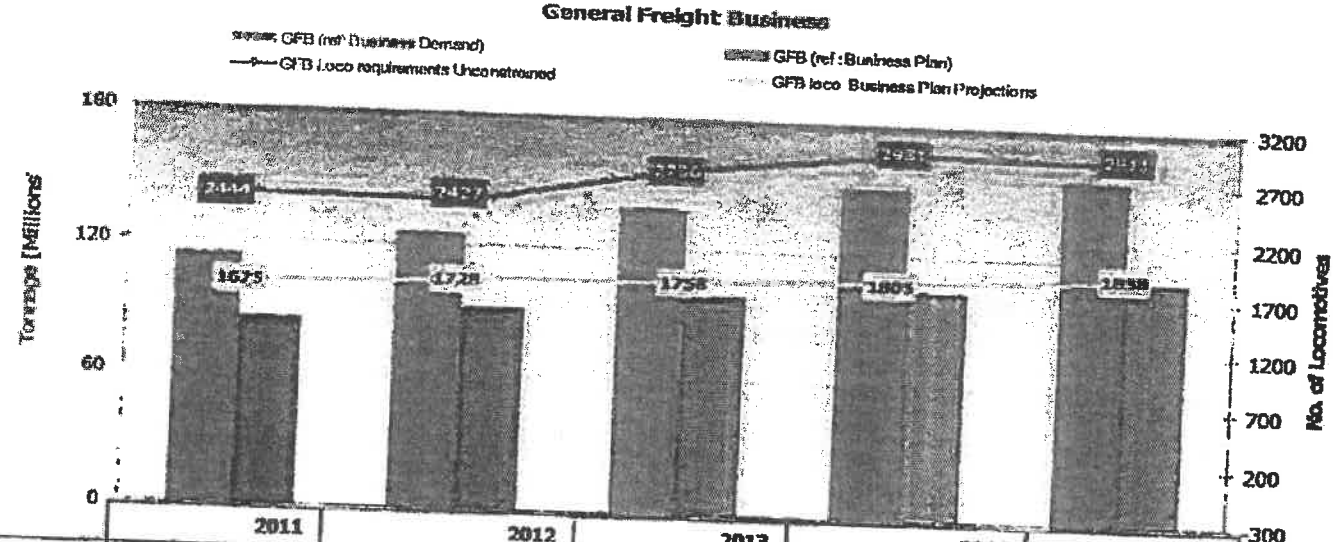
Unconstrained Tonnage Projection (Million Tons)



11/12	12/13	13/14	14/15	15/16
113.4	125.3	138.2	150.1	155.8
84	87	90	94	97
58.62	62.30	71.37	75.00	80.00

10 GFB Market (155.8mt) vs Business Plan Volumes (110mt)

TRANSNET



	2011	2012	2013	2014	2015
GFB (ref : Business Plan)	84.4	91.1	99.7	104.4	110.7
GFB Loco Business Plan Projections	1675	1728	1758	1805	1850
GFB (ref: Market Demand Unconstrained)	113.4	125.3	138.2	150.1	155.8
GFB Loco requirements unconstrained	2444	2427	2736	2931	2911
Loco Variance requirement with new generation power : Bus Plan vs Plan vs Markate demand	611	105	56	138	0
Buy/ Lease Electric (Proposed Delivery Schedule)	0	30	120	120	24
Buy/ Lease Diesel (Proposed Delivery Schedule)	0	38	100	88	0
Buy/ Lease Shunters (Proposed Delivery Schedule)	0	100	150	140	0

910
294
226
390

11 GFB- Deployment and Future Fleet

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34GE

10E1

7E'S

100X 43GE

Natcor

Mainline:
34GM,6E,6E1,18E
Shunters:
35GM,36GM,8E

Future Fleet
Mainline:
18E,34GM
Shunters:
36GM

Manganese and Iron Ore

Mainline:
18E,6E1,10E2
Shunters:
36GE,8E

Future Fleet
Mainline:
10E1,10E2
Shunters:
36GE

Northcor

Mainline:
7E2,34GM,35GE
Shunters:
36GM

Future Fleet
Mainline:
7E1, 34GE, 43GE
Shunters:
36GM

[TKE Depot Impact]

Cape Cor 2&3

Mainline:
34GE,8E,6E1,7E2,18E
Shunters:
33GE 35GE,36GE,8E

Future Fleet
Mainline:
34GE,7E2,7E1
Shunters:
36GM

De-electrify
AC conversion

Northeast Cor

Mainline:
37GM,39GM,18E
Shunters:
36GM,8E,35GM

Future Fleet
Mainline:
18E,39GM,37GM
Shunters:
36GM

De-electrify

Central Hub

Mainline:
34GE,18E,8E
Shunters:
36GE

Future Fleet
Mainline:
10E,43GE,34GE
Shunters:
36GE

33GE
6E

38

Short Term 2011/2013
Long Term ≥2020
Medium Term 2014/2020

TRANSNET-REF-BUNDLE-08303

12 GFB Requirements Summary (Aligned to Five Year Business Plan Capped @ 110 mta)

TRANSNET

GFB Rucket And Cascading Plan

Class	KN	Group	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
33	178	GE		9	8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	29
34	218	GE	-10	22	41	0	0	0	0	26	26	25	26	32	31	6	10	8	0	0	0	0	105
34	218	GM	0	0	0	0	0	0	0	6	7	6	7	14	7	8	16	14	16	7	6	7	121
35	161	GE							3	4	3	4	7	8	8	4	4	4					49
35	161	GM										13	14	23	24	23	25	1	10				133
36	141	GE											14	14	14	14	14	16	3	2	2	3	96
36	141	GM															14	15	14	14	12	11	80
37	245	GM																		13	14	6	33
38	180	X38																					0
39	308	GM																		1	1	0	2
91	86	GE																					7
10E1	310	10E	-8	-6	-4	-15	-16	-26	7														-78
10E2	310	10E																					0
14E1	240	14E								3	3	2											8
18E	200	18E								51	51	51	51	51	52	52	47						406
6E	170	6E			2	2	5	13	17	12	12	12											70
6E1	170	6E															1	4	13	24	24	22	88
7E	300	7E		20	20	20																	
7E3	300	7E	-6	-42	-12				12	11	11	11	11	11						7	12	11	38
7E1	300	7E															8	8	8	8	8	8	48
7E2	300	7E															3	0	3	8	7	8	29
7E4	300	7E																			3	3	6
8E	145	8E															10	11	10	11	10	11	63
TOTALS			-21	-41	-38	6	-11	-15	34	113	113	125	130	153	136	107	152	91	77	95	90	80	1323

General Freight Business (GFB) Requirements: Do Nothing Scenario

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	31/32
Current/Opening Fleet	1598	1642	1755	1834	1800	1798	1800	1753	1627	1501	1363	1220	1054	905	785	628	542	460	360	259	
New Locos commitment	-2	36	62																		
Damaged locos return	23	100	51	51	51	51	51	51	51	51	51	51	51	51	51	51	51	51	51	51	
Wreck out	0	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	
Fleet run out	12	29	30	37	5	13	34	113	133	175	130	153	136	107	144	73	69	87	88	79	
Fleet cascade	33	70	60	16	16	28	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTALS	1642	1755	1834	1800	1798	1800	1753	1627	1501	1363	1220	1054	905	785	628	542	460	360	259	167	
Requirement (Active)	1781	1860	1919	1954	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	
Variance	-139	-105	-85	-154	-203	-201	-248	-374	-500	-638	-781	-947	-1096	-1216	-1373	-1459	-1541	-1641	-1742	-1834	

LOCOMOTIVES CASCADED TO GFB

LOCOMOTIVES TO RUN OUT

Note: Negative quantities in the table above indicates locomotive additions to the fleet

IN CURRENT BUDGET

NOT IN CURRENT BUDGET

TRANSNET-REF-BUNDLE-08304

13 GFB Requirements Summary (Aligned to Five Year Business Plan Capped @ 110mta)

TRANSNET

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	Totals
Diesel																					
Commitment/Purchase	[illegible]	[illegible]	[illegible]																		
Diesel Commitment			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Diesel Runout								25	26	25	26	36	30	11	21	17	13	18	18	11	303
Electric																					
Commitment/purchase	0	0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	278
Electric Runout					3	7	19	54	54	54	45	45	35	35	43	10	18	37	44	42	544
Shunter																					
Commitment/purchase	0	0	0	0	0	0	5	0	0	0	16	16	16	16	45	50	32	32	29	30	545
Shunter Runout																					
Branchline																					
commitment/purchase	13	9	8	0	0	0	3	4	3	16	20	29	30	26	27	5	9	0	0	0	220
Branchline Runout																					288
Baseline to sustain all GF Runouts	0	0	46	63	49	49	49	49	49	86	86	86	86	86	86	86	86	86	86	86	187
Baseline without Branchline	0	0	46	63	49	49	49	49	49	69	69	69	69	69	69	69	69	69	69	69	172
																					1254
																					1067

IN CURRENT BUDGET

NOT IN CURRENT BUDGET

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30
Current/Opening Fleet	1304	1604	1021	1956	1994	2074	2146	2153	2081	2009	1962	1910	1835	1777	1748	1682	1687	1696	1687	1677
Diesel Commitment	[illegible]	[illegible]	[illegible]																	
Diesel Purchases Required			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Electric Commitment/purchase			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Shunter Commitment/purchase										[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Branchline commitment/purchase										[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Damaged loose return	135	80	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
Wreck out	40	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48
Fleet run out	12	0	10	17	0	13	34	115	113	125	130	152	136	107	144	73	69	67	88	79
Fleet cascade	52	75	45	0	44	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTALS	1604	1021	1956	1994	2074	2146	2153	2081	2009	1962	1910	1835	1777	1748	1682	1687	1696	1687	1677	1676
Requirement (Active)	1701	1060	1919	1994	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001	2001

IN CURRENT BUDGET

NOT IN CURRENT BUDGET

Includes. Capacity to 110 mta in 2015

Write offs of 8 per year

14 GFB Market Requirements (155.8mt) and Cost vs Business Plan (110mt)

TRANSNET

GFB Summary of Locomotive Quantities and Cost for Unconstrained Volumes

Year	11/12	12/13	13/14	14/15	15/16	Total
Total Unconstrained GFB Volumes (mt)	113.4	125.3	138.2	150.1	155.8	
Total Unconstrained Loco Requirements	2444	2627	2736	2931	2911	
Business Plan Projected Fleet	1675	1728	1758	1805	1858	
Actual Req if New Generation Locos are purchased	2286	2445	2531	2716	2717	
New Generation Locomotives to be purchased (Main line)	9	69	209	208	29	[illegible]
Cost to purchase (Rm)						[illegible]

GFB Unconstrained Locomotive Requirements vs Bus Plan (Cost Rm)

	11/12	12/13	13/14	14/15	15/16	Total
GFB Electric Locomotives	7 327	1 203	1 204	R539		10 273
GFB Diesel Locomotives	5 266	865	866	387		7 384
Main Line Locomotive Costs	12 593	2 068	2 070	926	0	17 657
Shunting Locomotives	7 768	1 654	0	4 646	0	14 068
Total GFB locomotive Costs	20 360	3 722	2 070	5 572	0	31 724

GFB Unconstrained Locomotive Requirements vs Business Plan

		11/12	12/13	13/14	14/15	15/16	Total
Unconstrained Requirements	Volume (Mt)	113.4	125.3	138.2	150.1	155.8	
	Diesel	766	821	864	896	888	
	Electric	1149	1231	1297	1345	1333	
	Shunters	529	575	575	690	690	
Business Plan projected fleet	Diesel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	Electric	550	571	583	602	623	
	Shunters	825	857	875	903	935	
		300	300	300	300	300	
Variance between Business Plan and Unconstrained requirements	Diesel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	Electric	216	250	281	294	265	
	Shunters	324	374	422	442	398	
		229	275	275	390	390	
Variance based on Tractive effort calculation for new locomotives	Diesel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	Electric	166	192	216	226	204	
	Shunters	216	249	281	294	265	
		229	275	275	390	390	
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	Year on Year Variance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Proposed delivery plan	Electric	0	105	56	[illegible]	0	910
	Diesel	0	30	120	170	24	294
	Subtotal	0	38	100	88	0	226
	Shunters	0	68	220	208	24	[illegible]
	Total	0	100	150	140	0	390
		0	236	590	556	48	910

TRANSNET-REF-BUNDLE-08306

15 Ore Line-Summary (Aligned to Five Year Business Plan Capped @ 60mta)

TRANSNET

ORE Line Runout And Cascading Plan

Class	GN	Group	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30
33	178	GE																				
34	218	GE	19	22	44																	
36	141	GE																2	10	5	4	5
15E	454	15E																				
9E	388	9E								6	6	10	9									
TOTALS			19	22	44	6	0	0	0	6	6	10	9									

Ore Line Requirements

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30
Current/Opening Fleet	170	188	168	144	147	146	145	144	137	130	119	109	108	107	106	105	102	91	85	80
New Locos commitment	38	3	22	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Damaged locos return	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Wreck out	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Fleet run out	0	0	1	6	0	0	0	6	6	10	9	0	0	0	0	2	10	5	4	5
Fleet cascade	19	22	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	188	168	144	147	146	145	144	137	130	119	109	108	107	106	105	102	91	85	80	74
Requirement (Active)	174	140	142	142	142	142	142	136	130	120	111	111	111	111	111	111	111	111	111	111

LOCOMOTIVES CASCADED TO GFB

LOCOMOTIVES TO RUN OUT

Note: Negative quantities in the table above indicates locomotive additions to the fleet Includes 32 new 15E Locomotives

Includes 60mta up to 14/15

IN CURRENT BUDGET 32 locomotive @ R44m EACH

NOT IN CURRENT BUDGET

16 Ore Line Market Requirements (80 mt) and Cost vs Business Plan (60mt)

TRANSNET

ORE Summary of Locomotive Quantities and Cost for Unconstrained Volumes

Year	11/12	12/13	13/14	14/15	15/16	Total
Total Unconstrained ORE Volumes (mt)	58.6	62.3	71.3	75.0	80.0	
Total Unconstrained Loco Requirements	174	168	130	135	141	
Business Plan Projected Fleet	178	154	130	130	130	
Actual Req if New Generation Locos are purchased	174	168	130	135	141	
New Generation Locomotives to be purchased	0	14	0	5	11	[illegible]
Cost to purchase(Rm)	0	[illegible]	0	258	632	[illegible]

Ore Unconstrained Locomotive Requirements vs. Bus Plan (Cost Rm)

	11/12	12/13	13/14	14/15	15/16	Total
Ore Electric Locomotives	0	827	0	229	571	1 627
Ore Diesel Locomotives			0	29	62	91
Main Line Locomotive Costs	0	827	0	258	632	1 717
Shunting Locomotives	0	0	0	0	R 0	0
Total Ore locomotive Costs	0	827	0	258	632	1 717

ORE Unconstrained Locomotive Requirements vs Business Plan

		11/12	12/13	13/14	14/15	15/16	Total
Unconstrained Requirements	Volume (Mt)	58.6	62.3	71.3	75.0	80.0	
	Diesel	96	74	20	21	22	
	Electric	74	90	106	110	115	
	Shunters	4	4	4	4	4	
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Business Plan projected fleet	Diesel	100	76	20	20	20	
	Electric	74	74	106	106	106	
	Shunters	4	4	4	4	4	
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Variance between Business Plan and Unconstrained requirements	Diesel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	Electric	0	0	0	1	2	
	Shunters	0	10	0	4	9	
	Total Variance	0	0	0	0	0	
Proposed Delivery plan	Electric	[illegible]	16	0	5	[illegible]	26
	Diesel				23		23
	Total				3		3
					26		26

17 Coal Line-Summary (Aligned to Five Year Business Plan Capped @ 81 mta)

TRANSNET

Coal Line Runout and Cascading Plan

Class	KW	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
11E	400																
7E	300																
7E1	300																
7E3	300	6	17	12													
7E4	300																
10E1	310	8	6	4	16	16	28									8	8
34D	218																
37D	245																
19E	311																
36GM	141																
35D	161																
Total		14	48	16		16	28									8	8

Coal Line Requirements

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Current/Opening Fleet	333	364	361	369	375	378	348	346	344	342	340	338	336	334	332	322
New Locos commitment	47	47	17													
New Locos proposed																
Damaged locos return	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Wreck out	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Fleet run out	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8	17
Fleet cascade	14	48	16	16	16	28	0	0	0	0	0	0	0	0	0	0
Total	364	361	369	375	378	348	346	344	342	340	338	336	334	332	322	303
Requirement (Active)	339	323	321	321	321	321	321	321	321	321	321	321	321	321	321	321

LOCOMOTIVES CASCADED TO GFB

LOCOMOTIVES TO RUN OUT

Note: Negative quantities in the table above indicates locomotive additions to the fleet

IN CURRENT BUDGET

NOT IN CURRENT BUDGET @ APPOX R35m each=R3.78 bn

Includes: Capacity to 81 mta in 2015

18 Coal Line Market Requirements (81 mt) and Cost vs Business Plan (97mt)

TRANSNET

Coal Summary of Locomotive Quantities and Cost for Unconstrained Volumes. Year	11/12	12/13	13/14	14/15	15/16	
Total Unconstrained Coal Volumes (mt	84.0	87.0	90.0	94.0	97.0	
Total Unconstrained Loco Requirement	278	282	289	300	308	
Business Plan Projected Fleet	255	251	255	255	255	
Actual Req if New Generation Locos are purchased	278	282	289	300	308	Total
New Generation Locomotives to be purchased	[illegible]	8	3	11	8	[illegible]
Locos req to replace existing fleet for Standardisation and cascade		14	24	21	0	[illegible]
Total Required	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Cost to purchase	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	

	Total Unconstrained Coal Locomotive Requirements vs Business Plan					
	11/12	12/13	13/14	14/15	15/16	Total
Electric Locomotives(Growth)	R 780	R 288	R 114	R 447	R 343	R 1,972
Electric Locomotives(Replace)		R 503	R 915	R 848		R 2,260
Coal Diesel Locomotives	R 0	R 0	R 0	R 0	R 0	R 0
Main Line Locomotive Costs	R 780	R 791	R 1,029	R 1,295	R 343	R 4,238
Shunting Locomotives	R 0	R 0	R 0	R 0	R 0	R 0
Total Coal locomotive Costs	R 780	R 791	R 1,029	R 1,295	R 343	R 4,238

45 x 11E will remain as part of Export Coal fleet. Total fleet = 110 (Existing purchase) + 112(Additional Purchase) +45 (11E Existing Fleet) + 41 (Diesels)

Total fleet 308 to haul 97mt

Current Fleet 255 to haul 76mt

		11/12	12/13	13/14	14/15	15/16	
	Volume (Mt)	84.0	87.0	90.0	94.0	97.0	
Unconstrained Requirements	Diesel	28	28	28	28	28	
	Electric	238	242	249	260	268	
	Shunters	12	12	12	12	12	
Business Plan projected fleet	Diesel	28	28	28	28	28	
	Electric	215	211	215	215	215	
	Shunters	12	12	12	12	12	
Variance between Business Plan and Unconstrained requirements	Diesel	0	0	0	0	0	
	Electric	23	31	34	45	53	
	Shunters	0	0	0	0	0	
	Total Variance	23	31	34	[illegible]	[illegible]	Total
Buy / Lease (Growth)		23	8	3	11	8	53
Buy / Lease (Replace or Cascade)			14	24	21		59
Total		23	22	27	32	8	112

19 All Corridor Requirements Summary (Aligned to Five Year Business Plan)

TRANSNET

		11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	Total
GFB	Diesel Commitment/Purchase	36	62																		
	Diesel Commitment																				
	Diesel Runout																				
	Electric Commitment/purchase	0						25	26	25	36	36	30	11	21	17	13	18	18	11	303
	Electric Runout																				278
	Shunter Commitment/purchase				3	7	19	54	54	54	45	45	35	35	43	18	18	37	44	42	544
	Shunter Runout	0	0	0	0	0	5	0	0	0	16	16	16	16	45	50	32	32	29	30	545
	Branchline commitment/purchase																				223
	Branchline Runout	9	8	0	0	0	3	4	3	16	20	29	30	36	27	5	9	0	0	0	268
	Baseline to sustain all GF Runouts	0	46	63	49	49	49	49	49	66	66	66	66	66	66	66	66	66	63	66	187
	Baseline without Branchline	0	46	63	49	49	49	49	49	66	66	66	66	66	66	66	66	66	63	66	172
Ore	Electric Commitment/purchase	3	32	17						69	69	69	69	69	69	69	69	69	69	69	1254
	Diesel Commitment/Purchase																				1067
Coal	Electric Commitment	47	17																		36
	Electric Commitment/purchase																				25
	Diesel Commitment/Purchase																				59
																					59
Total Base Line		0	60	87	70	49	49	49	49	66	66	66	66	66	66	68	96	91	90	91	361
Total Base line without Branch line		0	60	87	70	49	49	49	49	68	68	68	68	68	68	71	79	74	73	74	1386
																					1198

IN CURRENT BUDGET

NOT IN CURRENT BUDGET

Includes: Capacity to 110 mta for GFB, 81mta for Coal and 60mta for Ore in 2015

Write offs of 8 per year

20 Capex Requirements TO Mitigation Run outs (Aligned To Five Year Business Plan)

TRANSNET

Base Line Cost To Purchase New Locomotives [Rand Value: Millions]

Sectors	Locomotive types	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Totals
Ore line	Electric 50kV	R1 748	R146	R1 137	R548	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0
	Diesel corridors (21 t/a)	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R110	R584	R310	R263	R348	R1 615
	Shunters dual elect. (18 t/a)	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0
Coal line	Dual electric 3/25kV (26 tons/axle)	R0	R0	R1 258	R1 410	R1 454	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R4 123
	19E committed	R1 504	R1 594	R431	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R3 530
	Diesel corridors (21 t/a)	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R935	R434	R394	R487	R2 249
	Shunters dual elect. (18 t/a)	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0
GFB	Dual electric 3/25kV (21 tons/axle)	R0	R0	R1 151	R1 220	R1 293	R1 370	R1 453	R1 540	R1 632	R1 730	R1 834	R1 944	R2 060	R2 184	R2 315	R2 454	R2 601	R2 757	R2 923	R3 098	R35 559
	Diesel corridors (21 t/a)	R0	R0	R362	R849	R494	R523	R555	R588	R623	R661	R700	R742	R787	R834	R884	R937	R993	R1 053	R1 116	R1 183	R13 804
	43 Diesel Committed	R46	R878	R1 602	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R2 526
	Shunters dual elect. (18 t/a)	R0	R0	R0	R0	R0	R0	R0	R0	R0	R1 081	R1 146	R1 215	R1 288	R1 365	R1 447	R1 534	R1 626	R1 723	R1 827	R1 936	R16 188
	Brakeshoe dual elect. (18 t/a)	R0	R0	R0	R0	R0	R0	R0	R0	R0	R919	R974	R1 033	R1 095	R1 160	R1 230	R1 304	R1 382	R1 465	R1 553	R1 646	R13 760
	Total	R3 298	R2 618	R5 942	R4 027	R3 241	R1 094	R2 007	R2 328	R2 255	R3 472	R3 680	R3 901	R4 135	R4 383	R4 646	R5 035	R6 740	R6 277	R6 522	R7 053	R83 253

Estimated Unit Price Escalated By 6% Annually

Locomotive Type	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30
Electric 50kV	46	49	52	55	58	62	65	69	73	78	82	87	93	98	104	110	117	124	131	139
Dual electric 3/25kV (26 tons/axle)	32	34	36	38	40	43	45	48	51	54	57	61	64	68	72	77	81	86	91	97
Dual electric 3/25kV (21 tons/axle)	32	34	36	38	40	43	45	48	51	54	57	61	64	68	72	77	81	86	91	97
Diesel corridors (21 t/a)	23	24	26	27	29	31	33	35	37	39	41	44	46	49	52	55	58	62	66	70
Shunters dual elect. (18 t/a)	32	34	36	38	40	43	45	48	51	54	57	61	64	68	72	77	81	86	91	97

21 All Corridors Unconstrained Locomotives Quantities and Cost

TRANSNET

Locomotive Types	Total 5 Year Unconstrained Locomotive Quantities						
	11/12	12/13	13/14	14/15	15/16	Total 5yr	Total Cost (Rm)
Electric 50kV	0	0	0	23	0	23	1627
Dual electric 3/25kV (26 tons/axle)	23	22	27	32	8	112	4238
Dual electric 3/25kV (21 tons/axle)	0	30	120	120	24	294	10273
Diesel corridors (21 t/a)	0	38	100	91	0	229	7475
Shunters dual elect. (18 t/a)	0	100	150	140	0	390	14068
Total Main Line	23	90	247	266	32	658	[illegible]
Total Including Shunters	23	190	397	406	32	1048	37681

Main Line Locomotive Cost Excluding Shunters

- Business Plan 5yr View = R15 864m
- Unconstrained 5yr View = R23 613m

22 BEZ Locomotives (Proposed Wreck Repairs , Rebuilds and Scrap)

TRANSNET

BEZ Description	Quantities	Repair/Rebuild
Wrecks	288	180
Scrap	196	94
Work in Progress (MOP and GO)	85	0
Upgrade	17	0
New Locomotives (19E, 15E and D43)	24	0
Leased Locomotives (eg. Mines)	38	0
Experimental Locomotives	1	0
Total	649	274

- **180** Wrecks can be repaired at an estimated cost of **R849m** This implies an **average unit cost of R5m.**
- **94** locomotives can be rebuilt at an estimated cost of **R1,068bn** This implies an **average unit cost of R12m.**
- Total of repairs and rebuilt Locomotives will be **274** at an estimated cost of **R1,917bn.(TRE)**
- **Life Expectancy of the rebuilt locomotive is estimated at maximum of 12 years**
- **210 locomotive will be scrapped**

23 Proposed Rebuild Programme to Replenish Fleet

TRANSNET

Proposed Class that can be rebuilt

Class	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
34	3	6	6	7																	350
36																					182
37	2	3																			45
38																					2
39																					1
10E		1																			60
6E	4	10	12	15	15	4															2
7E		2																			31
9E																					722
TOTAL	9	24	20	22	15	4	0	38	39	41	56	60	57	28	54	55	59	49	48	49	

Total plan for Rebuild (Locomotives (Rm))

Class	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	TOTAL
34	42	119	126	117	0	0	0	674	736	733	827	1020	1070	418	823	805	1494	716	639	805	11367
36	0	0	0	0	0	0	0	0	0	0	301	319	338	358	760	892	518	517	582	617	5202
37	28	45	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	480	569	551	1673
38	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
39	0	16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	40	43	0	99
10E	48	127	162	214	227	64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	845
6E	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7E	0	25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25
9E	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	774
TOTAL	118	332	288	331	227	64	0	809	888	907	1128	1341	1409	776	1583	1697	2012	1764	1824	1973	19983

Revenue New Locomotive Costs and Quantity Replaced

	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
Rebuild Quantity	9	24	20	22	15	4	0	38	39	41	56	60	52	28	54	55	59	49	48	49	722
Rebuild Cost (Rm)	118	332	288	331	227	64	0	809	888	907	1370	1541	1409	776	1583	1697	2012	1764	1824	1973	19983
Replace with New Locomotive (QTY)	7	18	14	15	18	3	0	30	30	32	47	49	43	25	48	49	49	41	41	42	534
New Locomotive Costs (Rm)	184	586	473	569	428	121	0	1269	1375	1669	2614	2539	2398	1573	3290	3599	3466	3128	3305	0	32909

Available For Rebuild as Fleet Runs Outs

Available for Rebuild Immediately

24 Buy vs Rebuild

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- Upgrade life expectancy ~ 12 years
- New locomotive expectancy ~ 30 years
- New locomotives have higher traction power. Partly translates to improved utilisation
- Clear the deck rebuild taken as R12m – Electric and Diesel
- Real costs normalised over 12 years – no inflation

	Upgrade		New	
Electric – General Purpose GF	Life Exp 12 Years	Cost Rm	Life 30 Years	Cost Rm
Cost (incl contingencies and spares)		-12		-38
Revenue loss (upgrade)		-.7		
Revenue Per loco		168		
Revenue Per loco pa (increased traction)				228
Spares Saving		.3		
[illegible]		156		190
Diesel	Life Exp 12 Years	Cost Rm	Life 30 Years	Cost Rm
Cost (incl contingencies and spares)		-12		-24
Revenue loss (upgrade)		-.7		
Revenue Per loco		168		
Revenue Per loco pa (increased traction)				219
Spares Saving		-.3		
[illegible]		[illegible]		[illegible]

25 Buy vs. Lease

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- **Accounting treatment for leasing changes post 2015**
  - 2015 leases come onto balance sheet
  - Post 2015 balance sheet assumes ½ the asset values + ½ the debt – depending on lease terms
  - EBITDA affect is higher operational cost, lower financing & depreciation. Structure to be a zero sum on bottom line
- **Lease yield to be at WACC or lower**
- **Transnet debt lines will be impacted. Current problem is lack of interest cover ratio**
- **Maintenance cost to remain TRE cost, minimum outside leakage.**
- **Procurement process to cater for CSDP/ BBBEE**

26 Buy vs. Lease (Analysis per Loco)

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DETAILS	LEASE	BUY
Period / Life Expectancy	12 Yrs	30 Yrs
Initial Rental/Initial Investment (Cash Outflow) Year 1	R 2,890,010	R 21,773,121
Nominal Cash Outflow (Pre Tax) Excl Refurbishment Costs	R 46,001,138	R 21,773,121
Nominal Cash Outflow (Post Tax) Excl Refurbishment Costs	R 33,120,820	R 15,676,647
Cash Outflow (PV-Pre Tax) Excl Refurbishment Costs	R 28,079,622	R 21,773,121
Cash Outflow (PV-Post Tax) Excl Refurbishment Costs	R 20,217,328	R 15,308,270
Cash Outflow Annual Equivalent (PV-Post Tax) Excl Refurbishment Costs	R 2,338,171	R 1,218,633
Discount Rate (WACD)	7.72%	7.72%

Notes: Lease provides Cash flow benefit through lower rentals in earlier years (1-6)

Lease results in higher nominal and PV cash outflow over the period of the lease.

Limited taxation relief benefits on lease due to unavailability of tax allowances to non operators.

With same cost of debt lease becomes unviable.

Assumptions: Equal refurbishment cost incurred in both options.

Taxation benefit on Owned assets refubisments thus ignored.

Conclusion: Leases provides cash relief, but requires structured debt to ensure viability.

Recommendation: Lease locomotive for the first six years with an option to buy thereafter.

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END

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BACKUP

FUTURE FLEET BENEFITS .

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➢ New Electric Locomotive Efficiency and Cost Saving

Efficiency and Regenerative Capability of the new 15E locomotive

15E Efficiency and Regen Capability							
3x15E + 7 x diesels	Empty	Loaded	Total		Per Loco	Per Train (3x15E)	5x15E(projected)
Consumed Electrical Energy	42.992	31.744	74.736	MW-h	R 27,652.25	R 82,956.75	R 138,261.25
Regenerated Electrical Energy	1.445	18.281	19.726	MW-h	R 7,298.73	R 21,896.19	R 36,493.65
Nett	41.547	13.463	55.01	MW-h	R 20,353.52	R 61,060.56	R 101,767.60
Diesel Consumption (7Locos)			5000	Litres	R 40,000.00	R 280,000.00	0
Total						[redacted]	

This implies that if a configuration of 5 x 15E locomotives were used, the total Regenaerative savings would be R36494. It also implies that there would be a Diesel fuel saving of R280000 and a total train savings of approximately R240000

Energy Unit Cost 0.37 c/KWh

Diesel Cost R 8.00 R/Litre

The electricity regenerated by these locomotives can be pushed back into the Eskom Grid or alternatively used by the following train provided the scheduling is done properly

➢ *Reliability of 19E versus the remaining Coal Line fleets*

Reliability comparison table for coal corridor electric fleets

Coal Corridor Fleet Analysis Last 6 Months						
	7E1	7E3	7E4	10E1	11E1	19E1
Delay Minutes	55660	57785	13313	51053	37342	7748
Fleetsize	41	67	16	78	45	40
Average per loco	1358	862	832	655	830	194

Minute delays include no fault found

FUTURE FLEET BENEFITS .

Reduced cost of Maintenance

It is envisaged that there will be little or no capital costs required maintaining new locomotives in its first 6 years of operation. Initially, when new locomotives are commissioned and deployed, they follow a failure rate that is similar to a bath tub curve.

Both our 15E and 19E locomotives are currently operating on the downward slope of this curve and it is too early to include the current cost analysis in the fleet plan. Early indications however suggest that major interventions will only occur on these fleets in year 2015 onwards.

Improved Technology / Driver protection / safety

New Locomotives have enhanced technologies which assist the driver while protecting the locomotive from improper operations. This will help reduce the number of incidents. These locomotives have monitoring systems which assist in maintenance as well as provides useful data in regards to driver behaviour. This will assist in ensuring that corrective training methods are adopted once the faults are identified. Driver cabs are built to reduce the effects of noise while creating a safe, comfortable and ergonomical area for the driver to ply his trade.

Benefits of Standardising the Fleet:

1. Spares Holding

With a standard fleet, the spares holding for the maintenance depots will be drastically reduced. Stock items and storage thereof will be much simpler and can be standardised across the country

2. Standardised Depots

Currently, depots are structured to cater for various fleets and different maintenance interventions. It is foreseen that standardising the fleet will result in fewer but state of the art maintenance facilities.

3. Easier driver and technical training

A standardised fleet simplifies training of drivers and technical staff. This allows flexibility in driver operations as well as technical staff who can be easily relocated to address hotspot areas.

FUTURE FLEET BENEFITS .

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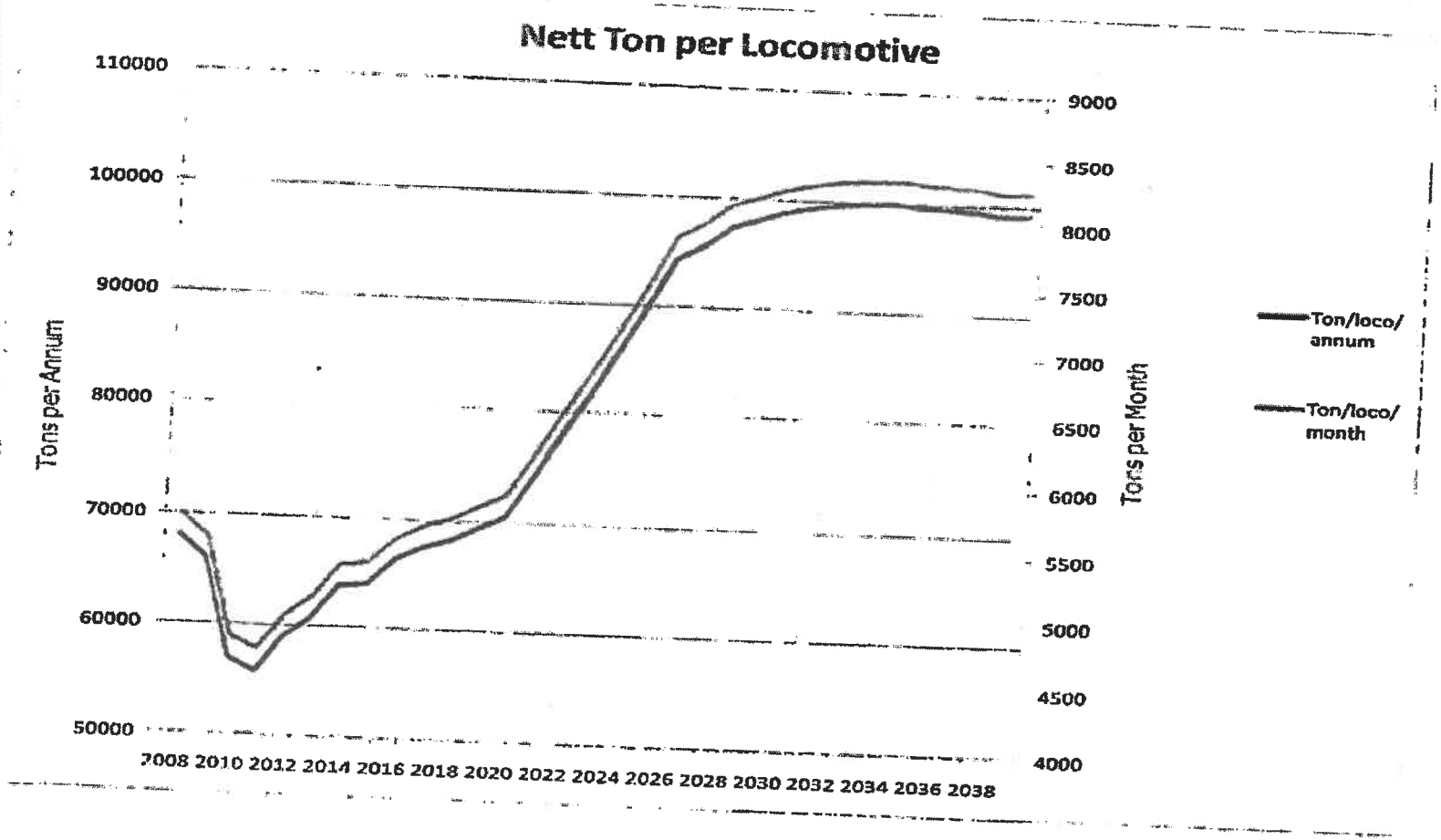
Theoretical locomotive efficiency curve based on procurement strategy



33 Current Fleet Future Maintenance Plan

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HIGH LEVEL FLEET LIFE CYCLE PLAN

Class	Units	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
6E1	81					R	R	R	R																		
6E1	82					R	R	R																			
6E1	83							R	R	R																	
6E1	84									R	R	R	R	R	R												
6E1	85						u	u	u				m	m	m					r	r	r					
6E1	86				u	u	u																				
6E1	87			u	u																						
6E1	88		u																								
6E1	89																										
6E1	810																										
6E1	811																										
6E1	84																										
16E																											
17E																											
18E	81	M	M		M	M	M	M	M	M																	
7E			M	M	M	M	M	M	M	R	r	r	r	R	R	R	R	R	R	R	R	R					
7E1		U	U	U		m	m	m	m	m	R	R	R	R	R												
7E2	81		M	M	U	U	U				m	m	m	m	m	m	m	r	r	r	r	r					
7E2	82		M	M	U	U	U				M	M	M				M	M	M								
7E2	81		M		U	U	U	U			M	M	M	M	M	M	M	M	M	M	M						
7E3	82		M			U	U	U			M	M	M	M	M	M	M	M	M	M	M	M					
7E3	81		M		U	U	U	U				M	M	M	M	M	M	M	M	M	M	M					
7E4			M				U	U			M	M	M	M	M	M	M	M	M	M	M	M					
8E					M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M					
8E	81										R	R	R	R													
8E	82												R	R													
10E	81		M	M	U	U	U	U	U		M	M	M	M	M		M	M	M	M	M		R	R	R	R	R
10E1	81		GO	GO	U	U	U	U	U		M	M	M	M	M		M	M	M	M	M		R	R	R	R	R
10E1	82		M	M			u	U	U	u	U			M	M	M	M	M	M	M	M	M	R	R	R	R	R
10E2	81		GO	GO									M	M	M	M	M	M	M	M	M	M	R	R	R	R	R
11E	81		M	M	M	M	M	M	u	u	G	G	G	G	M	M	M	M	M	M	M	M	R	R	R	R	R
15E	81																										
16E	81																										
16E1	81			M	M	M					R	R	r														
18E	81																										
18E	81																										
33	100			r	r																						
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REPORT 3(A) – EXHIBIT 3

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1

TRANSNET

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To: Chairman Acquisition and Disposal committee

From: Siyabonga Gama, Chief Executive Officer Transnet Freight Rail

Date: 26 July 2011

SUBJECT: Approval to proceed with the acquisition of locomotives by Freight Rail in respect of GFB Diesel and Electric Fleets

PURPOSE:

1. The purpose of this submission is to get approval from the Board Acquisition and Disposal Committee (BADC):
   1.1 On the investment of the locomotives required for the General Freight Business within the funding constraints of the current 5-year Corporate Plan.
   1.2 To seek confinement on certain classes of locomotives to ensure that these locomotives are delivered and put in use within the shortest possible time frames.

BACKGROUND:

2.1 The locomotive fleet plan was presented to and approved by the Transnet Board on 20 April 2011. The Board requested the BADC to confirm and finalise the affordability and approve the acquisition of the locomotives in accordance with the fleet plan. The Board also requested Transnet Freight Rail (TFR) to indicate what other investments would be required to optimize the locomotive plan.

2.2 TFR is currently in the process of finalizing and assessing the funding and affordability concerns related to the revised fleet plan.

2.3 In order to address the urgent need for tractive effort, it is recommended that TFR undertakes the procurement of locomotives that is included in the 2011/12 Corporate Plan, while the revised fleet plan is being finalized.

2.4 This submission covers the following critical areas for conversation:
   2.4.1 Affordability and funding
   2.4.2 Procurement approach
   2.4.3 CSDP initiatives
   2.4.4 Business requirements

Corporate Plan Funding	R Billions
Uncommitted locomotive capital in 2011/12 Corporate Plan	3 656
Latest requirements for locomotives	3 649

6. Delegation of Authority: The combined project ETC of both suggested locomotive acquisition projects exceed 1% of Transnet's asset base (R1.6bn as at March 2011). BADC, Board and PFMA approval is required, before commencement of the project.

Resolution #

7. The locomotive acquisition was budgeted in the latter years of the 5 year planning cycle. Due to action plans to create the much needed liquidity in the first 3 years of the 2011/12 Corporate Pan TFR can fund the acquisition of 43 Diesel and 95 Electric locomotives on the strength of the Transnet Balance Sheet much sooner than originally planned..

7.1.1 Affordability and Funding

The impact of acquiring these locomotives earlier is illustrated in the following table:

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Diesel Units		43				43
Electric Units		45	50			95
Proposed Earlier Capex Flow (Rm)	225	2 164	1 260			3 649
Corporate Plan Capex Flow (Rm)	79	314	1 312	956	995	3 656
Revenue (Rm)	0	2 130	5 284	6 389	6 572	20 376
Gearing (%)	43.6	44.2	43.4	38.8	32.7	
Cash Interest cover (times)	3.48	3.56	3.78	4.39	5.64	

7.1.2 Assumptions:

- Advance payment of 10% has been factored into the cash flow and 90% to be paid on acceptance. This is in line with the advance payment made for the acquisition of 100 Class 43 GE Diesel locomotives.
- Revenue increase relates to the average rate per ton of R196.00 applied to the additional tonnages of 6mt for 2012/13 ramping up to 27.7mt in 2013/14 expected to be hauled by the new fleet.
- A conservative locomotive efficiency improvement of 4.7% in million tones per net ton kilometer in year 2012/13 reducing to 2.6% in 2015/16 was used, despite a concerted effort to improve asset utilization that is underway.
- The unconstraint market demand, well in excess of the 27.7 mtpa in 2013/14 is anticipated and is being validated.
- No increase in freight tariff, in both nominal and real term was used in the analysis.

7.4.7 MAGNETITE: demand mainly from China – driven by increased steel production. Export growth indicates modest increase and domestic consumption is set to grow once local beneficiation projects are started.

7.4.8 GRAIN, MAIZE, WHEAT & FOODSTUFFS: domestic harvests average between 10mtpa-14mtpa, weather permitting. Demand projection represents TFR's increased share of total market demand as more traffic is shifted from road to rail

7.4.9 PETROLEUM LIQUIDS/PRODUCTS:. demand projections indicate increased volumes by rail in support of the NMPP. Also, there has been increased over border demand from Botswana and Mozambique.

CONCLUSION

8. Transnet is able to fund the acquisition of 43 Diesel and 95 Electric locomotives within Transnet's affordability levels.

RECOMMENDATION

9.1 It is therefore requested that the Board Acquisition and Disposal Committee considers and recommends to the Board of Directors that:

9.2.1 Transnet proceed with the acquisition of 43 locomotives on confined tender basis to GE to deploy in the GFB operations.

9.2.2 Transnet proceed with an open tender to acquire 45 electric locomotives in 2012/13 and a further 50 electric locomotives in 2013/14 for deployment in the GFB operations.

9.2.3 That the Group Chief Executive of Transnet be authorized, with powers to sub-delegate the resolutions above.

Requested by

Siyabonga Gama
CE: Freight Rail
Date: 2011-07-27

Reviewed

Anoj Singh
Acting CFO
Date: 27/07/11

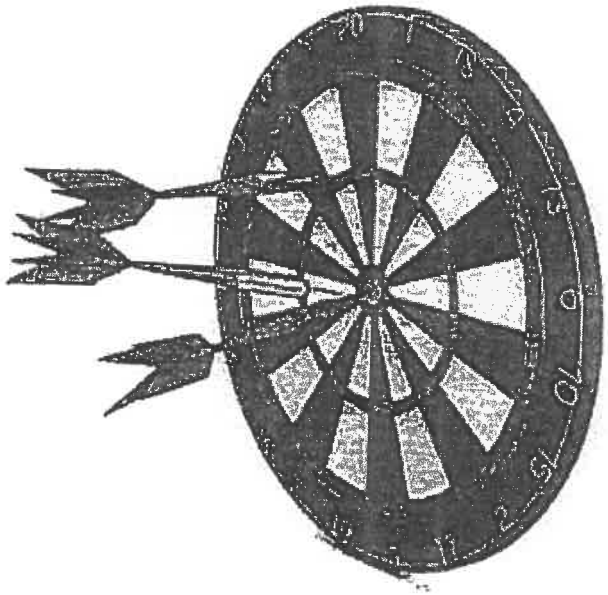
Recommend/Not recommended

Brian Molefe
Group Chief Executive
Date: 27.7.11.

Submission to BADC for locomotive acquisitions

Objectives

TRANSNET

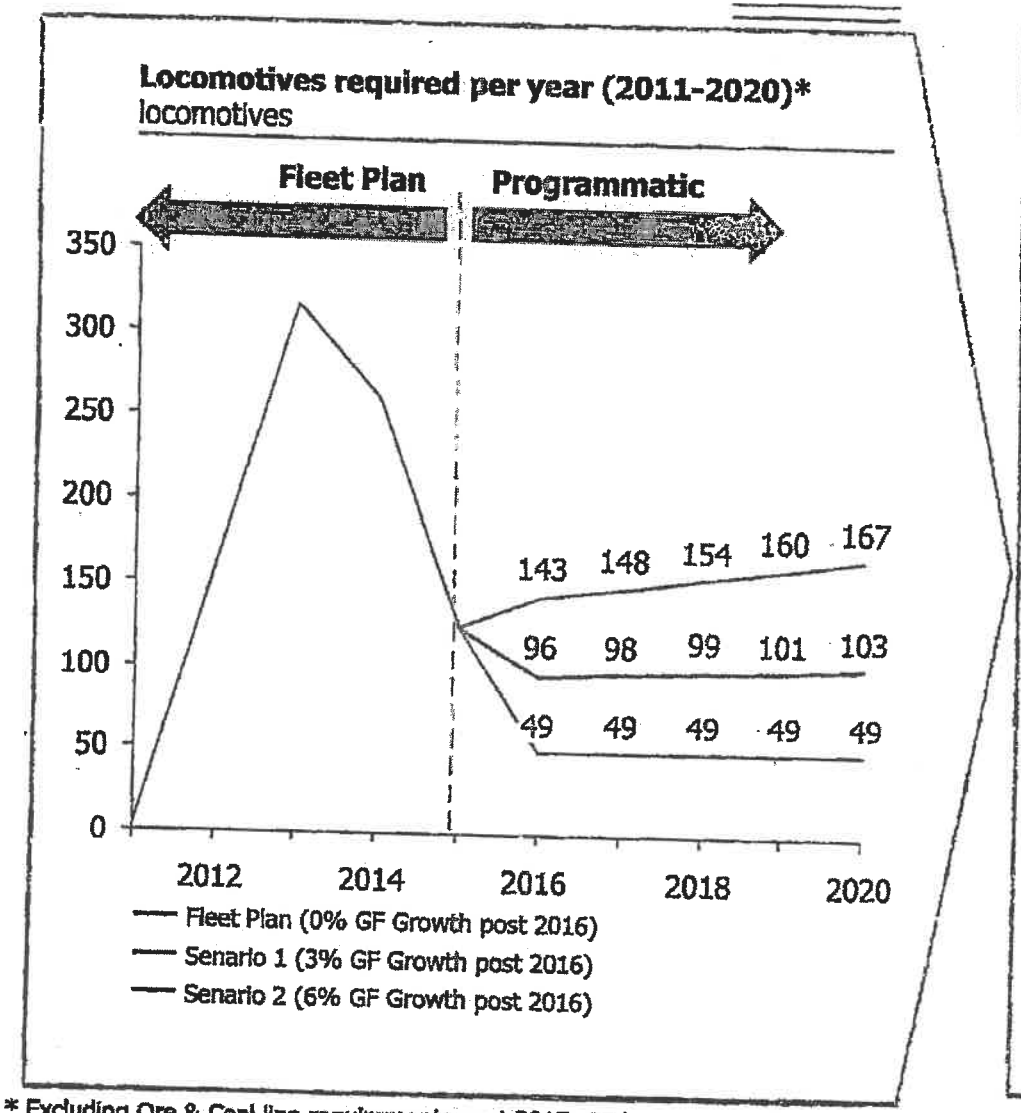


- Request for approval of the acquisition strategies for:
  - General Freight Electric Locomotives
  - Diesel Locomotives
  - Additional Ore Line Class 15E Locomotives
  - Additional Coal Line Class19E Locomotives

- Approval to enter into long term (10 year plus) contracts with Locomotive OEMs in order to procure on a programmatic basis

Future demand for locomotives will be largely driven by the growth in GF volumes

Illustrative



Implications:

- Should TFR have **no growth** over the projected 155mtpa for GF post 2016, it would still need to procure an average of **49 locomotives per annum** to sustain the fleet post 2015.
- Should TFR grow GF volumes at **3% per annum** post 2015 it will be required to procure an average **of 99 locomotives per annum** to meet demand and sustain the fleet post 2015. **(Scenario 1)**
- However should TFR grow GF volumes at **6% per annum** post 2016 it would be required to procure an average of **155 locomotives per annum** to meet demand and sustain the fleet post 2015. **(Scenario 2)**
- While these locomotives will sustain the fleet and allow for growth in volumes they **will not have a significant effect on the average age** of the the fleet

* Excluding Ore & Coal line requirements post 2015, GF locomotive efficiency at 0.1 mta post 2015
Source: Transnet Locomotive Modernisation Fleet Plan

TRANSNET

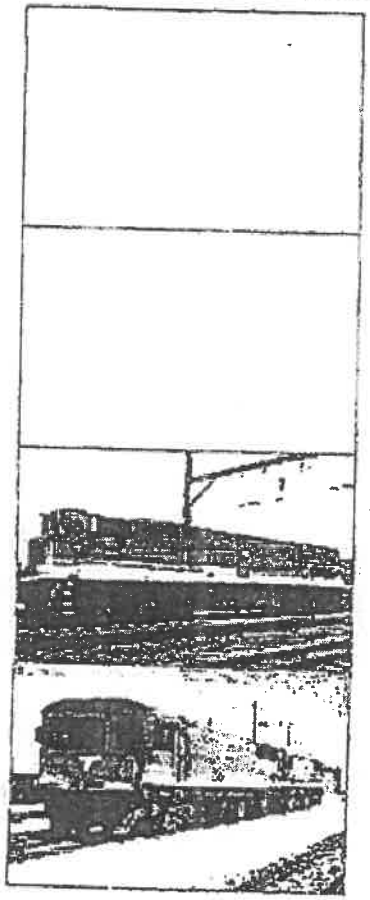
For the 2012/13 Diesel locomotive requirements TFR recommends to confine to GE with a lease or purchase option

TFR mainline locomotive 2012/13 - Diesels No.	Reasons to confine to GE
1 2 3 4	• 43 locos are expected to run out over the next year and there is an urgent need for locos in order to deliver upon current committed volumes. • As a production line is operational and design is finalised, **lead times will be kept to a minimum** • Present models are operating optimally • The loco's are through the teething phase with most initial manufacturing and **operational faults rectified** • **Personal are trained** on the locomotives operations and maintenance and no additional training will be required • Approximately 186 **jobs** will be retained at the TRE assembly facility and further jobs will be retained in downstream enterprises

Source: Team Analysis, Fleet Plan

TFR recommends to confine to Mitsui to purchase additional Class 19E & 15E locomotives to standardise the fleets with a lease or purchase option

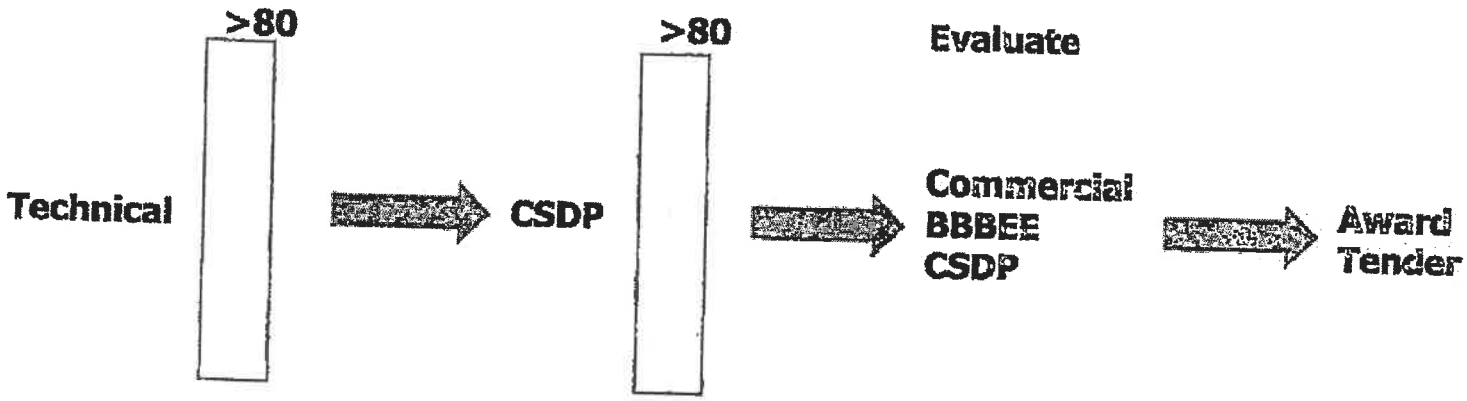
TRANSNET

TFR mainline locomotive requirement – 19E & 15E No.	Reasons to confine to (Venus/Mars) Mitsui
1 2 3 4 	• There is a need to **standardise** locomotives on the **Coal & Ore Line Fleets** for the following reasons: – Operational simplicity – Reduced spares holdings – Simplified maintenance • As production line is operational and design is finalised, **lead times will be kept to a minimum** • Present models are operating optimally and **exceeded their design parameters** • The fleets are through the teething phase with most initial manufacturing and **operational faults rectified** • **Personal are trained** on the locomotives operations and maintenance and no additional training will be required • Approximately **800 jobs** will be retained at the UCW assembly facility and further jobs will be retained in downstream enterprises • Toshiba has indicated it is seriously interested in building a **traction motor assembly facility** in SA and this could be expedited through the CSDP obligations that would be linked to this contract • 15E & 19E purchases to be **bundled** to allow TFR to **leverage spend**

Source: Team Analysis, Fleet Plan

In order to attain governments industrialisation goals a three step evaluation methodology will be used in the evaluation of the programmatic proposals (CSDP)

Three stage methodology (technical and CSDP thresholds)



Methodology

- A minimum threshold will be set for technical and CSDP
- This minimum criteria is based on a score of a 100 for each area (technical and CSDP) and would be 80 points
- Once the minimum criteria is met the suppliers are evaluated against price, CSDP and **BBBEE**
- E.g. Price (80), CSDP (10) and **BBBEE status** (10)

Source: Team Analysis

Contents

TRANSNET

Topics

Procurement strategy

Programmatic CSDP Evaluation Strategy

Timelines

Long lead times on Electric and Diesel locomotives will result in new locomotives only delivered by end 2014 and 2013 respectively

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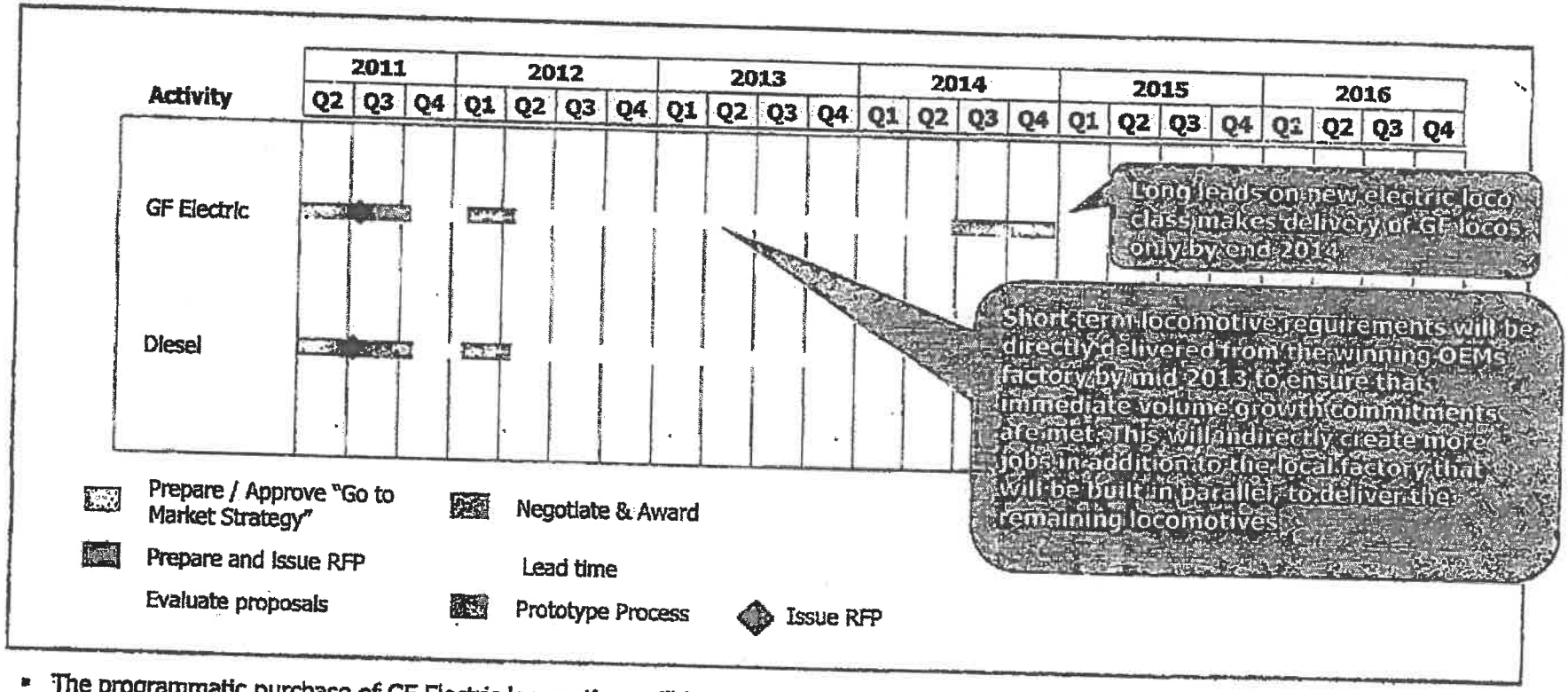

- The programmatic purchase of GF Electric locomotives will have a ~3 year lead once the contract has been signed off leading to these locomotives only becoming available year end 2014. The short term requirements will be directly sourced from the OEMs factories.
- The Diesel locomotives will have a ~2 year lead once the contract has been signed off leading to these locomotives only becoming available year end 2013. The 2012/13 requirements will be sourced via confinement to the current supplier.
- Assumes a 6 month prototyping period

Source: Team Analysis

REPORT 3(A) – EXHIBIT 4

Office of Buhle Ndlovu, Deputy Group Company Secretary

TRANSNET

TO WHOM IT MAY CONCERN

CERTIFIED EXCERPT FROM THE MINUTES OF MEETING NO. 11/4 OF THE BOARD ACQUISITIONS AND DISPOSALS COMMITTEE HELD ON 3 AUGUST 2011 AT 13:00 IN BOARDROOM 4901, 49TH FLOOR, CARLTON CENTRE, JOHANNESBURG

Resolution No/ For Attention

*1.1 **WELCOME, CONSTITUTION OF MEETING, APOLOGIES, SIGNING OF ATTENDANCE REGISTER AND ADOPTION OF AGENDA**

1.2 **Present**

Mr BD Mkhwanazi	Chairman
Mr ME Mkwanazi	Member
Mr IM Sharma	Member
Ms E Tshabalala	Member
Ms DLJ Tshepe	Member
Mr B Molefe	Group Chief Executive (*Ex officio*)
Mr A Singh	Acting Chief Financial Officer (*Ex officio*)

1.3 **In Attendance**

Mr G Pita	Group Chief Supply Chain Officer
Ms P Difeto	General Manager: Office of the GCE
Ms ANC Ceba	Group Company Secretary

1.4 **Apologies**

Ms Z Stephen	Group Executive: Corporate Services

1.5 **Partial attendance**

Mr S Gama	Chief Executive: TFR
Mr T Morwe	Chief Executive: TNPA
Mr KXT Socikwa	Chief Executive: TPT (Teleconference)
Ms S Pillay	Chief Financial Officer: TPT
Mr L Naidoo	General Manager: Capital Projects & Technology (TPT)
Mr M Motlohi	Terminal Executive Manager: DCT (TPT)
Ms M Moses	Group Executive: TCP
Mr N Eve	General Manager: TCP
Ms S Govender	Portfolio Executive: NMPP Project (TCP)

6.1 **TFR Locomotive Procurement Strategy: Approval to proceed with acquisition of locomotives in respect of GFB Diesel and Electric Fleets**

Mr Gama joined the meeting at 14:24.

6.1.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The matter was extensively deliberated upon. Management stated that the Locomotive Fleet Plan was presented to and approved by

the Board on 20 April 2011, subject to the Committee confirming and finalising the affordability of the acquisition of the locomotives.

6.1.2 Management indicated that the Locomotive Fleet Plan was budgeted for in the latter years of the 5-year planning cycle. However, due to plans to create the much needed liquidity in the first three years of the 2011/12FY Corporate Plan, TFR can fund the acquisition of 43 diesel and 95 electric locomotives much sooner than originally planned. Management indicated that the latest requirement for locomotives (R3.6bn) was catered for in the Corporate Plan, and the remaining issues will be dealt with at the forthcoming Board Strategy Session. Messrs Molefe/Gama

6.1.3 Management requested a confinement of 43 locomotives to General Electric as 100 locomotives were recently bought from General Electric, and confining to General Electric will assist with the standardisation of locomotives. Management stated that the Company can secure a localisation impact of 60% if the procurement was confined to General Electric. The Committee requested Management to indicate what the local content will achieve in the future, and further detail the previous achievements on CSDP. Messrs Molefe/Singh

6.1.4 Management stated that the confinement of the diesel fleet to General Electric for the Class 43 locomotives was on the following basis:

- The goods or services being procured are highly specialised and largely identical to those previously executed by that supplier and it was not in the interest of the public or the organisation to solicit other tender offers as it would result in wasted money and/or time for Transnet.
- The production line was operational and the design was finalised. Lead times will therefore be kept to a minimum.
- The Class 43 locomotives are expected to run out over the next year and there was an urgent need for locomotives in order to deliver upon current committed volumes.
- Present delivered models have recently been tested and were operating above expectations.
- The locomotives went through the teething phase with most initial manufacturing and operational faults rectified.
- Training curricular had already been developed and personnel were already being trained on locomotives operations and maintenance.

Approximately 186 jobs will be retained at the TRE assembly facility if the locomotives are assembled in South Africa and further jobs will be retained in downstream enterprises. The possibility of assembling in South Africa will be assessed as a continuation of TRE's current production line.

6.1.5 The Committee advised the Company to have information on what it seeks to achieve on its procurement activities and requested the Company to tighten the CSDP requirement for such activities. Mr Singh

RESOLVED that it approves that the following matters be recommended to the Board for approval:

- That Transnet proceed with the acquisition of 43 locomotives on confined tender basis to General Electric to deploy in the GFB operations.

The GCE be authorised with powers to sub-delegate the resolution above.

- That the Company proceeds with a transparent procurement process to acquire 45 electric locomotives in the 2012/13FY and a further 50 electric locomotives in the 2013/14FY for deployment in the GFB operations. Messrs Molefe/Gama
- The Company may submit a PFMA application on the approved acquisition to the Shareholder Minister for the acquisition of 95 electric locomotives. 11/4/1"

Certified as true excerpt.

Kind regards

BUHLE NDLOVU
Deputy Group Company Secretary
Transnet SOC Ltd
Date: 05 April 2018

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REPORT 3(A) – EXHIBIT 5

TRANSNET

Submission to the Transnet Capital Investment Committee

Date of Submission	August 2011
Addressed To	Transnet Capital Investment Committee
Title of Submission	***Approval for Transnet Freight Rail to proceed with the acquisition of 138 locomotives.***
Prepared by	André Jonck, Johan Bouwer, Francis Callard
Reviewed by	Gene Bellings / Deirdre Strydom
Financial model compiled by	André Jonck
Version	03
Date compiled	21 August 2011

TRANSNET

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TRANSNET

1 Purpose of Submission

The purpose of this submission is to request support and approval to proceed with the acquisition of 138 locomotives, being the first tranche of locomotives required for the General Freight Business by Transnet Freight Rail as detailed in the Locomotive Fleet Plan, curtailed to the funding constraints of the Current 5-Year corporate plan.

The program will run over 3 years at an Estimated Total Cost (ETC) of R3 649 million. The Funds are currently funded in the latter years of the current 5-Year Corporate plan, and this submission concurrently requests acceleration of this locomotive procurement.

Authority is required from the Transnet Freight Rail Investment Committee to support and recommend to Transnet CAPIC and from Transnet CAPIC, after due process, to proceed with the acquisition of locomotives by Transnet Freight Rail at an Estimated Total Cost (ETC) of R3 649 million.

Project classification details are as follows:

Project Classification:	**F1.1 (Expansion OF Core Business)** **F2.1 (Replacement of Capacity)**
Project Type:	**B1 (New Projects Financial)**
Asset Group:	**H32.1 (Locomotives)**
Strategic Objective:	**Profitability /Efficiency**
Investment Corridor:	**National**
TFR Budget Line Item	**4089 and 11060**

2 Background

2.1 Current Status

The locomotive fleet modernisation plan ("the Fleet Plan") that sets out the fleet modernisation framework for Transnet Freight Rail's locomotive fleet, encompassing TFR's strategic intent of supporting TFR's customer's needs through the building of capacity as well

as safe and efficient operations, was presented and approved by the Transnet Board on 20 April 2011.

The plan outlined the historical procurement and aging fleet and is predicated on the basis of market demand, technology, business strategy, operational efficiency and affordability in which the Locomotive fleet will evolve. It is attached as reference in "Annexure A". The current fleet and required fleet status based on condition and affordability is reflected in detail in section 8 of the Fleet Plan. The Locomotive Fleet run out was further based on extending the life of certain locomotive types to 45 years.

The overall objective of the Fleet Plan is to ensure the achievement of the TFR strategy by:

- Reducing the risk of mismatch between locomotive fleet and operational requirements
- Matching the locomotive fleet size toward improved utilization and efficiencies
- Creating capacity for growth in high-yielding rail-friendly traffic
- Standardising locomotive technologies
- Optimising assets plans in terms of maintenance and operational activities
- Optimising the maintenance practises, thereby reducing cost
- Supporting safety and legislative requirements

On 03 August 2011, the Board Acquisition and Disposal Committee approved the acquisition of 138 GFB diesel and electric locomotives to the value of the affordable sum of R3 649 million.

2.2 Business Need

Transnet Freight Rail aims to achieve significant growth over the five year period. The key finding of the locomotive fleet plan is that there is insufficient traction power to meet the corporate plan volume demand for the five-year duration which, together with the impending retirement of locomotives, will lead to a traction shortfall.

The shortfall of retiring locomotives and anticipated traffic volumes above the 2011-16 Five-year Corporate plan targets amounts to 914 (GFB: 776, COAL: 112 and ORE:26) locomotives between 2011/12 and 2015/16.

The anticipated 2015/16 volumes summarised from the Fleet Plan are:

TFR Business	Corporate plan targets (mtpa)	Anticipated Traffic (mtpa)
General Freight	110.7	155.8
Export Coal	81	91
Export Iron Ore	60.7	80
Total	252.4	326.8

The aggressive capital programme which began five years ago mainly focuses on the upgrade and maintenance of the locomotive fleet to reduce locomotive failures and replace obsolete components. As such it has largely been based on sustaining existing volumes and since fleets have been running out during the period, it has therefore been unable to support current volumes. An efficient and reliable locomotive fleet is imperative to deliver the volumes as indicated in the Corporate Plan (252.4 mtpa in year 2015/16) as well as accommodating the serviceable market demand (326.8 mtpa in year 2015/16).

3 Proposed Solution

The proposed solution is to proceed with the acquisition of 138 locomotives in the next two financial years being the first tranche of the roll-out of the locomotive Fleet Plan. This will partly meet the Fleet Plan requirements of the 5 Year Corporate Plan, but is unlikely to meet all the volume demand available in the General Freight Sector.

The TFR locomotive acquisition plan was accommodated in the latter years of the 5 year Capital programme where the as yet uncommitted funds of R3 656 million are reflected under line items 4089 and 11060. Due to action plans to create the much needed liquidity in the first 3 years of the 2011/12 Corporate Plan, TFR can fund the acquisition of 43 diesel and 95 electric locomotives on the strength of the Transnet Balance Sheet much sooner than originally planned. To address the expected shortfall in the locomotive requirements it is proposed that the locomotive procurement plan **be accelerated**.

The alternative scenarios including upgrade of the existing fleet are fully discussed in the Locomotive Fleet Plan, but the current fleet is woefully inadequate to address market demand.

3.1 Rationale for selection of the proposed solution

3.1.1 Diesel Electric Mix of Locomotives

The diesel / electric mix is informed by the Fleet Plan and the urgent need to replace the imminent run out of locomotives.

3.2 Benefits of chosen alternative

The business benefits are primarily achieving of the volumes and income as per the Business Plan. Operational benefits are as outlined in section 12.2 of the Fleet Plan and encompass the following:

- First steps to fleet standardization as per the Fleet Plan.
- Improved efficiency of new generation electric locomotives with regenerative capability supported by experience from the new 15 E locomotive fleet.
- Improved efficiency and lower emissions from new generation diesel locomotives.
- Improved reliability and reduced maintenance costs from new locomotives
- New locomotives have enhanced technologies protecting the locomotives from potentially unsafe operations.

4 Market Analysis

4.1 Market Analysis

The volume projections together with locomotive requirements for Transnet Freight Rail – GFB only – for the next 5 years are as per Table 1 below:

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
GFB Tonnages per Business Plan	84.4	91.1	99.7	104.4	110.7	
GFB unconstrained demand	113.4	125.3	138.2	150.1	155.8	
GFB Locomotive requirements for unconstrained demand	0	112	285	209	170	776
First Tranche request based on uncommitted capital in Corporate Plan.		88	50			138

4.2 Business Requirements

The demand for rail capacity is being driven by the following factors:

4.2.1 The current business plan – Volume growth is constrained by capacity/capital.

4.2.2 Domestic coal – Eskom's consumption and Road to Rail migration programme is very aggressive and will effectively see an increase of volumes from ~8Mtpa to 23Mtpa over the next five years.

4.2.3 Iron Ore – Domestic and regional consumption of steel is fuelling the demand for iron-ore and a new export project by Aquila from Thabazimbi to Richards Bay.

4.2.4 Manganese – SA's share of world output is set to grow with junior miners and additional output of traditional TFR clients.

4.2.5 Containers – Rail container volumes to increase in line with TFR's strategic objective of increasing market share along key inter-modal routes such as Natcor.

4.2.6 Cement – Cement volumes to increase in line with SA's GDP growth (4% on average). TFR is also targeting rail-friendly volumes in this sector.

4.2.7 Magnetite – Demand is mainly from China, driven by increased steel production. Export growth indicates modest increase and domestic consumption is set to grow once local beneficiation projects are started.

4.2.8 Grain, Maize, Wheat and Foodstuffs – Domestic harvests average between 10mtpa and 14mtpa, weather permitting. Demand projection represents TFR's share of total market demand as more traffic is shifted from road to rail.

4.2.9 Petroleum liquids/products – Demand projections indicate increased volumes by rail in support of the NMPP. Also, there has been an increased over-border demand from Botswana and Mozambique.

4.3 Scope of Work

The scope of work entails the purchasing of 43 diesel and 95 electric locomotives as per the following schedule:

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Diesel Units		43				43
Electric Units		45	50			95

The diesel locomotives will be GE class 43 similar to those currently being delivered. The electric locomotives will be dual voltage 3kV DC and 25kv DC

5 Estimated Total Cost (ETC) of Capital Investment

The Total Estimated Cost of the project is R3 649 million to be spent over 3 years per the table below:

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Proposed accelerated Capex Flows (Rm)	225	2164	1260			3649
Corporate Plan Capex flows (Rm)	79	314	1312	956	995	3656

B0036

F0023

TRANSNET

6 Financial Analysis

6.1 Affordability and Funding

The funding solution analysis was done taking the Transnet balance sheet and cash interest cover ratios into account. Improvements in the capital spend was achieved by reprioritising the TFR 5 year Capital Plan. This created space in the gearing and cash interest cover targets to pull forward the uncommitted locomotive spend of the later years.

The impact of acquiring these locomotives on Transnet financials is illustrated in the following table:

	2011/12	2012/13	2013/14	2014/15	2015/16
Proposed Earlier CAPEX Flow (Rm)	225	2,164	1,260		
Corporate Plan CAPEX Flow (Rm)	79	314	1,312	956	995
Incremental Revenue relating to New Locomotives (Rm)	0	777.6	1928.7	2332.0	2398.6
Incremental Revenue to Corporate Plan		548.8	961.3	984.1	433.6
Gearing %	44.6	45.7	44.8	40.7	35.0
Cash Interest Cover (Times)	3.41	3.35	3.46	4.01	5.10

Note: These additional locomotives do not cover the full Tractive requirement to meet the 5 Year Corporate Plan. This business case partially addresses the shortfall.

6.2 Economic evaluation results

A financial economic evaluation was done. The results are as follow:

NPV = R 111,100
PI = 1.03
IRR = 10.05%
MIRR = 10.12%
DPP = 18.07 years

The results of the economic evaluation show that the project meets the financial requirements

6.3 Key Assumptions

- Advanced payment of 10% has been factored into the cash flow and 90% to be paid on acceptance. This is in line with the advance payment made for the acquisition of 100 Class 43 Diesels locomotives.
- Each 100 new locomotive generates an additional 6.6 mtpa capacity in year 12/13 which improves to 7.6 mtpa in 2015/16.
- The revenue increases relates to the average rate per ton of R196.00 applied cumulatively to the additional tonnages from 3.3 mt for 2012/13 ramping up to 10.2 mt for 2015/16.
- The financial evaluation is conservative with regard to the factors below
  - No tariff increase has been assumed over the life of the project.
  - Locomotive efficiency improvement of 4.7% in 2012/13 reducing to 2.6% in 2015/16 was used as stated in the 5 Year Corporate Plan.
  - The unconstrained market demand of 155.8 mtpa in 2015/16 is currently being validated. This business case on addresses 10.2 mtpa of the unconstrained demand.
  - No increase in freight tariff, in both nominal and real term was used in the Affordability and Funding Analysis.
  - The profit margin was capped at an EBITA percentage of 40%, well below the performance of comparable railways.

7 Human Capital

No training will be needed as the skills required to manage the project already exist within Transnet Freight Rail. Train drivers can be up skilled to deal with the dual voltage locomotives

Transnet Freight Rail and Transnet Rail Engineering maintenance staff is capable of maintaining and operating the assets.

8 Corridor Strategy

This investment contributes directly towards the strategy of Transnet Freight Rail to deliver on the targets as set out in the 5-year Business Plan.

The project is in line with the locomotive fleet renewal strategy of Transnet Freight Rail.

9 Environmental Impacts

There is no adverse impact on the environment as a result of the project.

10 Impact of investment on other Transnet Businesses

Transnet Rail Engineering will be responsible for future maintenance of the new locomotive fleet.

11 Commitment Dates and Key Milestones

The table below summarizes the key milestones in the approval, design, implementation and completion phases.

Key Milestone	Date
Submission to TFRIC	August 2011
Warrant Issued	September 2011
Project Commencement	Feb/March 2012
Project completion:	March 2014
Post evaluation review (usually one year after commissioning of asset)	March 2015

12 Capital Budget Implications

12.1 Investment Required

The Total Investment Requirement: R 3 649 million spread over 3 years.

The Investment Flow/Time frame:

Subsequent years (Values in R'000)				
2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
225	2 164	1 260		

12.2 Budget Implications

The project has been included in the 5-year investment program as part of the locomotive renewal plan, Line Items 4089 and 11060

12.3 Contingencies

Provision for contingencies will be made in the contract negotiations.

12.4 Foreign currency exposure

The project is subjected to foreign currencies for which forward cover will be taken upon placing the orders for delivery of the locomotives.

12.5 Funding

Funding will be by means of a Group loan as part of the Capital Expenditure program

12.6 Tax Implications

The investment is subjected to 20% annual Wear and Tear allowance as per the guidelines of the Income Tax Act.

13 Operational Readiness

The project is sustaining existing locomotive capacity. Though the necessary resources are already in place for the existing fleet, an Operational Readiness plan will be deployed once contractual agreements are entered into.

14 Risk Assessment and Critical Success Factors

The locomotive Fleet Plan was subjected to full risk assessment before approval thereof.

The volume ramp up for Transnet Freight Rail is significantly dependant on the procurement of locomotives in the very short term. The current aging fleet puts business volumes at risk. It must be noted that the proposed procurement programme is very tight and potential delay to the programme include:

- Manufacturers have to establish local manufacturing facilities or endure production breaks if orders are not placed timeously on current facilities.
- Offshore procurement has inherent shipping delays and reassembly once they reach the harbour.
- The first batch of any new locomotives has to undergo rigorous acceptance tests prior to being put into service and commencement of manufacture of the remaining locomotives.
- Cape gauge electric locomotives are bespoke designs (unlike diesels), requiring significantly greater input and testing of design and performance validation.
- Bidding manufacturers not having enough time to design major modifications required for adaptation into the RSR standards.

TRANSNET

15 Benefits realisation

Benefits realisation will be achieved by:

As stated in the assumptions the locomotives will contribute towards the additional volumes resulting in improved revenue and profits. These benefits will be tracked at both an asset (i.e. locomotive) level and overall in terms of volume, corridor improvement and customer satisfaction. These will be tracked at a business level, ensuring that the new locomotives remain productive.

16 Project Champion

The Project Champion is Ms Rita Roper, General Manager (Capital Program)

17 Recommendation and Authority Required

Authority is required from the Transnet Freight Rail Investment Committee to support and recommend to the Transnet CAPIC to proceed with the acquisition of 138 locomotives by Transnet Freight Rail at an estimated total cost of R3 649 million.

The due process to be followed is stated below.

1. It is recommended that the Transnet Freight Rail Capital Investment Committee supports and recommends to Transnet CAPIC to proceed with the acquisition of locomotives for General Freight by Transnet Freight Rail at an Estimated Total Cost of R3 649 million.
2. It is recommended that the Transnet CAPIC supports and recommends to Board Acquisition and Disposal Committee to proceed with the acquisition of locomotives for General Freight by Transnet Freight Rail at an Estimated Total Cost of R3 649 million.
3. It is recommended that the Transnet Board Acquisition and Disposal Committee supports and approve the acquisition of locomotives for General Freight at an Estimated Total Cost of R3 649 million.
4. The Minister, Department of Public Enterprise, to support and approve the funding to proceed with the acquisition of locomotives by Transnet Freight Rail at an Estimated Total Cost of R3 649 million

TRANSNET

18 Project Authorisation Signatures

18.1 Transnet Freight Rail

Submission supported:

Rita Ropar
General Manager
(Capital Program)

22/08/2011
Date

Submission supported:

Siyabonga Gama
Chairman (FRIC)

2011-08-23
Date

18.2 Transnet

Submission supported:

Anoj Singh
Acting Chief Financial Officer - Transnet

24/08/11
Date

Submission recommended:

Brian Molefe
Group Chief Executive

5/9/2011
Date

REPORT 3(A) – EXHIBIT 6

Office of Nokuthula Khumalo, Group Company Secretary

TRANSNET

TO WHOM IT MAY CONCERN

CERTIFIED EXCERPT FROM THE MINUTES OF MEETING NO. 11/8 OF THE BOARD OF DIRECTORS OF TRANSNET SOC LTD HELD ON 31 AUGUST 2011 AT 11:20 IN THE DURBAN JULY BOARDROOM, OYSTER BOX HOTEL, DURBAN

1 WELCOME, CONSTITUTION OF MEETING, APOLOGIES AND SIGNING OF ATTENDANCE REGISTER

1.1 Present

Mr ME Mkwanazi	Chairman
Mr B Molefe	Group Chief Executive
Mr NK Choubey	Non-Executive Director
Ms Y Forbes	Non-Executive Director
Mr MA Fanucchi	Non-Executive Director
Mr HD Gazendam	Non-Executive Director
Ms NBP Gcaba	Non-Executive Director
Mr MP Malungani	Non-Executive Director
Mr BD Mkhwanazi	Non-Executive Director
Ms T Mryaka	Non-Executive Director
Ms N Moola	Non-Executive Director
Mr MP Moyo	Non-Executive Director
Ms NR Ntshingila	Non-Executive Director
Mr IM Sharma	Non-Executive Director
Mr A Singh	Acting Chief Financial Officer
Mr IB Skosana	Non-Executive Director (Partial attendance)
Ms E Tshabalala	Non-Executive Director
Ms DLJ Tshepe	Non-Executive Director

1.2 In attendance

Ms P Difeto	General Manager: Office of the Group Chief Executive
Ms Z Stephen	Group Executive: Corporate Services
Ms ANC Ceba	Group Company Secretary

1.3 Apologies

None

1.4 Partial attendance

Mr SI Gama	Chief Executive: Transnet Freight Rail

8.2 Interim Locomotive Fleet Acquisition Plan

8.2.1 Management took the Board through the submission as contained in the pack. The submission was taken as read. The matter was extensively deliberated upon. The purpose of the submission was to obtain PFMA approval from the Shareholder Minister to proceed with acquisition of 138 new locomotives at an estimated total cost R3.6bn. The Board was requested to consider, support and recommend the following to the Shareholder Minister:

- Transnet proceeds with the acquisition of 43 locomotives on confined tender basis to GE to deploy in the GFB operations;
- Transnet proceeds with a transparent procurement process to acquire 45 electric locomotives in the 2012/13FY and a further 50 electric locomotives in the 2013/14FY for deployment in the GFB operations; and
- The GCE be authorised with powers to further delegate the resolutions above.

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 3001
F +27 11 308 2639

8.2.2 Mr Choubey advised the Board that he only received his meeting pack on 28 August 2011, and did not have an opportunity to consider the submissions. He indicated that a confinement process was an exceptional circumstance, and did not understand the rationale for recommending a confinement process when the manufacturers were desperate to sell, and the goods could thus be bought at a lower cost.

8.2.3 Ms Tshepe indicated that the Board was strongly against confinement processes; however, she indicated the urgency of the matter as an exceptional circumstance based on the rationale presented by Management below.

8.2.4 Management took the Board through the rationale in support of the confinement as, amongst others, the following:

- The goods or services being procured were highly specialised and largely identical to those previously executed by that supplier and it was not in the interest of the public or the organisation to solicit other tender offers as it would result in wasted money and/or time for Transnet.
- The production line was operational and the design has been finalised. Lead times will therefore be kept to a minimum.
- The Class 43 locomotives were expected to run out over the next year and there was an urgent need for locomotives in order to deliver upon current committed volumes.
- Present delivered models have been recently tested and were operating above expectations.
- The locomotives had gone through the teething phase with most initial manufacturing and operational faults rectified.

Mr Mkhwanazi joined the meeting at 12:35.

8.2.5 Management reported that so far, only three transactions were subjected to the CSDP requirement. The General Electric transaction was the most successful transaction on CSDP (with an approximate value of R1.1bn). There was no benchmark as CSDP is a relatively new concept.

8.2.6 Mr Moyo requested that approved projects from Committees be sent to the Board for information purposes. Ms Tshepe advised the Board that the Board Acquisitions and Disposals Committee was still awaiting the procurement strategy for the acquisition of the locomotives.

RESOLVED that the Board approves the following:

- The Interim Locomotive Fleet Acquisition Plan at a value of approximately R3.6bn:
  - Transnet proceeds with the acquisition of 43 locomotives on confined tender basis to GE to deploy in the GFB operations; and
  - Transnet proceeds with a transparent procurement process to acquire 45 electric locomotives in the 2012/13FY and a further 50 electric locomotives in the 2013/14FY for deployment in the GFB operations.
- The GCE be authorised with powers to further delegate the resolutions above.
- The Company may submit a PFMA application to the Shareholder Minister for the acquisition of 95 electric locomotives.

Certified a true excerpt. 11/8/1

NOKUTHULA KHUMALO
Group Company Secretary
Date: 6 April 2018

REPORT 3(A) – EXHIBIT 7

Mafika Mkwanazi,Chairman

TRANSNET

Mr. Pravin Gordhan, MP
Minister of Finance
National Treasury
Private Bag X115
PRETORIA
0001

Fax : (012) 315 - 5372

Dear Minister Gordhan

SIGNIFICANT CAPITAL EXPENDITURE

In terms of Section 54 (2) (d) of the PFMA Transnet is required to inform National Treasury of significant capital expenditure that is above the significance and materiality framework as agreed with the Executive Authority. In the case of Transnet the materiality level has been defined as 1% of total assets, being R1.8 billion. The projects listed below are thus being reported in terms of the PFMA and are included in the 2011/12 corporate plan.

Project	Estimated Total Cost (Rm)	PFMA Approval Status
Coal Line expansion to 81mt	R5 100m	Pending approval
Durban Container Terminal berth deepening	R3 300m	Future project
Pier1 Phase II expansion into Salisbury Island	R2 970m	Future project
95 General freight Electric Locomotives	R2 659m	Application [illegible]

Should you require further details on the above mentioned projects please do not hesitate to contact me.

Kind regards

Mafika Mkwanazi
Chairman
Date: 05/10/2011

CC: Mr. Malusi Gigaba, MP, Minister of Public Enterprise

Transnet SOC Ltd
Registration Number
1990/000900/06

Carlton Centre
150 Commissioner Street
Johannesburg
2001

P.O. Box 72501
Parkview, Johannesburg
South Africa, 2122
T +27 11 308 2313
F +27 11 308 2315

06/10 2011 THU 08:53 FAX 0113082312 GCE, Transnet SOC Ltd 001

****
*** FAX TX REPORT ***
****

TRANSMISSION OK

JOB NO.	0846
DESTINATION ADDRESS	00123233262
SUBADDRESS	
DESTINATION ID	
ST. TIME	06/10 08:52
TX/RX TIME	00'50
PGS.	1
RESULT	OK

Mafika Mkwanazi,Chairman

TRANSNET

Mr. Pravin Gordhan, MP
Minister of Finance
National Treasury
Private Bag X115
PRETORIA
0001

Fax : (012) 315 - 5372

Dear Minister Gordhan

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Durban Container Terminal berth deepening	R3 300m	Future project
Pier1 Phase II expansion into Salisbury Island	R2 970m	Future project
95 General Freight Electric Locomotives	R2 659m	Application being prepared

Should you require further details on the above mentioned projects please do not hesitate to contact me.

Kind regards

Mafika Mkwanazi

06/10 2011 THU 09:12 FAX 0113082312 GCE, Transnet SOC Ltd 001

****
*** FAX TX REPORT ***
****

TRANSMISSION OK

JOB NO.	0848
DESTINATION ADDRESS	00124311039
SUBADDRESS	
DESTINATION ID	
ST. TIME	06/10 09:11
TX/RX TIME	01'02
PGS.	1
RESULT	OK

Mafika Mkwanazi,Chairman

TRANSNET

Mr. Pravin Gordhan, MP
Minister of Finance
National Treasury
Private Bag X115
PRETORIA
0001

Fax : (012) 315 - 5372

Dear Minister Gordhan

SIGNIFICANT CAPITAL EXPENDITURE

In terms of Section 54 (2) (d) of the PFMA Transnet is required to inform National Treasury of significant capital expenditure that is above the significance and materiality framework as agreed with the Executive Authority. In the case of Transnet the materiality level has been defined as 1% of total assets, being R1.8 billion. The projects listed below are thus being reported in terms of the PFMA and are included in the 2011/12 corporate plan.

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Pier1 Phase II expansion into Salisbury Island	R2 970m	Future project
95 General Freight Electric Locomotives	R2 659m	Application being prepared

Should you require further details on the above mentioned projects please do not hesitate to contact me.

Kind regards

Mafika Mkwanazi

REPORT 3(A) – EXHIBIT 8

Mafika Mkwanazi,Chairman

TRANSNET

Mr. Malusi Gigaba, MP
Minister of Public Enterprises
Private Bag X15
HATFIELD
0028

Dear Minister Gigaba

REQUEST FOR APPROVAL IN TERMS OF SECTION 54 2(d) OF THE PUBLIC FINANCE MANAGEMENT ACT, ACT NO. 1 OF 1999 FOR PROCUREMENT OF 95 ELECTRIC LOCOMOTIVES

Purpose

Approval is requested in terms of the PFMA, which requires shareholder approval to commence with projects with a value above the 1 % total asset value threshold, for the procurement of 95 General Freight Business (GFB) electric locomotives to an estimated total cost is R2, 659 million.

Background

The current five-year Corporate Plan makes provision for the acquisition of GFB electric locomotives. The locomotive acquisition was previously envisaged to occur in later years, but in considering Transnet's latest forecasts, meeting of demand to promote economic growth and reprioritised capital requirements Transnet can afford to immediately fund the acquisition of 95 electric locomotives on the strength of its balance sheet.

The locomotive fleet modernization plan ("the Fleet Plan") encompassing TFR's strategic intent of supporting TFR's customer's needs through the building of capacity as well as safe and efficient operations, sets out the fleet modernization framework for Transnet Freight Rail's locomotive fleet.

The Fleet Plan (Annexure A) outlines the historical procurement, and aging fleet. The current fleet and required fleet status based on condition and affordability is reflected in detail in the Fleet Plan. Future procurements are predicated on the basis of market demand, technology, business strategy, operational efficiency and affordability in which the locomotive fleet will evolve.

The Fleet Plan was presented to and approved by the Transnet Board on 20 April 2011 (Annexure B). The Board of Directors has approved the acquisition of the 95 Electric Locomotives on 31 August 2011, subject to the appropriate approval of the Minister of Public Enterprises in terms of the PFMA (Annexure C).

TRANSNET

Motivation

The key finding of the locomotive fleet plan is that there is insufficient traction power to meet the planned volume demand.

The aggressive capital programme has thus far mainly focused on the upgrade and maintenance of the locomotive fleet to reduce locomotive failures and replace obsolete components. As such it has largely been based on sustaining existing volumes. In addition fleets, have been aging further during the period limiting Transnet's ability to support current volumes.

An efficient and reliable locomotive fleet is imperative to deliver the volumes as indicated in the Corporate Plan (252.4 mtpa in year 2015/16) as well as accommodating the serviceable market demand.

As a result of the acquisition, GFB volume ramp-up by up to 27.7mt can be facilitated. The market demand which is expected to be well in excess of 27.7mt is currently being validated.

The proposed solution is to proceed with the acquisition of the first tranche of the roll-out of the locomotive Fleet Plan. This will partly meet the Fleet Plan requirements of the 5 Year Corporate Plan, but will not meet all the volume demand available in the General Freight Sector. The remaining requirements have been captured in the market demand strategy which has been shared with you.

A detailed financial assessment has been performed and the project is financially viable as required by Transnet's financial governance framework. The business case as presented to the Transnet Board of Directors supporting the acquisition is provided as Annexure D.

To address the expected shortfall in the locomotive requirements it is proposed that the locomotive procurement plan commence.

Procurement

Transnet will go out on open tender for the acquisition of the 95 electric locomotives with the proviso that the acquisition is subject to Transnet obtaining PFMA approval from the Shareholder. The reason for adopting this approach was due to time constraints and the specialized nature of Transnet's Cape gauge locomotive requirements which needs significantly greater input and testing of design and performance validation.

Transnet's procurement strategy for the acquisition of 95 Electric locomotives has transformation, empowerment and economic growth as its main supplier development objectives which are aligned to Government's New Growth Path goals of promoting:

- empowerment of previously disadvantaged individuals,
- sustainably developing local industry and
- improving skills to support localisation and industrialisation objectives

Transnet has adopted a procurement strategy aimed at achieving localisation, technology transfer to local entities, skills development in assembly, manufacture and maintenance techniques, job creation and preservation, impact on the green economy through energy regeneration and reduction in carbon emissions and the promotion of small businesses particularly in rural areas.

TRANSNET

Our weighting criteria is based on achieving significant impact in the areas mentioned above as well as focusing on the promotion of Broad Based Black Economic Empowerment through applying weighting for the B-BBEE Scorecard rating and allocating additional points for further recognition criteria focusing on black ownership, management control, employment equity, enterprise development and preferential procurement.

Additionally, bidders will have to pass through two gates before being eligible for evaluation on the above, the first gate being the level of economic growth, empowerment and transformation the bidder can create and the second being a technical gate.

By applying this strategy Transnet aims to support its mandate of transforming its supplier base by engaging in targeted supplier development initiatives to support localisation and industrialisation whilst providing meaningful opportunities for previously disadvantaged South Africans.

Consequently in support of Transnet's objective of increasing volumes and providing appropriate GFB capacity it is requested that you approve the procurement of the 95 electric locomotives.

Kind regards

Mafika Mkwanazi
Chairman
Date: 24/10/2011

REPORT 3(A) – EXHIBIT 9

MINISTER
PUBLIC ENTERPRISES
REPUBLIC OF SOUTH AFRICA

Private Bag X15, Hatfield, 0028 Tel: 012 431 1119 Fax: 012 431 1039
Private Bag X9079, Cape Town, 8000 Tel: 021 461 6376/7 Fax: 021 886 2381/461 1741

Mr Mafika Mkwanazi
Chairperson of Transnet Board
P O Box 72501
Parkview
2122

Tel: 011 308 2309
Fax: 011 308 2312

2011 -12- 2 2
Office of the Chairman
RECEIVED 15215

Dear Mr Mkwanazi

Transnet Request for Approval to Procure 95 Electric Locomotives for GFB

Your letter dated 24 October 2011 refers.

I hereby approve Transnet's section 54 2(d) application for the procurement of 95 General Freight Business Electric locomotives to an estimated total cost of R2,7 bn, with the proviso that Transnet provides me with a comprehensive briefing on the company's engagement with the CSDP process and particularly the supplier development and localisation components for this procurement.

In order to keep abreast of developments with regard to future locomotive requirements, I would like to request that you provide me with an updated strategy, revised Locomotive Fleet Procurement Plan, a financial analysis of how this strategy will be implemented and how the process will contribute to Government's economic objectives as stated in the New Growth Path (NGP) and Industrial Policy Action Plan (IPAP) policy statements.

I trust you find the above in order.

Yours sincerely

MR MALUSI GIGABA, MP
MINISTER OF PUBLIC ENTERPRISES
DATE: 2011/12/21

REPORT 3(A) – EXHIBIT 10

TRANSNET

delivering on our commitment to you

TENDER NOTICE

RFP: HOAC- HO-7801

TRANSNET FREIGHT RAIL, a Division of Transnet SOC Ltd. invites all interested parties to respond to a request for proposal (RFP) as indicated below:

TENDERS ARE INVITED FOR THE SUPPLY AND DELIVERY OF 95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) TO BE DELIVERED BY MARCH 2014.

RFP documents may be obtained on and after **Tuesday, 06 December 2011** at the **RECEPTION, TENDER ADVICE CENTRE, INYANDA HOUSE 1, GROUND FLOOR, 21 WELLINGTON ROAD, PARKTOWN, JOHANNESBURG** during the office hours 08h00 to 15h00. A R20 000.00 (inclusive of VAT) non-refundable tender charge is required per tender.

NOTE:

1. Payment is to be made to:
   Account Name: Transnet Freight Rail
   Standard Bank
   Account number: 203158598
   Branch code: 004805
2. The deposit slip must reflect the RFP number and the Company Name. Receipt/s to be presented prior to collection of the tenders.
3. Receipts are to be submitted when collecting the RFP document

A formal compulsory clarification/site meeting with representative of the Employer will take place at Umjantshi A-C Boardroom, Inyanda House 2, Ground Floor, 13-15 Girton Road, **Parktown, Johannesburg on Tuesday, 31 January 2012 at 10h00.**

ENQUIRIES:
Lindiwe Mdletshe
Tel: (011) 684-0820/083 268 3366
E-mail: Lindiwe.Mdletshe2@transnet.net
E-mail: Sarah.Assegaai@transnet.net
Reference: RFP HOAC-HO-7801

Tenderers without a valid tender document in their possession will not be allowed to attend the compulsory clarification meeting. **Documents will only be available and must be collected before 15h00 on Monday, 30 January 2012. (NB: No tenders will be issued after this deadline).**

RFP documents may be viewed and downloaded from the website by clicking on the request for proposal number that is highlighted in red on the website:
(http://www.transnetfreightrail.co.za/Website/tenders.html)

This tender shall close punctually on Tuesday, **28 February 2012 at 10h00** at the following address: The Chairperson, Transnet Freight Rail Acquisition Council, Inyanda House 1, Ground Floor, Tender Box, 21 Wellington Rd, Parktown, JOHANNESBURG, 2001.

PREFERENCE WILL BE GIVEN TO BBBEE COMPANIES IN TERMS OF TRANSNET'S BBBEE POLICY.

Transnet Hotline: 0800 003 056
Email: Transnet@tip-off.com
Fax Number: 0800 007 788
Freepost DN 296, uMhlanga Rocks, 4320

Business Day
Dated: 06 December 2011

REPORT 3(A) – EXHIBIT 11

TRANSNET FREIGHT RAIL

an Operating Division of **TRANSNET SOC LTD**

(Registration No. 1990/000900/06)

REQUEST FOR PROPOSAL (RFP)

FOR THE SUPPLY OF 95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

RFP NUMBER	HOAC-HO-7801
ISSUE DATE:	06 DECEMBER 2011
CLOSING DATE:	28 FEBRUARY 2012
CLOSING TIME:	10:00

COMPULSORY BRIEFING SESSION:

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

Time	:	10h00
Date	:	31 JANUARY 2012
Venue	:	Umjantshi A-C Boardroom Ground Floor Inyanda House 2 13-15 Girton Road, Parktown JOHANNESBURG

SCHEDULE OF DOCUMENTS

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3	PROPOSAL SUBMISSION	4
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5	SUPPLIER DEVELOPMENT INITIATIVES	5
6	BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE)	6
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Respondent's Signature

Date & Company Stamp

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ANNEXURES:

Annexure A – SUPPLIER DEVELOPMENT GUIDELINES

Annexure B/B1 – RESPONDENT'S RESPONSE TO SUPPLIER DEVELOPMENT QUESTIONS (CURRENT STATUS)

Annexure B2 – RESPONDENT'S RESPONSE TO FURTHER RECOGNITION PLAN (OVER CONTRACT PERIOD AND WARRANTY PERIOD)

Annexure C – TECHNICAL SPECIFICATION

Annexure D - GENERAL BID CONDITIONS – GOODS

Annexure E – DRAFT SUPPLY CONTRACT AND SUPPORTING DOCUMENTS

Annexure F – NON-DISCLOSURE AGREEMENT (NDA)

Annexure G – RESPONDENT'S RESPONSE TO BILL OF MATERIAL

Annexure H – VENDOR APPLICATION FORM [VAF]

Annexure I - FINANCIAL TOTAL COST OF OWNERSHIP (TCO) MODEL

RFP FOR THE SUPPLY OF 95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 1: NOTICE TO RESPONDENTS

1 PROPOSAL REQUEST

Proposals are requested from interested persons, companies, close corporations or enterprises (hereinafter referred to as the **Respondent/s**) to supply the above-mentioned requirement(s) to Transnet SOC Ltd.

On or after the 6 December 2011 the RFP documents may be inspected at, and are obtainable from the office of the Secretariat, Room Inyanda No 1, Ground Floor, 21 Wellington Road Parktown, Johannesburg on payment of an amount of R 20,000.00 (inclusive of VAT) per set. Payment is to be made as follows:

Account Name:	Transnet Freight Rail
Bank:	Standard Bank
Account No:	203158598
Branch code:	004805

NOTES –

a) This amount is not refundable.

b) A receipt for such payment made must be presented when collecting the RFP documents and submitted with your Proposal.

c) RFP documents will only be available until the 30 January 2012.

2 FORMAL BRIEFING

A compulsory pre-proposal briefing session will be conducted at Transnet Freight Rail on the 31 January 2012, at Inyanda House 2 for a period of ± 3 hours. (Respondent to provide own transportation and accommodation).

2.1 A Certificate of Attendance in the form set out in Section 9 hereto must be completed and submitted with your Proposal.

2.2 Respondents failing to attend the compulsory briefing session will be disqualified.

2.3 Respondents without a valid RFP document in their possession will not be allowed to attend the briefing session.

2.4 The briefing session will start punctually at 10:00

3 PROPOSAL SUBMISSION

Proposals in duplicate plus a CD copy must reach the Secretary, Transnet Acquisition Council before the closing hour on the date shown below, and must be in a form of a file which must be inscribed on the outside:

RFP No:	HOAC-HO-7801
Description:	The 95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014
Closing date and time:	Tuesday, 28 February 2012 at 10:00
Closing address:	Refer options in clause 4 below

4 DELIVERY INSTRUCTIONS FOR THIS RFP

4.1 Delivery by hand

4.2 If delivered by hand, the envelope is to be deposited in the Transnet Freight Rail tender box which is located at Inyanda No 1, Ground Floor, 21 Wellington Road Parktown, and should be addressed as follows:

THE CHAIRPERSON
TRANSNET FREIGHT RAIL
ACQUISITION COUNCIL
GROUND FLOOR
TENDER BOX
Inyanda House 1
21 Wellington Road
Parktown

a) The measurements of the "tender slot" are 500mm wide x 100mm high, and Respondents must please ensure that response documents or files are not larger than the above dimensions. Responses which are too bulky (i.e. more than 100mm thick) must be split into two or more files, and placed in separate envelopes, each such envelope to be inscribed as required in clause 3 above.

b) It should also be noted that the above tender box is located at the street level outside the main entrance in 21 Wellington Road and is accessible to the public 24 hours per day, 7 days a week.

4.3 Despatch by courier

If despatched by courier, the envelope must be addressed as follows and delivered to the Office of The Chairperson, Transnet Freight Rail Acquisition Council and a signature obtained from that Office.

THE CHAIRPERSON
TRANSNET FREIGHT RAIL
ACQUISITION COUNCIL
GROUND FLOOR
21 WELLINGTON ROAD
PARKTOWN

4.4 Please note that this RFP closes punctually at 10:00 on Tuesday, 28 February 2012.

4.5 If responses are not delivered as stipulated herein, such responses will not be considered and will be treated as "UNRESPONSIVE."

4.6 No email or facsimile responses will be considered, unless otherwise stated herein.

4.7 The responses to this RFP will be opened as soon as practicable after the expiry of the time advertised for receiving them.

4.8 Transnet SOC Ltd shall not, at the opening of responses, disclose to any other company any confidential details pertaining to the Proposals / information received, i.e. pricing, delivery, etc. The names and location of the Respondents will, however, be divulged to other Respondents upon request.

4.9 Envelopes must not contain documents relating to any RFP other than that shown on the envelope. All envelopes must reflect the return address of the Respondent on the reverse side.

4.10 No slips are to be attached to the response documents. Any additional conditions must be embodied in an accompanying letter. Subject only to clause 18 *(Alterations made by the Respondent to Tendered Prices)* of the General Bid Conditions, alterations, additions or deletions must not be made by the Respondent to the actual RFP documents.

5 SUPPLIER DEVELOPMENT INITIATIVES

5.1 Aim and Objectives

Historically in South Africa there has been a lack of investment in infrastructure, skills and capability development and an inequality in the income distribution and wealth of a significant portion of the population. There have been a number of Government initiatives developed to address these challenges. In particular, the New Growth Path (**NGP**) developed in 2010 aligns and builds on previous policies to ensure the achievement of Government's development objectives for South Africa.

The key focuses of the NGP include:

- increasing employment intensity of the economy
- addressing competitiveness
- balancing spatial development of rural areas and poorer provinces
- reducing the carbon intensity of the economy
- creating opportunities in improving regional and global cooperation

- enabling transformation that benefits a wider range of social actors in society e.g. workers, rural communities, youth and women

Transnet, as a State Owned Company (**SOC**), plays an important role to ensure these objectives are achieved. Therefore, the purchasing of goods and services needs to be aligned to Government's objectives for developing and transforming the local supply base. Transnet SOC Ltd's mission is to transform its supplier base by engaging in targeted supplier development (**SD**) initiatives to support localisation and industrialisation whilst providing meaningful opportunities for Black[1] South Africans with a particular emphasis on:

- Black Youth (16 to 35 year olds)
- Black women
- People with disabilities
- Small businesses
- Rural development and integration

5.2 Supplier Development

To facilitate the implementation of Supplier Development (SD) initiatives, Transnet SOC Ltd has adapted an existing framework from the Department of Public Enterprise (**DPE**). This framework allows for a basic set of principles to be applied to appropriately targeted SD initiatives. Supplier Development initiatives aim to build local suppliers who are competitive through building capability and capacity. Hence the framework has been termed the Increased Competitiveness, Capability and Capacity Supplier Development Classification Matrix (**IC³ Matrix**). Currently there are four quadrants of SD initiatives for consideration according to the IC³ Matrix. This RFP has been identified as **strategic** (please refer to Appendix A for further information in terms of **IC³ Matrix**).).

*Accordingly, Transnet SOC Ltd requires all Respondents to submit a **Supplier Development Bid Document** demonstrating their commitment and support for the New Growth Path Policy and how an appointment in terms of this RFP would assist in achieving the NGP objectives.*

a) For a detailed understanding of the IC³ Matrix, the respective SD initiatives and their objectives, please refer to the "Guidelines for the Completion of a Supplier Development Bid Document" appended hereto as Annexure A.

b) The following Supplier Development (SD) focus areas have been identified and are included in the prescribed evaluation criteria, namely:

Category	Description
Industrialisation *	Refers specifically to industrial capability building that will result in globally leading capabilities developed with South Africa
Localisation	Refers specifically to industrial capability building that focuses on value-add activities of

[1] "Black" means South African Blacks, Coloureds and Indians, as defined in the BBBEE Act

	the local industry through manufacturing or serviced-relate functions
Technology and Intellectual Property Rights (IPR) Transfers/Sustainability	How will you transfer technology, IPR and methodology to small businesses
New Skills development	Skills transfer & skills education which will occur as a result of the award of contract
Job Creation/Preservation	Number of jobs created or preserved resulting from the award of contract
Small Business Promotion	Encouragement for growth and the expansion of emerging local firms, through procurement and support mechanisms
Rural Development and Regional Integration	How will you incorporate the use of rural labour and regional businesses to contribute to NGP objectives

* Whereas Industrialisation is not part of a strategic commodity we request that the Respondent includes industrialisation as part of its Supplier Development Bid Document submission.

c) The Supplier Development Bid Document is to be submitted as a separate document, developed in line with the criteria set out in Annexure B1 appended hereto. The Supplier Development Bid Document is a detailed narrative document, which has no prescribed format, explaining the Respondent's Bid value set out in Annexure B1. However Respondents are at liberty to submit additional proposal/ information in support of their SD Bid in addition to Annexure B1. This SD Bid Document will represent a binding commitment on the part of the successful Respondent. The SD Bid Document should outline the type of activities you intend to embark upon should you be awarded the contract. This Bid Document should also provide an overview of what you intend to achieve, when this would be accomplished, and the mechanisms whereby you will achieve those objectives.

d) Annexure B1 must be completed, indicating by cross-reference the detailed areas which have been addressed in your SD Bid Document for each of the evaluation criteria listed in point (b) above, together with the Value Indicators therefore. The Respondents are further required to complete the Generic Bill of Materials (BOM) template in Annexure G as part of the Supplier Development Bid document submission. Respondents should clearly indicate opportunity areas where there is potential for local component purchase or local supplier development as part of their Supplier Development Bid document in the areas of local purchase, fabrication, assembly repair and maintenance. Respondents must indicate Yes ("Y") or No ("N") in the appropriate box indicating whether a potential opportunity exists or not. The Respondent must indicate the corresponding National Value Add (ZAR) and a detailed description of the localisation potential in the comment box. Respondents are further requested to complete the Locomotive Tier 2 component manufacturing breakdown sections in Annexure G, and indicate the corresponding Imported and Local content as a percentage of the locomotive cost.

e) ***Transnet's expectation is that a minimum SD target of 60% (sixty per cent) of the Respondent's Bid value is offered as part of the Supplier Development (SD) Bid Document to be submitted.***

f) Respondents are requested to provide an electronic copy ("CD") of the Completed Appendix G as part of the tender submission.

Notes for completion of SD Bid Document:

(i) Respondents are urged to pay careful attention to the compilation of the SD Bid Document (including Annexure B and G) since this will form an essential component of the evaluation of the Proposal.

(ii) Respondents are required to address each of the aspects under the detailed SD Description as a minimum for submission. This is not an exhaustive list however, and Respondents must not be limited to these choices when compiling each section.

(iii) Please provide detailed calculations to illustrate how the Estimated Rand Values provided in Annexure B and G have been derived.

(iv) Respondents are required to provide an electronic copy ("CD") of the completed Annexures B and G as part of the SD Bid document submission.

5.3 Additional contractual requirements

Should a contract be awarded through this RFP process, the successful Respondent(s) (hereinafter referred to as "**the Supplier**") will be contractually committed, *inter alia*, to the following conditions:

a) The Supplier will be required to submit a Supplier Development Plan within 30 (thirty) days from the signature date of a Letter of Award after which both parties must reach an agreement (signed by both parties) within 15 (fifteen) days. Transnet SOC Ltd reserves the right to reduce or increase the number of days in which the Supplier must submit its SD Plan if it is deemed reasonable, based on the degree of complexity of the SD initiative. This SD Plan represents additional detail in relation to the SD Bid Document providing an explicit breakdown of the nature, extent, timelines and monetary value of the SD commitments which the Supplier proposes to undertake and deliver during the term of the contract. Specific milestones, timelines and targets will be recorded to ensure that the SD Plan is in line with Transnet SOC Ltd's SD objectives and that implementation thereof is completed within the term of the contract.

b) The contract will be conditional on agreement being reached by the parties on the SD Plan submitted by the Supplier. Therefore failure to submit or thereafter to agree to the SD Plan within the stipulated timelines will result in the cancelation of such a contract or termination thereof.

c) The SD Plan may require certain additions or updates to the initial SD Bid Document in order to ensure that Transnet SOC Ltd is satisfied that development objectives will be met.

d) The Supplier will need to ensure that the relevant mechanisms and procedures are in place to allow for access to information in order to measure and verify the Supplier's compliance with its stated SD commitments.

e) The Supplier will be required to provide:

(i) monthly status updates to Transnet SOC Ltd for each SD initiative (Detailed requirements will be provided by Transnet SOC Ltd);

(ii) quarterly status reports for Transnet SOC Ltd and the DPE. (Detailed reporting requirements will be provided by Transnet SOC Ltd): and

(iii) a final Supplier Development report, to be submitted to Transnet SOC Ltd prior to the expiry date of the contract, detailing delivery, implementation and completion of all SD components plus auditable confirmation of the Rand value contribution associated with each such SD commitment.

f) All information provided by the Supplier in order to measure its progress against its stated targets will be auditable.

h) Failure to adhere to the milestones and targets defined in an SD Plan may result in the invocation of financial penalties based on an increasing percentage the SD value for each week that such failure continues (the details of which are specified in the draft contract appended hereto as Annexure E), or the termination of the contract. The Supplier will be required to provide an on-demand performance bond, in form and substance satisfactory to Transnet SOC Ltd, in respect of the Suppliers potential liability under this paragraph.

5.4 Supplier Development Documents

Your **SD Bid submission** (including Annexure B1 and G) is to be submitted as part of this RFP bid which will represent a binding commitment on the part of the successful Respondent.

Attached herewith the following documentation:

- SD Guideline Document – Annexure A

  This document must be used as a guideline to complete the SD Bid submission document.

- SD Proposal Template – Annexure B1

  This template must be completed as part of the bid which will represent a binding commitment on the part of the successful Respondent.

- Generic BOM – Annexure G

  The Generic Bill of Materials (BOM) should be completed and must accompany your SD Proposal.

Failure to submit or submitting incomplete SD bid submissions which include all the required documentation as indicated in this Section will potentially result in disqualification.

5.5 Socio-economic obligations for foreign Respondents

Foreign Respondents' socio-economic obligations under this procurement programme will fall under the associated Government initiative, namely, the Competitive Supplier Development Programme ("CSDP") as developed by the Department of Public Enterprises. CSDP requirements are included in the SD Bid document to be submitted as detailed above. Such CSDP requirements apply to procurement events to be concluded with Foreign Respondents where the estimated value of a subsequent contract shall be equal to or greater than USD 10 million.

Transnet's CSDP Focus Areas are the following:

- Transnet's CSDP objective is to influence multinational organisations toward initiatives that lead to the development of local downstream suppliers through large-scale SOE procurement in order to develop a competitive local supplier base focusing on Rolling Stock and Rail Infrastructure;
- Leveraging expanded maintenance and manufacturing initiatives;
- Skills development of scarce resources increasing the quality of jobs;
- Transfer of technology and innovation to local suppliers from foreign OEM's/companies; and
- Consideration of a CSDP strategy which should include localisation, sustainability and skills development as initiatives as a submission by the respondents.
- Foreign Respondents need to ensure that the Transnet focus areas are included into the SD Bid Document to be submitted as detailed above.

6 BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE)

Transnet SOC Ltd fully endorses and supports the Government's Broad-Based Black Economic Empowerment Programme and it is strongly of the opinion that all South African business enterprises have an equal obligation to redress the imbalances of the past.

Transnet SOC Ltd would therefore prefer to do business with local business enterprises who share these same values and who are prepared to contribute to meaningful B-BBEE initiatives (including, but not limited to subcontracting and Joint Ventures) as part of their tender responses. Transnet SOC Ltd will accordingly allow a "preference" in accordance with the 10%/20% (ten percent/20% percent) preference system, to companies who provide a B-BBEE Accreditation Certificate. All procurement and disposal transactions will be evaluated accordingly.

Consequently, when Transnet SOC Ltd invites prospective suppliers to submit tenders for its various capital expenditure programmes, it urges Respondents (Large Enterprises and QSE's - see below) to have themselves accredited in compliance with the Government Gazette No 34612, Notice No. 754 dated 23 September 2011. As from 1 October 2011 valid B-BBEE Accreditation Certificates must be issued by

a) Verification Agencies accredited by the South African National Accreditation System [SANAS]; or

b) Registered auditors approved by the Independent Regulatory Board of Auditors [IRBA], in accordance with the approval granted by the Department of Trade and Industry.

A Verification Certificate issued must reflect the weighted points attained by the measured entity for each element of the scorecard as well as the overall B-BBEE rating.

6.2 B-BBEE Rating

Enterprises will be rated by Verification Agencies or registered auditors based on the following:

a) **Large Enterprises** (i.e. annual turnover greater than R35 million):

- Rating level based on all seven elements of the B-BBEE scorecard

b) **Qualifying Small Enterprises – QSE** (i.e. annual turnover between R5 million and R35 million):

- Rating based on any four of the elements of the B-BBEE scorecard

c) **Exempted Micro Enterprises – EME** (i.e. annual turnover less than R5 million):

- EME's are exempted from B-BBEE accreditation
- Automatic rating of Level 4 B-BBEE irrespective of race or ownership, i.e. 100% B-BBEE recognition
- Black ownership greater than 50% or Black Women ownership greater than 50% automatically qualify as Level 3 B-BBEE, i.e. 110% B-BBEE recognition
- EME's should only provide documentary proof of annual turnover (i.e. audited financials) plus proof of Black ownership if Black ownership is greater than 50% or Black Women ownership is greater than 50%

Respondents will be required to furnish proof of the above to Transnet SOC Ltd. (i.e. a detailed scorecard as stipulated above in respect of Large Enterprises and QSE's, or proof of turnover in respect of EME's). *N.B. Failure to do so will result in a score of zero being allocated for B-BBEE.*

a) Turnover: Kindly indicate your company's annual turnover for the past year R_____

b) If annual turnover is less than R5m, please attach audited financials

c) If annual turnover is greater than R5m please attach an accreditation certificate issued by an Accreditation Agency, together with all the relevant score sheets pertaining thereto

6.3 **Joint Ventures and Subcontractors**

In addition to the above, Respondents who wish to enter into a Joint Venture or subcontract portions of the contract to B-BBEE companies must state in their RFP's, the percentage of the total contract value that will be allocated to such B-BBEE companies, should they be successful in being awarded any business. A rating certificate in respect of such B-BBEE JV-partners and / or subcontractor(s), as well as a breakdown of the distribution of the aforementioned percentage must also be furnished with the RFP response to enable Transnet SOC Ltd to evaluate / adjudicate all RFP's received on a fair basis.

Incorporated Joint Ventures must provide a B-BBEE certificate for the legal entity. Unincorporated Joint Ventures must submit a consolidated B-BBEE certificate.

6.4 B-BBEE Registration

In addition to the accreditation certificate, Transnet SOC Ltd recommends that Respondents register their B-BBEE compliance and supporting documentation on the Department of Trade and Industry's (**DTI**) National B-BBEE IT Portal and Opportunities Network and provide Transnet SOC Ltd with proof of registration in the form of an official B-BBEE Profile issued by the DTI.

Transnet SOC Ltd would wish to use the DTI B-BBEE IT Portal as a data source for tracking B-BBEE compliance. For instructions for registration and obtaining a DTI B-BBEE Profile go to http://bee.thedti.gov.za

6.5 Further Recognition Criteria (FRC)

Whereas Respondents will be allocated points in terms of the 10/20% preference system for its B-BBEE rating, in addition to such scoring further points will be allowed to respondents based on the following "Further Recognition Indicators" on an ascending scale calculated on the extent to which the respondent meet or exceeds the transformation targets as indicated below.

Respondents are to insert their Further Recognition Criteria scores (percentages) to which they commit themselves on improving their score during the duration of the contract in the table below:

Further Recognition Criteria (FRC) Additional Information – (Forward Looking)			
Ownership Indicator	**Required Responses**	**Compliance Target**	**Insert Company Scores (%)**
A. Ownership :			
1. The percentage of the business owned by Black[2] persons.	Provide a commitment based on the extent to which ownership in the hands of Black persons as a percentage of total ownership of the organisation will be increased over the contract period.	Score will be allocated for any score >50% to 100%, on a sliding scale	
2. The percentage of your business owned by Black women.	Provide a commitment based on the extent to which ownership in the hands of Black women as a percentage of total ownership of the organisation will be increased over the contract period.	Score will be allocated for any score >30% to 100%, on a sliding scale	
Management Control Indicator	**Required Responses**	**Compliance Target**	**Insert Company Scores (%)**
B. Board Participation :			
1. The percentage of Black Board members in relation to the total number of Board members.	Provide a commitment based on the extent to which the number of black Board members as a percentage of the total Board will increase over	Score will be allocated for any score	

[2] ***"Black"*** *means South African Blacks , Coloureds and Indians, as defined in the BBBEE Act*

	the contract period.	>50% to 100%, on a sliding scale	
C. Management :			
2. The percentage of Black Senior Top Management involved in day to day management of the organisation, in relation to the total Top Management cadre.	Provide the percentage of Blacks that will be appointed by the Board and will be operationally involved in the day to day **Top management** of the business, with individual responsibility for overall and/or financial management of the business and actively involved in the development and implementation of **overall strategy,** over the contract period.	Score will be allocated for any score >40% to 100%, on a sliding scale	
3. The percentage of Black Middle Management involved in day to day management of the organisation, in relation to the total Middle Management cadre.	Provide the percentage of Blacks that will be appointed by the organisation in the **middle management** cadre and will be operationally involved in the day to day management of the business, with individual responsibility for a particular area within the business and actively involved in the **day to day management** of the organisation, over the contract period.	Score will be allocated for any score >63% to 100%, on a sliding scale	
4. The percentage of Black Junior Management involved in day to day management of the organisation, in relation to the total Junior Management cadre.	Provide the percentage of Blacks that will be appointed by the organisation in the **junior management** cadre and will be operationally involved in the day to day running of the business, with individual responsibility for a particular area within the business and actively involved in a **supervisory role** with regards to the day to day management of the organisation, over the contract period.	Score will be allocated for any score >68% to 100%, on a sliding scale	
Employment Equity Indicator	**Required Responses**	**Compliance Target**	**Insert Company Scores (%)**
D. Employment Equity :			
1. The percentage of Black disabled employees in relation to the total number of employees in the organisation.	Provide a commitment based on the extent to which the percentage of Black disabled employees in relation to the total of all employees in the organisation will increase over the contract period.	Score will be allocated for any score >2% to 10%, on a sliding scale	
2. The percentage of Black employees as a percentage of the total workforce i.e. of all employees in the organisation.	Provide a commitment based on the extent to which the number of Black employees will increase as a percentage of the organisation's total workforce, over the contract period.	Score will be allocated for any score >65% to 100%, on a sliding scale	
3. The percentage of Black women employees as a percentage of the total workforce.	Provide a commitment based on the increase in the number of Black women employees as a percentage of the organisation's total workforce, over the contract period.	Score will be allocated for any score >40% to 100%, on a sliding scale	
Preferential Procurement Indicator	**Required Responses**	**Compliance Target**	**Insert Company Scores (%)**
E. Preferential Procurement :			
1. B-BBEE procurement spend from all suppliers based on the B-BBEE procurement recognition level as a percentage of total measured	Provide a commitment based on the extent to which B-BBEE spend will increase over the contract period.	Score will be allocated for any score >50% to	

Respondent's Signature

Date & Company Stamp

procurement spend		100%, on a sliding scale	
2. B-BBEE procurement spend from QSEs or from EMEs based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend.	Provide a commitment based on the extent to which B-BBEE spend from QSEs and EMEs will increase over the contract period.	Score will be allocated for any score >10% to 100%, on a sliding scale	
3. B-BBEE procurement spend from any of the following suppliers as a percentage of total measured procurement spend: • Suppliers who are more than 50% Black-owned • Suppliers who are more than 30% Black women-owned	Provide a commitment based on the extent to which spend from suppliers who are more than 50% Black owned or 30% Black women owned will increase over the contract period.	Score will be allocated for any score >15% to 100%, on a sliding scale	
Enterprise Development Indicator	**Required Response**	**Compliance Target**	**Insert Company Scores (%)**
F. Enterprise Development :			
1. The organisation's annual spend on Enterprise Development as a percentage of Net Profit after Tax (NPAT).	Provide a commitment based on the increase in your organisation's annual spend on Enterprise Development initiatives as a percentage of its Net Profit after Tax over the contract period.	Score will be allocated for any score >3% of NPAT, on a sliding scale	

The Respondents are required to submit a Further Recognition Criteria (FRC) Document as a separate document, developed in line with the criteria set out in the table above and Annexure B2 hereto. The Further Recognition Criteria Document is a detailed narrative document explaining the Respondent's Further Recognition Criteria Score set out in the table above and in Annexure B2 hereto indicating the commitment on improving their score during the contact duration (period in years of this contract including the warranty period). All 6 (six) Indicators must be addressed separately in the Further Recognition Criteria Document as indicated by the table above and in Annexure B1.

There is no prescribed format for the Further Recognition Criteria document. This Further Recognition Criteria Document will represent a binding commitment on the part of the successful Respondent. The Further Recognition Criteria Document should outline the type of activities (including timelines) you intend to embark upon should you be awarded the contract on improving their score during the duration of the contract. This Further Recognition Criteria Document should also provide an overview of what you intend to achieve, when, and the mechanisms whereby you will achieve those objectives.

Annexure B2 must be completed, indicating by cross-reference the detailed areas which have been addressed in your Further Recognition Criteria Document for each of the 6 (six) indicators listed.

Failure to adhere to the milestones and targets defined in an Further Recognition Development document may result in the invocation of financial penalties based on an increasing percentage of the SD value, for each week such failure continues (the details of which are specified in the draft contract appended hereto as Annexure E), or the termination of the contract. The Supplier will be required to provide an on-demand performance bond, in form and substance satisfactory to Transnet SOC Ltd, in respect of the Suppliers potential liability under this paragraph..

7 COMMUNICATION

7.1 Respondents are warned that a Proposal will be liable to disqualification should any attempt be made by a Respondent either directly or indirectly to canvass any officer or employee of Transnet SOC Ltd in respect of this RFP between the closing date and the date of the award of the business.

7.2 For specific queries relating to this RFP, a Bid Clarification Request Form should be submitted two weeks before the tender closing date (Tuesday, 28 February 2012), substantially in the form set out in Section 14 hereto.

7.3 After the closing date of the RFP, a Respondent may communicate with the Secretary of the Transnet Freight Rail Acquisition Council, at telephone number 011 584 9486 or facsimile number 011-774-9760 on any matter relating to its RFP Proposal.

8 RFP SCHEDULE

Respondents will be contacted as soon as practicable with a status update. At this time short-listed Respondents may be asked to meet with Transnet Freight Rail representatives at a location to be agreed, for negotiation purposes.

9 INSTRUCTIONS FOR COMPLETING THE RFP

9.1 Sign one set of documents (sign, stamp and date the bottom of each page). This set will serve as the legal and binding copy. A duplicate set of documents is required. This second set can be a copy of the original signed Proposal.

9.2 Both sets of documents to be submitted to the address specified in clause 4 above.

9.3 A CD copy of the RFP Proposal must be submitted. Please provide in MS Word / Excel format, not PDF versions, noting that the signed original set will be legally binding

9.4 *All Returnable Documents listed in the Proposal Form (Section 4) must be returned with your Proposal* - Separate sections for Technical, B-BBEE, SD/CSDP and Finance (Price) must be submitted as indicated herein.

10 COMPLIANCE

The successful Respondent (hereinafter referred to as the **Supplier**) shall be in full and complete compliance with any and all applicable National, Provincial and local laws and regulations.

11 ADDITIONAL NOTES

11.1 All returnable documents as indicated in the Proposal Form (Section 4) must be returned with the response.

11.2 Respondents are to note that Proposals in which firm prices are quoted for the duration of any resulting contract may receive precedence over prices which are subject to adjustment.

11.3 Changes by the Respondent to its submission will not be considered after the closing date.

11.4 The person or persons signing the Proposal must be legally authorised by the Respondent to do so (Refer Section 5 – Signing Power, Resolution of the Board of Directors). A list of those person(s) authorised to negotiate on behalf of the Respondent (if not the authorised signatories) must also be submitted along with the Proposal together with their contact details.

11.5 Transnet SOC Ltd reserves the right to undertake post-tender negotiations with selected Respondents or any number of short-listed Respondents and may wish to visit the Respondent's place of manufacture (works) during this process.

11.6 Unless otherwise expressly stated, all Proposals furnished pursuant to this Request shall be deemed to be offers. Any exceptions to this statement must be clearly and specifically indicated. Transnet SOC Ltd reserves the right to reject any or all offers.

FAILURE TO OBSERVE ANY OF THE AFOREMENTIONED REQUIREMENTS MAY RESULT IN A PROPOSAL BEING REJECTED

12 DISCLAIMERS

Respondents are hereby advised that Transnet SOC Ltd is not committed to any course of action as a result of its issuance of this RFP and/or its receipt of a Proposal in response to it. In particular, please note that Transnet SOC Ltd reserves the right to:

12.1 modify the RFP's Goods and request Respondents to re-bid on any changes;

12.2 reject any Proposal which does not conform to instructions and specifications which are detailed herein;

12.3 disqualify Proposals submitted after the stated submission deadline;

12.4 not necessarily accept the lowest priced Proposal;

12.5 reject all Proposals, if it so decides;

12.6 award a contract in connection with this Proposal at any time after the RFP's closing date;

12.7 award only a portion of the proposed Goods which are reflected in the scope of this RFP;

12.8 split the award of the contract between more than one Supplier;

12.9 make no award of a contract; or

12.10 withdraw this RFP at any point.

In addition, Transnet SOC Ltd reserves the right to exclude any Respondent from the bidding process who has been found guilty by a court of Law, Tribunal or other administrative body of a serious breach of Law during the preceding 5 years. Such breaches include but are not limited to breaches of the Companies Act 89 of 1998. Respondents are required to indicate in Section 13 whether the bidding entity or any of its directors or members were found guilty of a serious breach of law during the past 5 years. Such breaches exclude relatively minor offences and/ or misdemeanours such as traffic offences etc.

This RFP contains a limited selection of key, indicative commercial, technical and legal terms on which Transnet SOC Ltd proposes to purchase the locomotives contemplated in this RFP. The decision by Transnet SOC Ltd to award the tender to a bidder through its internal processes and governance structures and any commitment from Transnet SOC Ltd is, in each case, subject to and will only be completed upon the signing of a set of mutually satisfactory procurement agreements between the parties (substantially in the form of the draft supply contract and supporting documents included in Section 8 of this RFP). In the absence of such signed agreements, Transnet SOC Ltd will not be bound by an interim step in the process (including but not limited to a decision by its Acquisition Council to appoint a bidder as the preferred bidder or to award such tender to a specific bidder, as the case may be).

Please note that Transnet SOC Ltd will not reimburse any Respondent for any preparatory costs or other work performed in connection with this Proposal, whether or not the Respondent is awarded a contract.

13 PUBLIC FINANCE MANAGEMENT ACT (PFMA)

13.1 This RFP is subject to Section 54 (2) PFMA approval being obtained by Transnet SOC Ltd.

14 LEGAL REVIEW

Any Proposal submitted by a Respondent is subject to review by Transnet SOC Ltd's Legal Counsel.

Respondents to complete this section:

NAME OF RESPONDENT .....

PHYSICAL ADDRESS .....

.....

Respondent's Signature

Date & Company Stamp

Respondent's contact person

Name.....

Designation.....

Telephone.....

Cell Phone.....

Facsimile.....

Email.....

Website.....

Transnet SOC Ltd urges its clients, suppliers and the general public to report any fraud or corruption on the part of Transnet SOC Ltd employees to TIP-OFFS ANONYMOUS : 0800 003 056

Respondent's Signature

Date & Company Stamp

RFP FOR THE SUPPLY OF 95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 2: BACKGROUND, OVERVIEW AND SCOPE OF REQUIREMENTS

15 BACKGROUND

The South African railway network is operated by Transnet Freight Rail (TFR) which is an Operating Division of Transnet, a State Owned Company (SOC).

Estimates show that TFR has a shortage of both Heavy Haul as well as GFB type electric locomotives. In addition to this shortage, TFR intends to increase traffic through the main corridors within the next 5 (five) years.

TFR wishes to significantly modernise and upgrade its current fleet of electric locomotives. These locomotives, many of which have seen nearly 30 years of service, cannot guarantee the degree of reliability and availability needed to provide the level of customer service TFR is aspiring to deliver. Much of this fleet is therefore in need of replacement.

In addition, recent investment in the railway infrastructure in South Africa and improvements in operating efficiency has meant that the volume of freight traffic being carried by TFR has increased considerably and this trend looks to continue into the medium and longer term.

As a result of the above, TFR has a requirement to procure new locomotives in the short, medium and long term.

16 LOCOMOTIVE FLEET STRATEGY

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

In the longer term it is Transnet SOC Ltd's intention to engage in a programmatic locomotive acquisition program.

17 EXECUTIVE OVERVIEW

Transnet SOC Ltd is seeking a partner(s) to provide solutions for its division. It also seeks to improve its current processes for providing these Goods to its end user community throughout its locations.

The selected Supplier(s) will share in the mission and business objectives of Transnet SOC Ltd. These mutual goals will be met by meeting contract requirements and new challenges in an environment of teamwork, joint participation, flexibility, innovation and open communications. In this spirit of partnership, Transnet SOC Ltd and its Supplier(s)

will study the current ways they do business to enhance current practices and support processes and systems. Such a partnership will allow Transnet SOC Ltd to reach higher levels of quality, service and profitability.

Specifically, Transnet SOC Ltd seeks to benefit from this partnership in the following ways:

17.1 Transnet SOC Ltd must receive reduced cost of acquisition and improved service benefits resulting from the Supplier's economies of scale and streamlined service processes.

17.2 Transnet SOC Ltd must achieve appropriate availability that meets user needs while reducing costs for both Transnet SOC Ltd and the chosen Supplier(s).

17.3 Transnet SOC Ltd must receive proactive improvements from the Supplier with respect to supply of Goods and related processes.

17.4 Transnet SOC Ltd's overall competitive advantage must be strengthened by the chosen Supplier's leading edge technology and service delivery systems.

17.5 Transnet SOC Ltd end users must be able to rely on the chosen Supplier's personnel for service enquiries, recommendations and substitutions.

17.6 Transnet SOC Ltd must reduce costs by streamlining its acquisition of goods, including managed service processes on a Group basis.

17.7 Transnet SOC Ltd's overall Supplier Development (CSDP, ED) & BBBEE objectives must be achieved through innovative procurement strategies

17.8 Transnet SOC Ltd's objective is for respondents to enhance transformation through the Further Recognition Criteria

18 SCOPE OF REQUIREMENTS

This RFP is issued for the acquisition of 95, Electric Locomotives, to be delivered and fully operational according to the specification by March 2014. We are therefore requesting potential suppliers to provide us with their best solution to meet this aggressive delivery schedule. Detailed specifications are attached as per Annexure C.

Respondents are required to indicate their preferred major SD subcontractor responsible for assemble of Locomotive manufacturing of bogies, under frame and cabs. However, should respondents choose to use Transnet Rail Engineering (TRE) as a subcontractor a specimen contractor agreement is available on request.

In alignment with the requirements of the NGP to reduce the carbon intensity of the economy, respondents are required to provide a plan around how Transnet SOC Ltd can contribute to reducing the effects of climate change through these locomotives. This plan should include improvement items such as, but not limited to, increased energy efficiency of the locomotives, increased power regeneration abilities, the manner in which the respondent will develop the local supplier industry for green technologies and manners in which the power grid can be optimised etc.

Transnet Freight Rail (TFR) develops and uses simulators at its School of Rail and at other geographical locations in South Africa. These simulators are designed to be exact replicas of the locomotive cabins in the locomotives that will be supplied by the successful Bidder. TFR appoints external companies to develop the various components that make up the simulator, such as the hardware and the software components. In order to do this, the external companies require information about every aspect of the locomotive being supplied, including but not limited to technical information, drawings, and characteristics of the locomotives in different operating conditions. This is in order to develop a simulator that simulates the locomotive supplied as far as is technologically possible and physically capable of being simulated.

It shall be a legally binding obligation of the successful Bidder to co-operate with and assist the simulator development companies appointed by TFR to develop the simulators by providing the necessary documentary information relating to the locomotive to them, its professional expert's time to advise on the various stages of development and whether the simulations developed are suited to the locomotives being supplied, and any other assistance that may be required to develop the simulator. This shall be at no extra charge to TFR, except for where travelling and subsistence are required, TFR shall bear the costs of these in terms of its prevailing policies and rates allowed for such travelling and subsistence. The successful Bidder shall provide all intellectual property that it has provided to TFR, to the simulator developers for the purposes of developing the simulator

18.1 GUIDING PRINCIPLES

The Respondents are to take the following guiding principles in consideration when compiling their responses:

18.1.1 The responses must be strictly in accordance with the technical specification.

18.1.2 Maximum standardisation is required of all sub-systems irrespective of the type of proposed locomotives. By implication, a common source of supply is preferred but shall be evaluated on a cost to TFR basis.

18.1.3 A long term (life of the fleet) localised service commitment from the successful Respondent is required for -

a. a guaranteed spares supply;
b. Continuous technological upgrades to constantly reduce costs and increase efficiencies. The design philosophy must thus cater for future technological changes;
c. The development of and continuous amendments to the maintenance plans to guarantee the performance requirements and thereby reduce costs; and
d. Continuous specialized training as required by Transnet SOC Ltd

18.2 SPECIFICATIONS

Annexure C attached herewith outlines TFR's desired outcomes required from the locomotives and standardised technical requirements. These specifications and the additional worksheets are designed to assist the Respondents in choosing the best overall solution that will meet TFR's needs.

However, TFR recognises that Respondents may feel able to deliver a better overall solution that meets TFR's objectives without meeting all of the essential requirements. Failure to meet an essential requirement therefore may not lead to a response being deemed non-compliant and being rejected, provided that a satisfactory alternative is provided. Respondents should note that a failure to meet an essential requirement, without providing a satisfactory alternative, may attract a negative score in the evaluation process. Conversely, exceeding an essential requirement may have a positive score during evaluation.

18.3 INSTRUCTIONS TO COMPLETE SPECIFICATION (ANNEXURE C)

- Do not add extra columns rows in the spreadsheet.
- Do not change the clause wording.
- If fully compliant please use the words "Full Compliance" exactly, under the compliance level column.
- If partially compliant please use the words "Partial Compliance" exactly, under the compliance level column.
- If not compliant please use the words "Non Compliance" exactly, under the compliance level column.
- For all instances where the response is "non compliance", please provide comments.
- If there is a feature of the proposed solution that is not listed on the spreadsheet, please provide the details and potential benefits to TFR of the feature.

19 GENERAL INFORMATION

19.1 The Supplier(s) shall be fully responsible to Transnet SOC Ltd for the acts and omissions of persons directly or indirectly employed by them.

19.2 The Supplier(s) must provide the information requested and comply with the requirements stated in this RFP.

20 MANUFACTURERS

The Respondents must state hereunder the actual manufacturer(s) of the components used to build the required locomotives:

20.1 LOCAL MANUFACTURER(S):

ITEM NO.	NAME	ADDRESS (IN FULL)

20.2 FOREIGN MANUFACTURER(S):

ITEM NO.	NAME	ADDRESS (IN FULL)

A separate schedule should be submitted should the space above be inadequate.

21 SUPPLIER

The Respondents must state the actual name(s) and address/addresses of the suppliers of the Goods for inspection purposes only:

21.1 LOCAL MANUFACTURER(S):

ITEM NO.	NAME	ADDRESS (IN FULL)

21.2 FOREIGN MANUFACTURER(S):

ITEM NO.	NAME	ADDRESS (IN FULL)

22 IMPORTED CONTENT

The Respondents must state hereunder the value and percentage of the imported content of all the locomotive components (as per the Imported and Local content definitions in Annexure A, Glossary of Words) as well as the country of origin in respect of each item tendered for:

ITEM NO / DESCRIPTION.	VALUE	% COST	COUNTRY OF ORIGIN

Note: Where more than one country is applicable to one item, the Respondents must furnish this information separately.

23 EXCHANGE AND REMITTANCE

The attention of the Respondents is directed to clause 7 *(Exchange and Remittance)* of the General Tender Conditions Form CSS5. The Respondent is also to note that the particulars of the exchange rate/s on which the Respondent has based its tendered price(s) in respect of the imported portion, is/are to be stipulated hereunder, to enable Transnet SOC Ltd to calculate an overall Rand price

23.1 ZAR 1.00 (South African currency) being equal to _____ (foreign currency)

23.2 _____ % in relation to tendered price(s) to be remitted overseas by Transnet SOC Ltd

23.3 _____ (Name of country to which payment is to be made)

23.4 Beneficiary details:

23.5 Name (Account holder) _____

Bank (Name and branch code) _____

Swift code _____

Country _____

23.6 _____ (Applicable base date of Exchange Rate used)

Respondents should note that Transnet SOC Ltd's preferred form of remittance would be in Rands.

24 NATIONAL RAILWAY SAFETY REGULATOR ACT

In compliance with the National Railway Safety Regulator Act, 16 of 2002, the successful Respondent **(the Supplier)** shall ensure that the Goods to be supplied to Transnet SOC Ltd, under the terms and conditions of a contract between the parties, comply fully with the specifications as set forth in Section 10 (Specifications and Drawings) of this RFP, and shall thereby adhere to railway safety requirements and/or regulations (as applicable). Permission for the engagement of a subcontractor by the Supplier, as applicable, both initially and during the course of a contract, shall be subject to a review of the capability of the proposed subcontractor to comply with the specified railway safety requirements and/or regulations. The Supplier and/or its subcontractor shall grant Transnet SOC Ltd access, during the term of the contract, to review any safety-related activities, including the coordination of such activities across all parts of the organisation.

Accepted:

YES		**NO**	

_____ _____

Respondent's Signature Date & Company Stamp

25 SERVICE LEVELS

25.1 The Respondent will make available experienced national account representative/s and technical representatives to work with Transnet SOC Ltd's sourcing/procurement and technical departments (no sales representatives are needed for individual department/locations). Additionally, there shall be a minimal number of people, fully informed and accountable for this agreement.

25.2 Transnet SOC Ltd will have quarterly reviews with the Supplier's account representative on an ongoing basis.

25.3 Transnet SOC Ltd expects a minimum availability of 95% and a maximum of 15 faults per million kilometres for the fleet

25.4 Transnet SOC Ltd reserves the right to request that any member of the Supplier's team involved on the Transnet SOC Ltd account be replaced if deemed not to be adding value for Transnet SOC Ltd.

25.5 Supplier must provide a toll-free number or alternative number for customer service calls.

25.6 Failure of the Supplier to comply with stated service level requirements will give Transnet SOC Ltd the right to cancel the contract in whole, without penalty, giving 30 (thirty) days' notice to the Supplier.

Acceptance of Service Levels:

YES		NO	

26 CONTINUOUS IMPROVEMENT INITIATIVES

26.1 Respondents shall indicate whether they would be committed, for the duration of any contract which may be awarded through this RFP process, to participate with Transnet SOC Ltd in its continuous improvement initiatives to reduce the overall cost of transportation services and related logistics provided by Transnet SOC Ltd's operating divisions within South Africa, to the ultimate benefit of all end-users.

Accepted:

YES		NO	

If "yes", please specify details in 27.2 below.

26.2 Respondents must briefly describe their commitment to the continuous improvement initiatives and give examples of specific areas and strategies where cost reduction initiatives can be introduced. Specific areas and proposed potential savings percentages should be included. Additional information can be appended to the Respondent's Proposal if there is insufficient space available.

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27 RISK

Respondents must elaborate on the control measures put in place by their company, which would mitigate the risk to Transnet SOC Ltd pertaining to potential non-performance by a Supplier, in relation to -

27.1 Quality and specification of Goods delivered:

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27.2 Continuity of supply:

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27.3 Compliance with the Occupational Health and Safety Act, 85 of 1993:

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27.4 Compliance with the National Railway Safety Regulator Act, 16 of 2002 (refer clause 25 above):

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28 REFERENCES

Please indicate below the company names and contact details of existing customers whom Transnet SOC Ltd may contact to seek third party evaluations of your current service levels:

Name of Company	Contact Person	Telephone Number

29 EVALUATION CRITERIA

Transnet SOC Ltd will utilise the following criteria in selecting a preferred Supplier, if so required:

29.1 STAGE ONE

a) **B-BBEE Rating** *[Refer Section 1, clause 6]*

- Evaluated according the B-BBEE Accreditation scorecard

b) **Supplier Development Bid Document and SD Commitment** *[Refer Section 1, clause 5 plus Annexures A & B1/B2]*

- Industrialisation
- Localisation
- Sustainability/ Technology and IPR transfers
- New skills development
- Job creation and/or preservation
- Small business promotion
- Rural development and regional integration
- Green economy and carbon reduction initiatives

- Further Recognition *[Refer Section 1, sub-clause 6.4]*
  - Ownership
  - Management control
  - Employment equity
  - Enterprise Development
  - Preferential Procurement
- Other SD Initiatives/ Interventions

c) Green economy / carbon footprint: Whereas Transnet SOC Ltd cannot prescribe a Respondent's commitment to environmental issues; Transnet SOC Ltd would wish to have an understanding of your company's position in this regard.

An overall minimum threshold of 60% for Stage one evaluation criteria must be met or exceeded for a Respondent's proposal to progress to Stage Two (Technical Capabilities)

29.2 **STAGE TWO**

d) **Technical Capabilities** *[Annexure C]*

- Technical specification - The extent to which the locomotives offered meet or exceed the specified technical requirements
- Fleet Availability - refer to Annexure C for definition
- Mission Reliability - Expressed in terms of failures per million km where a failure would result in the Locomotive not completing its mission.
- Maintainability - Refer to maintainability requirements in Annexure C
- Control measures to mitigate Transnet SOC Ltd's risk exposure *[Refer Section 2, clause 28 above]*

An overall minimum threshold of 80% for Stage Two (Technical Capabilities) evaluation criteria must be met or exceeded for a Respondent's proposal to progress to Stage Three (Price).

29.3 **STAGE THREE**

a) **Financial** *[Refer Section 3]*

- Commercial offer, as indicated in Section 3
  - Price per locomotive (excluding VAT) excluding any hedging costs and separate price per locomotive including hedging costs

- Total Cost of Ownership (Lifecycle Cost) - Refer to requirements in Annexure I
- Direct and indirect costs in acquiring, operating, maintaining and spares inventory, including the cost of software required for train driver training simulators.
- Lifecycle cost must be based on fitment of new componentry. A detailed list and cost of components fitted at midlife interventions must be supplied.

- Company's financial stability
- Proposed delivery schedule. The delivery time in weeks/ months for the first order of locomotives from the time of the official order placement until the last locomotive has arrived at the depot specified to commence commissioning, (not to exceed March 2014)
- Proposed payment terms
- Proposed Warranties & Guarantees. Expressed in number of months from hand over and includes time to repair defects under warranty
- Contractual compliance (refer draft supply contract appended as Annexure E)

b) **B-BBEE Rating** *[Refer Section 1, clause 6]* and **Future Recognition Indicators** *[Refer Section 1, sub-clause 6.4 and Annexure B2]*

c) **Supplier Development Bid Document and SD Commitment** *[Refer Section 1, clause 5 plus Annexures A & B1]*

30 TECHNICAL DISQUALIFYING/UNRESPONSIVE "CRITERIA"

- **An overall minimum threshold of 60% for Stage One (Supplier Development and BBBEE) evaluation criteria must be met or exceeded for a Respondent's proposal to progress to Stage Three**
- **An overall minimum threshold of 80% for Stage Two (Technical capabilities) evaluation criteria must be met or exceeded for a Respondent's proposal to progress to Stage Three**
- **Non compliance to technical information requirements will be considered as a disqualifying response.**
- **100% technical compliance is required for all mandatory items**
- **A 100% response is required for all technical essentials and desirables**
- **Respondents who's proposal do not meet required delivery date will be deemed to be unresponsive**

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 3: FINANCIAL OFFER & OTHER PERTINENT INFORMATION

31 FINANCIAL OFFER

31.1 Locomotives must be on a delivered price basis in accordance with INCOTERMS 2010 DDP as per the draft Supply Agreement. RFP's for supply on any other basis of delivery are liable to disqualification. The delivery schedule provided by the Respondent must be inclusive of all non-working days or holidays, and of periods occupied in commissioning and formal acceptance of the locomotives.

31.2 Transnet SOC Ltd is anticipating a milestone structure of: 10% prepayment upon receipt of a confirmed delivery schedule and remaining payment per acceptance subject to retention. The Respondent will be required to secure an Advanced Payment Guarantee and Parent Company Guarantee. The issuer of the Advance Payment Guarantee must have at least a long term credit rating of A- (Fitch or equivalent) and the issuer should be pre-agreed with Transnet SOC Ltd.

31.3 Transnet SOC Ltd will require that the successful Respondent (the "Supplier") posts an "on-demand" Performance Bond(s) (on terms satisfactory to Transnet SOC Ltd and for such amount as Transnet SOC Ltd may agree) covering (I) the obligations of the Supplier in relation to the agreed "in-service" availability and reliability targets of the locomotives and (ii) the Supplier's obligations in relation to its Supplier Development commitments (as provided in its SD Plan) and its B-BBEE commitments (as provided in its Further Recognition Criteria Document). Transnet SOC Ltd may require the Supplier to provide one or more Performance Bonds in respect of the above commitments.

31.4 Transnet SOC Ltd requires that the Respondent provide an outline of performance guarantees (e.g., penalties) for the following
Events:

(i) Pre-production delays
(ii) Post-production / shipment delays
(iii) Performance (Reliability / Availability)
(iv) Defect Liability
(v) Availability of Spares
(vi) Breach and Termination(100%cover)

31.3 The Respondent should note that where the whole or a portion of the contract or order value is to be remitted overseas, TFR shall, if requested to do so by the Supplier, effect payment overseas direct to the principal or Supplier of such percentage of the contract or order value as may be stipulated by the Respondent in its RFP Documents and any variation in the amount to be so paid, which may arise as a result of fluctuations in the rate of exchange involved, may be for the account of the Respondent. Transnet SOC Ltd requires that the Respondent provide the following:

(i) The manner in which the Respondent will address the risk of future movements in exchange rates, including a description of any exchange rate hedging strategy.

(ii) The method for determining each projected exchange rate. All exchange rates included should be readily verifiable by TFR. The Respondent should identify the source information used in determining each projected exchange rate (which must be publicly available), and provide clear assumptions / calculations showing how the rate used has been derived.

(iii) The same method used in the submission will be applied in determining exchange rates at Financial Close for each financing.

(iv) Respondents must separately disclose the cost of any hedges included in the price offered

Respondents should note that Transnet SOC Ltd's preferred form of remittance would be in Rands.

31.4 Transnet SOC Ltd can if necessary establish with an export credit agency (ECA) an umbrella loan facility. The Respondent acknowledges the right of TFR to use ECA supported funding for this project. ECA funding will need to be executed in a manner acceptable to TFR. If, for whatsoever reason, ECA support is not in place in a timeous manner, TFR reserves the right to make payments from other sources on the full understanding that any payments made by TFR will still be reimbursed from the Export Credit facility at a later point in time. Should the ECA require the Respondent to assist TFR in executing the funding application, the Respondent agrees to do so.

31.5 Transnet SOC Ltd reserves the right to use any other source of funding available in the market.

31.6 Alternately, in developing an optimal value for money solution, TFR will entertain a financing solution proposal from the Respondent. The Respondent may provide a description of any alternate finance solution noting the potential value for money benefits.

31.7 The costs of acquiring the software required for train driver training simulators must be quoted for separately or as a value add.

32 General

Transnet Freight Rail (TFR) a division of Transnet SOC Ltd must procure locomotives to meet its obligations with regards to increased demand for rail traffic services from its clients.

This section gives an overview of the financial requirements in order to enable TFR to perform a rigorous financial assessment of the various Respondents' capabilities. Respondents are required to provide all the information set out in Sections A, B and C below. Should any information not be provided, it could lead to the Respondent's disqualification in the final analysis.

32.1 Instructions to the Respondents

- Complete the following document (Section A, B and C) to the best of your ability
- Cross reference all pertinent attachments
- Have the documents certified as true and accurate by your auditors
- Return with the bid documents

32.2 Financing and Level of Commitment

Respondents should be aware that due to the administrative and cost burden of advance payment guarantees (APGs), TFR would prefer a payment schedule that only requires an advance payment of 10% of the total contract price. Thus Respondents should provide for receipt of payment only on acceptance, with concomitant retentions in favour of TFR, including performance bonds and warranty provisions.

Should any Special Purpose Vehicle (SPV) be formed to execute the project, then such duties and obligations which would normally be incurred by the parent companies will become the onus of the SPV. In view of this it is imperative that the SPV's financial strength and viability be demonstrated through a rigorous completion of the information in the tables below as would be done for the parent companies.

32.3 Procurement price risk

As outlined in the bid background document, Respondents will be required to price in line with the following options:

- Fixed pricing
- Escalation based pricing.
- Indexation formulas used in pricing calculations

Note that TFR prefers a fixed price contract

The following information is required to be supplied by all Respondents. Where the response is too large for the space provided, the table can be allowed to flow over to the next page or referenced attachments can be provided.

SECTION 3 -A: General

Section	Required Information	To be completed / provided as required
1	**General Information:**	
1.1	Contractors Name	
1.2	Registration Number	
1.3	Physical Address	
1.4	Postal Address	
1.5	Telephone Number(s)	
1.6	Telefax Number	
1.7	E-mail Address	
1.8	Web Page	
1.9	Years in Business	
1.10	Shareholders Details	
1.11	Company Structure(e.g. Holding Co. with subsidiaries etc)	
1.12	Organogram	
1.13	CV's of Key Staff	
1.14	Business & Marketing Strategy	
2	**Facilities/Equipment/Software-indicate Owned or Leased:**	
2.1	Offices	
2.2	Premises	
2.3	Landlord	
2.4	Computer Equipment	
2.5	Standard Software	
2.6	Customised Software	

Respondent's Signature

Date & Company Stamp

Section	Required Information	To be completed / provided as required
3	**Financial:**	
3.1	Bank	
3.2	Address	
3.3	Contact Person	
3.4	Permission for Bank Reference	
3.5	Aggregate Turnover last Three Years	
3.6	Annual Reports Available for Review	

Section	Required Information	To be completed / provided as required
3.7	Auditors	
3.8	Factor Accounts	
3.9	Debtors Book	
3.10	Bank Overdraft	
3.11	Present Borrowings	
3.12	Assets	
3.13	Liabilities	
3.14	Contingent Liabilities	
3.15	Legal Disputes	
3.16	Insurance	
3.17	Professional Indemnity	

SECTION 3-B: Measures

Respondents are required to complete the following table with the information requested. All information is compulsory and any information not provided will result in the Respondent being excluded from the process. The necessary supporting documentation must be cross referenced to the second column below

Respondent's Signature

Date & Company Stamp

Information to be provided	Attached Proposal Reference

(a) Pertinent Financial Statements:

1. All Respondents must provide all audited financial statements for the last three years and for any quarters subsequent to that, to enable TFR to run typical financial ratios and analyses	
2. Total revenue generated by Transnet SOC Ltd's business for each of the last three years	
3. List names and revenue generated by your top 5 customers for each of the last three years	
4. A copy of your latest rating report	

(b) Financing track record:

Respondents are required to -	
1. Provide a complete breakdown of proposed financing structure	

Information to be provided	Attached Proposal Reference
2. Deliverability of Financing Structure 2.1. Show where a similar financing structure has previously been shown to be deliverable in similar circumstances; or 2.2. Explain why the financing plan is deliverable on this transaction.	
3. Highlight the risks to which Transnet SOC Ltd could be exposed in implementing this structure.	

(c) Strength of approvals:

Should any Special Purpose Vehicle (SPV) be formed the level of commitment should be demonstrated by providing the following documents:	
1. Board minutes from all equity investors committing to subscribe equity, including third party equity investors, evidencing adequate funds are available and their willingness to provide funding on the terms set out in the Equity Documents required to be submitted	
2. Where any future injection of equity is to be guaranteed by the Respondent's parent company or a bank, a copy of the commitment from either the parent company/ bank stating that the necessary credit lines are available.	
3. Letters from the underwriting banks, monoline insurers and other financial institutions (if applicable) offering underwriting of the full debt facilities or financial guarantees to the Bidder on the basis of detailed term sheets and a detailed plan for achieving full underwriting of the whole financing in the next stage of the procurement and prior to the appointment of	

Respondent's Signature

Date & Company Stamp

preferred Bidder on the terms proposed.	
4. Evidence of credit committee approvals or financial guarantees for all forms of debt funding explicitly stating the extent to which and conditions on which funds are committed and indicating the level of completeness of financier due diligence and the extent of due diligence that will be carried out prior to the appointment of a Preferred Bidder, including the overall scope and timetable of financier due diligence up to appointment of a Preferred Bidder.	
5. A letter from the Respondent's financial advisors stating that the proposed funding structure is realistic and achievable and that the financing proposals are sufficient to enable the Bidder to meet its obligations under the attached proposal.	

Information to be provided	Attached Proposal Reference
In the event of contracting directly with the Respondent the following is required:	
1. Evidence of credit committee approvals or financial guarantees for all forms of debt funding explicitly stating the extent to which and conditions on which funds are committed and indicating the level of completeness of financier due diligence and the extent of due diligence that will be carried out prior to the appointment of a Preferred Bidder, including the overall scope and timetable of financier due diligence up to appointment of a Preferred Bidder.	
2. A letter from the Respondent's financial advisors stating that the proposed funding structure is realistic and achievable and that the financing proposals are sufficient to enable the Bidder to meet its obligations under the attached proposal.	

(d) Equity:

Respondents must submit the following information for each major type of equity -	
1. Identity and credit status of the investors with a shareholding greater than 10 percent.	
2. Amounts subscribed or to be subscribed by each investor.	
3. Timing of injection of equity.	
4. Where equity holders are a company, joint venture, trust, or other form of interposed entity, a description of the relationship of the beneficial interests to its holding company.	
5. A summary of the commercial terms attaching to the equity financing arrangements including: a. minimum return requirement for each class of risk capital and the basis of any IRR calculations; b. details of arrangement, management, directors and commitment fees; c. terms and conditions of the subscription; d. coupon rights attaching to the subscription; e. dividend rights attaching to the subscription; f. dividend policy; g. voting rights attaching to the subscript(h. any other rights attaching to the subscription; i. terms and any other agreements between the investors in their capacity as investors in the Bidder;	
6. The length of time each class of risk capital will remain in the Respondent	
7. Equivalent information is required for quasi-equity.	

Respondent's Signature

Date & Company Stamp

Information to be provided	Attached Proposal Reference

(e) Debt finance:

Respondents must submit the following information for each class of debt finance -	
1. Identity of the financiers.	
2. Amounts to be provided by each financier.	
3. Term sheets detailing all terms and conditions attaching to the financing arrangements including:	
a. Interest rates and margins	
b. fees;	
c. financial ratios and covenants (base case, lock up and default) explicitly stating the basis of calculation;	
d. default clauses;	
e. conditions precedent;	
f. guarantee structure and security required	
g. reserve requirements or other conditions on distribution;	
h. working capital requirements and how this will be financed; and	
i. Residual value assumptions (and the basis of the calculation).	
4. To the extent that the proposed financing structure incorporates financing of any description outside of the Bidder (for example external financing for, or prepayment of, the residual value of the fleet) the financial submission and financial model should provide sufficient detail so that the arrangements for this financing are transparent and can be understood by TFR.	
5. A letter from Lender/ ECA confirming support and terms of funding	

(f) Foreign Exchange Hedging strategy:

Respondents must provide the following details -	
1. The manner in which the Respondent will address the risk of future movements in exchange rates to convert the proposed funding to ZAR.	
2. Details of any financial instruments which will be used to provide protection against such exchange rate movements, and the cost of such protection. This information should include a term sheet, a pricing quote and supporting forward curve (as at 11.00 a.m. Central African Time (CAT) on 23RDJANUARY 2012.	

Respondent's Signature

Date & Company Stamp

Information to be provided	Attached Proposal Reference

(g) Insurance:

Respondents should ensure transparency. Respondents are required to provide detailed insurance premium calculations and full details of associated project insurance related costs (e.g. insurance "risk contingencies").	
Respondents must include in their Proposal -	
1. A mark up of the insurance arrangements in the SLA clearly identifying where:	
a. there will be full compliance with TFR's insurance requirements	
b. the Bidder proposes alternative solutions to satisfy TFR's requirements	
c. there are points of clarification required	
2. Completed Insurance Cost and Technical Proforma.	
3. A letter from the Bidder's Insurance adviser stating that the insurance arrangements are achievable on the terms and prices included in the Respondents Proposal.	
During post tender negotiations these rates will be compared to rates available to TFR and the Respondent will be requested to utilise the TFR facility should the rates prove to be more advantageous.	

(h) Taxation:

Respondents must include in their Proposal -	
1. Advice from a specialist taxation advisor regarding the taxation implications of the proposal supported by adequate opinions and relevant precedents; especially with regards to Value added tax (VAT) and tax consequences of the proposed funding structure.	
2. Strategy for obtaining the tax rulings required under the Import/Export Agreements if any;	
3. Strategy for minimising the customs duty burden associated with the importation of components, parts or locomotives. TFR will not be responsible for the payment of any duties incurred by the preferred bidder as the onus is on the preferred bidder to ensure the locomotives are supplied duty free.	
4. Setting up a bonded warehouse for spares	

SECTION 3-C: Cash Flow Prediction and Retentions Offered

1. The anticipated cash flow based on proposed contract price, delivery and final acceptance date to be given below.

Month	Delivery Date	Final Acceptance Date	Payment

The cash flow prediction shall in no way affect the terms of payment as stated elsewhere in this RFP document.

2. Retention Amounts Offered_____%, for period _____months from_____.

Respondent's Signature

Date & Company Stamp

SECTION 3-D: Financial projections

Respondents are required to submit in support of their submission the following:-

- a financial model for reflecting the Total Cost of Ownership (TCO) of the proposal (complete the attached excel spreadsheet model, Annexure I)
- a breakdown of base costs eg: set up costs, manufacturing costs etc.; and
- databook assumptions and instructions to support the financial model.

1. Financial model

1.1 Structure of financial model

Respondents must submit financial models in accordance with the following requirements:

(i) complete the attached excel spreadsheet model, Annexure I compatible with Microsoft Excel 2003;

(ii) all amounts are to be in ZAR, rounded to the nearest 1 million ZAR;

(iii) the financial model should be constructed in line with best practice, with the model constructed such that there is formula consistency across rows and columns where practical;

(iv) redundant coding should be kept to a minimum;

(v) the models must be dynamic i.e. contain and show all the formulae required to undertake all calculations;

(vi) the models, together with all sheets and cells within the model should be unlocked (except where locked already by TFR) ;

(vii) all model functions, formulae and linkages should be operational and no part of the model, including macros, should be password protected (unless the password is clearly provided for each level of protection), nor should any cells containing input or output data be hidden away from view in any way;

(viii) separate financial projections should be provided for locomotive base costs and then separately the annual maintenance costs afterwards assuming year end of 30 March;

(ix) cash flows are assumed to take place at the end of each period; and

(x) in the event that there is a discrepancy between the financial model and the written Proposal the financial model will take precedence.

1.2 Financial model inputs & outputs

Financial model inputs & outputs	Bidder Proposal Reference
As a minimum the financial models must include:	

(a) Investment data:

1. A monthly locomotive delivery and acceptance schedule (please use the spreadsheet provided, Annexure I)	
2. Analysis of bid costs (including professional fees) (please use the spreadsheet provided, Annexure I)	
3. Capital and operating cost assumptions (please use the spreadsheet provided, Annexure I)	
4. All and any assumptions (please use the spreadsheet provided, Annexure I)	
5. Non time based assumptions including financing costs, working capital, tax and accounting assumptions (please use the spreadsheet provided, Annexure I)	
6. The following nominal cash flows must be included (please use the spreadsheet provided, Annexure I) : a. Capital acquisition cost(separated into: (i) Base price ("off the shelf") (ii) Optional prices(to cater for functionalities not offered as part of base product) b. Maintenance cost (broken into constituent costs per intervention, e.g. labour, parts) based upon 14 million GTK's per month c. Engineering support cost d. Special tooling requirements e. Capital spares f. Consumables g. Energy costs (based upon 14 million GTK's per month and an electricity costs of 60 cents per kilowatt hour); and h. Any other relevant cost	
7. Fuel efficiency rates to be provided based on 14 million GTK's per month. Sensitivity to be provided based on varying work rate (notches 1-10 whichever applicable) and tonnages hauled. (please use the spreadsheet provided, Annexure I)	
8. Escalation formula used, where applicable to the operating costs (deviations from the requested South Africa CPT + 2%, and the reason therefore must be fully explained)	

(b) Funding data (where an alternate financing proposal is provided) (separately):

1. The Base Periodic Charge (Real)	
2. Assumptions on deposit and overdraft rates;	
3. Rates of Exchange used	
4. Taxation assumptions used	
5. Finance structure to cover a period of 20 years	

Financial model inputs & outputs	Base Proposal Reference
(c) Financial model calculations:	
The financial model calculations must include the following, on a locomotive and aggregate basis -	
1. Nominal payments monthly until delivery into Transnet SOC Ltd service of the final locomotive and annually (please use the spreadsheet provided)	
2. Funding schedules for each form of finance setting out drawdown, repayment amounts, interest payments, distributions and timing (separately where a funding proposal is provided);	
(d) Financial model outputs:	
The financial models must produce outputs including the following -	
1. The lifecycle cost evaluation spreadsheet model;	
2. Any other ratios which are considered relevant to the proposed financial structure;	
3. Any other specific outputs considered appropriate by the Respondent.	

Financial model databook

Respondents are required to provide databook assumptions and instructions supporting the financial models.

Information to be provided	Base Proposal Reference
(a) Financial model databook assumptions:	
The databook assumptions should include the following details as a minimum:	
1. A table of all inputs to the financial models with the cell reference and source;	
2. An explanation of the methodology used to generate the financial projections;	
3. Copies of source documents (e.g. construction cashflow) or a clear indication where these may be found elsewhere in the Respondent's Proposal;	
4. Copies of relevant market related financial screens, that detail the interest rates and exchange rates used in the calculation of the Proposal are to be provided. This should include the date and time of day (as specified) and information relating to whether the rates are monthly, bi-monthly, quarterly, semi-annual, annual or longer, and all necessary supporting information to document clearly the basis for determinations of the interest and exchange rates (deviations from the requested South African CPI + 2 %, and the reasons therefore must be fully explained);	

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 4: PROPOSAL FORM

I/We_____

(name of company, close corporation or partnership)

of (full address) _____

_____

carrying on business under style or title of (trading as) _____

represented by_____

in my capacity as _____

being duly authorised thereto by a Resolution of the Board of Directors or Members or Certificate of Partners, as the case may be, dated _____ a certified copy of which is annexed hereto, hereby offer to supply the above-mentioned Goods at the prices quoted in the schedule of prices in accordance with the terms set forth in the accompanying letter(s) reference _____ _____ and dated _____ (if any) and the documents listed in the accompanying schedule of RFP documents (this "Proposal").

I/We accept that unless Transnet SOC Ltd should otherwise decide and so inform me/us in the letter of acceptance (the "Letter of Award"), I/we will be bound by this Proposal (and, if any, its covering letter and any subsequent exchange of correspondence).

I/We acknowledge that the RFP contains a limited selection of key, indicative commercial, technical and legal terms on which Transnet SOC Ltd proposes to purchase the locomotives contemplated in the RFP. The decision by Transnet SOC Ltd to award the tender to a bidder through its internal processes and governance structures and any commitment from Transnet SOC Ltd is, in each case, subject to and will only be completed upon the signing of a set of mutually satisfactory procurement agreements between the parties (substantially in the form of the draft supply contract and supporting documents included in Section 8 of the RFP) (the "**Supply Agreements**"). In the absence of such signed Supply Agreements, Transnet SOC Ltd will not be bound by an interim step in the process (including but not limited to a decision by its Acquisition Council to appoint a bidder as the preferred bidder or to award the tender to a specific bidder, as the case may be).

I/We further agree that if, after I/we have been notified of the acceptance of my/our Proposal, I/we fail to enter into the Supply Agreements if called upon to do so, or fail to commence the supply of Goods within 4 (four) weeks thereafter, Transnet SOC Ltd may, without prejudice to any other legal remedy which it may have, and at its sole discretion decide either to enter into negotiations with the next best ranked (or any other) respondent or alternatively, to call for fresh proposals. I /we further agree that

Transnet SOC Ltd may recover from me/us any expense to which it may have been put in calling for Proposals afresh and/or having to accept any less favourable Proposal.

I/We accept that any contract resulting from this offer will be until March 2013 only; and agree to a penalty clause to be negotiated with Transnet SOC Ltd, which will allow Transnet SOC Ltd to invoke a penalty (details to be negotiated) against us should the delivery of the Goods be delayed due to non-performance by ourselves.

Unless otherwise agreed by Transnet SOC Ltd, the law of the Republic of South Africa shall govern the Supply Agreements. The *domicilium citandi et executandi* shall be a place in the Republic of South Africa to be specified by the Respondent hereunder, at which all legal documents may be served on the Respondent who shall agree to submit to the jurisdiction of the courts of the Republic of South Africa. Foreign Respondents shall, therefore, state hereunder the name of their accredited agent in the Republic of South Africa who is empowered to sign each Supply Agreement and any other document which may have to be entered into in the event of their Proposal being accepted and to act on their behalf in all matters relating to such agreements and documents.

Respondent to indicate the details of its *domicilium citandi et executandi* hereunder:

Name of entity _____

Facsimile_____

Address: _____

_____

_____

NOTIFICATION OF AWARD OF RFP

As soon as possible after approval to award the contract/s, the successful Respondent (the Supplier) will be informed of the acceptance of its Proposal. Unsuccessful Respondents will be advised in writing of the name of the successful Supplier and the reason as to why their Proposals have been unsuccessful, for example, in the category of price, delivery period, quality, B-BBEE status or for any other reason.

VALIDITY PERIOD

Transnet SOC Ltd desires a validity period of 6 (six) months (from closing date) against this RFP.

This RFP is valid until _____ .

TAX (VAT) REGISTRATION NUMBER

The Respondent must state hereunder the registration number which is applicable to Value-Added Tax:

_____

TAX CLEARANCE CERTIFICATE

Respondents are required to forward a valid copy of their company's Tax Clearance Certificate with their Proposal.

Indicate tax clearance certificate expiry date: _____

_____ _____

Respondent's Signature Date & Company Stamp

BANKING DETAILS

BANK: _____

BRANCH NAME / CODE: _____

ACCOUNT HOLDER: _____

ACCOUNT NUMBER: _____

NAME(S) AND ADDRESS / ADDRESSES OF DIRECTOR(S) OR MEMBER(S)

The Respondent must disclose hereunder the full name(s) and address(s) of the director(s) or members of the company or close corporation (C.C.) on whose behalf the RFP is submitted.

(i) Registration number of company / C.C. _____

(ii) Registered name of company / C.C. _____

(iii) Full name(s) of director/member(s) Address/Addresses ID Number/s

_____

_____

_____

_____

_____

REGISTRATION CERTIFICATE

Respondents must submit a certified copy of their company's Registration Certificate with their Proposal.

CONFIDENTIALITY

All information related to any Supply Agreement, both during and after completion, is to be treated with strict confidence. Should the need however arise to divulge any information gleaned from provision of the Goods, which is either directly or indirectly related to Transnet SOC Ltd's business, written approval to divulge such information must be obtained from Transnet SOC Ltd.

DISCLOSURE OF PRICES TENDERED

Respondents must indicate here whether Transnet SOC Ltd may disclose their tendered prices and conditions to other Respondents:

YES		NO	

PRICE REVIEW

The successful Respondent(s) will be obliged to submit to an annual price review. Transnet SOC Ltd will be benchmarking this price offering(s) against the lowest price received as per a benchmarking exercise. If the Respondent's price(s) is/are found to be higher than the benchmarked price(s), then the Respondent shall match or better such price(s) within 30 (thirty) days,- failing which the contract may be terminated at Transnet SOC Ltd's discretion or the particular item(s) or service(s) purchased outside the contract.

_____ _____

Respondent's Signature Date & Company Stamp

RETURNABLE DOCUMENTS

Respondents are required to submit the following returnable documents with their responses (see √). All returnable documents must be submitted in duplicate plus a CD copy. All Sections, as indicated in the footer of each page, must be signed, stamped and dated by the Respondent:

Notice to Respondents – Section 1	√
Background overview – Section 2	√
Financial Offer & Other Pertinant Information – Section 3	√
Proposal Form – Section 4	√
Resolution of Board of Directors (Respondent's Representative) – Section 5	√
Certificate of Acquaintance with RFP Documents – Section 6	√
General Bid Conditions, Form CSS5 – Section 7	√
Draft Conditions of Contract – Section 8	√
Audited Financials for previous 3 years	√
Valid Tax Clearance Certificate	√
VAT and Company Registration Certificates	√
B-BBEE Accreditation Certificate	√
Vendor Application Form (VAF) – Annexure H	√
Certificate of attendance of Briefing Session – Section 9	√
Specifications and Drawings – Section 10	√
Non-Disclosure Agreement – Section 11 – Annexure F	√
RFP Declaration Form – Section 12	√
Breach of Law – Section 13	√
Annexure B 1 – Response to Supplier Development Questions	√
Annexure B2 – Further recognition development document	√
Annexure G – Bill of Material (BOM)	√
Annexure I - Financial TCO model	√
Reduction in carbon intensity plan	√

CONTINUED VALIDITY OF RETURNABLE DOCUMENTS

- The successful Respondents will be required to ensure that all returnable documents, including but not limited to its Tax Clearance Certificate and B-BBEE Accreditation Certificate, for the duration of any contract emanating from this RFP are valid.
- A failure by the Respondent to present Transnet SOC Ltd with renewals of such documents/certificates as and when they become due, may , in addition to any other rights and remedies of Transnet SOC Ltd, result in the termination of the Supply Agreements.
- Failure to furnish ALL returnable documents may lead to the disqualification.

By signing the RFP documents, the Respondent is deemed to acknowledge that he/she has made himself/herself thoroughly familiar with all the conditions governing this RFP, including those contained in any printed form stated to form part hereof and Transnet SOC Ltd SOC Ltd will recognise no claim for relief based on an allegation that the Respondent overlooked any such condition or failed properly to take it into account for the purpose of calculating tendered prices or otherwise.

SIGNED at _____ on this _____ day of _____ 2011

SIGNATURE OF WITNESSES

ADDRESS OF WITNESSES

1 _____

Name _____

_____

_____

_____

2 _____

Name _____

_____

_____

_____

SIGNATURE OF RESPONDENT'S AUTHORISED REPRESENTATIVE:

_____

NAME: _____

DESIGNATION: _____

_____

Respondent's Signature

_____

Date & Company Stamp

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 5: SIGNING POWER – RESOLUTION OF BOARD OF DIRECTORS

NAME OF COMPANY: _____

It was resolved at a meeting of the Board of Directors held on _____ that

FULL NAME(S)	CAPACITY	SIGNATURE
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

in his/her capacity as indicated above is/are hereby authorised to enter into, sign, execute and complete any documents relating to Tenders, Proposals and/or Agreements for the supply of Goods.

FULL NAME _____ _____
SIGNATURE CHAIRMAN

FULL NAME _____ _____
SIGNATURE SECRETARY

_____ _____
Respondent's Signature Date & Company Stamp

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 6: CERTIFICATE OF ACQUAINTANCE WITH RFP DOCUMENTS

NAME OF COMPANY:

_____

I/We _____

do hereby certify that I/we acquainted myself/ourselves with all the documentation comprising this RFP and all conditions contained therein, as laid down by Transnet SOC Ltd for the carrying out of the proposed supply/service/works for which I/we submitted my/our response.

I/We furthermore agree that Transnet SOC Ltd shall recognise no claim from me/us for relief based on an allegation that I/we overlooked any RFP/contract condition or failed to take it into account for the purpose of calculating my/our offered prices or otherwise.

SIGNED at _____ on this _____ day of _____2011

_____ _____

SIGNATURE OF WITNESS SIGNATURE OF RESPONDENT

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 7: GENERAL TENDER CONDITIONS - GOODS

Refer General Tender Conditions attached hereto as Annexure D

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 8 DRAFT SUPPLY CONTRACT AND SUPPORTING DOCUMENTS FOR THE SUPPLY OF GOODS TO TRANSNET SOC LTD

Refer Draft Supply Contract attached hereto as Annexure E

Respondents should note the obligations as set out in
clause 24 *(Terms and Conditions of Tender)*
of the General Tender Conditions (RFP Section 7) which reads as follows:

"The Supplier shall adhere to the Draft Supply Contract, a copy of which is attached hereto. Should the Respondent find any conditions unacceptable, it should indicate which conditions are unacceptable and offer alternatives. Please note that any alternative offered shall be compared with acceptance of the draft supply contract conditions or alternatives offered by other Respondents, except penalties for late deliveries, the exclusion of which may disqualify the RFP, save where indicated otherwise by Transnet SOC Ltd."

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 9: CERTIFICATE OF ATTENDANCE OF BRIEFING SESSION

It is hereby certified that –

1. _____

2. _____

Representative(s) of _____ (name of company)

attended the briefing session in respect of the proposed Goods to be rendered in terms of this RFP on _____2012

_____ _____

TRANSNET SOC LTD'S REPRESENTATIVE RESPONDENT'S REPRESENTATIVE

DATE _____ DATE _____

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 10: TECHNICAL SPECIFICATIONS & DRAWINGS

[See Annexure C]

Note that Drawings are only provided in soft copy & these drawings are included in the CD issued with this RFP

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 11: NON-DISCLOSURE AGREEMENT (NDA)

Complete and sign the Non-Disclosure Agreement attached hereto as Annexure F

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 12: RFP DECLARATION FORM

NAME OF COMPANY: _____

We _____ do hereby certify that:

1 Transnet SOC Ltd has supplied and we have received appropriate responses to any/all questions (as applicable) which were submitted by ourselves for bid clarification purposes;

2 we have received all information we deemed necessary for the completion of this Request for Proposal (RFP);

3 at no stage have we received additional information relating to the subject matter of this RFP from Transnet SOC Ltd sources, other than information formally received from the designated Transnet SOC Ltd contact(s) as nominated in the RFP documents;

4 we are satisfied, insofar as our company is concerned, that the processes and procedures adopted by Transnet SOC Ltd in issuing this RFP and the requirements requested from respondents in responding to this RFP have been conducted in a fair and transparent manner; and

5 furthermore, we declare that a direct family, business or social relationship exists between a family member and/or an owner / member / director / partner / shareholder/ senior manager of our company and an employee or board member of the Transnet SOC Ltd Group as indicated below: *[Respondent to delete this section if not applicable]*

FULL NAME OF OWNER/MEMBER/DIRECTOR/
PARTNER/SHAREHOLDER: ADDRESS:

_____

_____

_____

Indicate nature of relationship with Transnet SOC Ltd:

_____

_____

[Failure to furnish complete and accurate information in this regard may lead to the disqualification of a response and may preclude a Respondent from doing future business with Transnet SOC Ltd]

_____ _____

Respondent's Signature Date & Company Stamp

6 We declare, to the extent that we are aware or become aware of any relationship between ourselves and Transnet SOC Ltd (other than any existing and appropriate business relationship with Transnet SOC Ltd) which could unfairly advantage our company in the forthcoming adjudication process, we shall notify Transnet SOC Ltd immediately in writing of such circumstances.

7 We accept that any dispute pertaining to this bid will be resolved through the Ombudsman process and will be subject to the Terms of Reference of the Ombudsman. The Ombudsman process must first be exhausted before judicial review of a decision is sought. (Refer "Important Notice to Respondents" overleaf).

8 We further accept that Transnet SOC Ltd reserves the right to reverse a tender award or decision based on the recommendations of the Ombudsman without having to follow a formal court process to have such award or decision set aside.

SIGNED at _____ on this _____ day of _____ 2011

For and on behalf of _____ duly authorised hereto	AS WITNESS:
Name:	Name:
Position:	Position:
Signature:	Signature:
Date:	
Place:	

_____ Respondent's Signature

_____ Date & Company Stamp

IMPORTANT NOTICE TO RESPONDENTS

- **Transnet SOC Ltd has appointed a Procurement Ombudsman to investigate any material complaint in respect of RFPs exceeding R5, 000,000.00 (five million S.A. Rands) in value. Should a Respondent have any material concern regarding an RFP process which meets this value threshold, a complaint may be lodged with Transnet SOC Ltd's Procurement Ombudsman for further investigation.**
- **It is incumbent on the Respondent to familiarise himself/herself with the Terms of Reference for the Transnet SOC Ltd Procurement Ombudsman, details of which are available for review at Transnet SOC Ltd's website www.Transnet .net.**
- **An official complaint form may be downloaded from this website and submitted, together with any supporting documentation, within the prescribed period, to procurement.ombud@Transnet.net**
- **For transactions below the R5, 000,000.00 (five million S.A. Rand) threshold, a complaint may be lodged with the Chief Procurement Officer of the relevant Transnet SOC Ltd Operating Division.**
- **All Respondents should note that a complaint must be made in good faith. If a complaint is made in bad faith, Transnet SOC Ltd reserves the right to place such a bidder on its List of Excluded Respondents.**

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 13: CONTRAVENTION OF LAW

NAME OF COMPANY: _____

I/We _____

do hereby certify that **I/we *have/have not been*** found guilty by a court of law, Tribunal or other administrative body of a serious breach of law during the preceding 5 (five) years. Such breaches include but are not limited to breaches of the Companies Act, 89 of 1998.

Where found guilty of such a material contravention, please disclose:

NATURE OF MATERIAL CONTRAVENTION:

_____

_____

_____

DATE OF MATERIAL CONTRAVENTION: _____

Furthermore, I/we acknowledge that Transnet SOC Ltd reserves the right to exclude any Respondent from the bidding process, should that person or company have been found guilty of a material contravention of law or regulatory obligation.

SIGNED at _____ on this _____ day of _____ 2011

_____ SIGNATURE OF WITNESS

_____ SIGNATURE OF RESPONDENT

_____ Respondent's Signature

_____ Date & Company Stamp

RFP FOR THE SUPPLY OF
95 NEW ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB) BY MARCH 2014

Section 14: BID CLARIFICATION REQUEST FORM

RFP No: HOAC-HO-7801

RFP deadline for questions / bid clarifications: Before 10h00, Tuesday 14 February 2012.

TO:	Transnet Freight Rail
ATTENTION:	Lindiwe Mdletshe, Commercial Specialist, Supply Chain Services
EMAIL	Lindiwe.Mdletshe2@transnet.net
DATE:	.....
FROM:	.....

RFP Bid Clarification No *[to be inserted by Transnet SOC Ltd]* [.....]

REQUEST FOR BID CLARIFICATION:

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

Respondent's Signature

Date & Company Stamp

REPORT 3(A) – EXHIBIT 12

Phume Mthembu

Subject: FW: About the tender document for the supply and delivery of 95 new electric locomotives

---

From: sheyongjun [mailto:sheyongjun@126.com]
Sent: 14 December 2011 05:21 PM
To: Lindiwe Mdletshe Transnet Freight Rail JHB
Cc: alton@mail.gofront.com; 332464066@qq.com
Subject: About the tender document for the supply and delivery of 95 new electric locomotives

Dear Lindiwe Mdletshe,
This is Andreas from CSR Zhuzhou Electric Locomotive Co.,Ltd.
From the website http://www.spoornet.co.za/Website/tenders.html, we get the information about the supply and delivery of 95 new electric locomotives for the general freight business (GFB) to be delivered by March 2014.

We are very interested in this project.

The below is a brief introduction about our company for your reference.

CSR Zhuzhou Electric Locomotive Co., Ltd. (CSR ZELC) was founded in 1936 and successfully developed first mainline electric locomotive for China in 1958. It is the major base of electric locomotive development and manufacturing in China.
With the integrated system of developing products independently, lean manufacturing and good service that have been formed through 70 years' development, CSR ZELC has become one of the important solution providers for the world railway transportation system. It devotes to offering customized and individualized railway transport solutions during the whole process of product design, manufacturing test, application and maintenance, and has worldwide international experiences and successful achievements.
Our electric locomotive products have been successfully applied in many countries.

Now, we have following two questions:
1. We know that we can download the RFP documents from the above-mentioned website at first.
   Are the RFP documents downloaded in the website same with the tender documents will be bought by us?
2. If we buy the tender documents in future, whether we should buy it in person in the at the RECEPTION, TENDER ADVICE CENTRE, INYANDA HOUSE 1, GROUND FLOOR, 21 WELLINGTON ROAD, PARKTOWN. JOHANNESBURG, or we can transfer the money to the Account number: 203158598, and then you will send the formal tender documents to us?

Your prompt reply would be highly appreciated.
Thank you very much
Best regards

Yongjun

International Marketing Center
CSR Zhuzhou Electric Locomotive Co. Ltd.
Tianxin, Zhuzhou, Hunan, China
Mobile: 0086-13762382226
Email: sheyongjun@126.com
sheyongjun@csrzelc.com
Website: www.csrzelc.com

REPORT 3(A) – EXHIBIT 13

Bongiwe Gqeba

From: Lindiwe.Mdletshe2@transnet.net
Sent: Thursday, December 15, 2011 10:59 AM
To: sheyongjun@126.com
Cc: alton@mail.gofront.com; 332464066@qq.com; Sarah.Assegaai@transnet.net; Anthonie.Erasmus@transnet.net
Subject: RE: About the tender document for the supply and delivery of 95 new electric locomotives

Dear She Yongjun,

Thank you for the introduction.

Your email below refers.

For this tender the RFP document is NOT available on the website to be down loaded. You will only see the advert.

To be able to get the RFP Document you are required to make a deposit of R20,000.00 to the banking details ransnet) that are on the advert.

Proof of payment to be submitted on collection of the tender document.

Our telephonic discussion today, 15 Dec 2011 refers.

You do not have a representative is South Africa to collect the tender document.

After depositing the money please email the proof of payment to sarah assegai at sarah.assegai@trasnent.net or Lindiwe.mdletshe2@transnet .net. documents will be emailed to you.

NB: tender will close on the 28th FEBRUARY 2011 @ 10h00 as per the advert, no late document will be accepted.
Compulsory briefing session as per the advert

Kind Regards

Lindiwe Mdletshe
Commercial Specialist
Supply Chain Services
Transnet Freight Rail

011 584 0620 083 2683365
011 773 0832 Lindiwe.Mdletshe2@transnet.net
www.transnet.net

From: sheyongjun [mailto:sheyongjun@126.com]
Sent: 14 December 2011 05:21 PM
To: Lindiwe Mdletshe Transnet Freight Rail JHB
Cc: alton@mail.gofront.com; 332464066@qq.com
Subject: About the tender document for the supply and delivery of 95 new electric locomotives

Dear Lindiwe Mdletshe,
This is Andreas from CSR Zhuzhou Electric Locomotive Co.,Ltd.
From the website http://www.spoornet.co.za/Website/tenders.html, we get the information about the supply and delivery of 95 new electric locomotives for the general freight business (GFB) to be delivered by March 2014.

We are very interested in this project.

The below is a brief introduction about our company for your reference.

CSR Zhuzhou Electric Locomotive Co., Ltd. (CSR ZELC) was founded in 1936 and successfully developed first mainline electric locomotive for China in 1958. It is the major base of electric locomotive development and manufacturing in China.
With the integrated system of developing products independently, lean manufacturing and good service that have been formed through 70 years' development, CSR ZELC has become one of the important solution providers for the world railway transportation system. It devotes to offering customized and individualized railway transport solutions during the whole process of product design, manufacturing test, application and maintenance, and has worldwide international experiences and successful achievements.
Our electric locomotive products have been successfully applied in many countries.

Now, we have following two questions:
1. We know that we can download the RFP documents from the above-mentioned website at first.
   Are the RFP documents downloaded in the website same with the tender documents will be bought by us?
2. If we buy the tender documents in future, whether we should buy it in person in the at the RECEPTION, TENDER ADVICE CENTRE, INYANDA HOUSE 1, GROUND FLOOR, 21 WELLINGTON ROAD, PARKTOWN, JOHANNESBURG, or we can transfer the money to the Account number: 203158598, and then you will send the formal tender documents to us?

Your prompt reply would be highly appreciated.
Thank you very much
Best regards

She Yongjun

International Marketing Center
CSR Zhuzhou Electric Locomotive Co. Ltd.
Tianxin, Zhuzhou, Hunan, China
Mobile: 0086-13762382226
Email: sheyongjun@126.com
sheyongjun@csrzelc.com
Website: www.csrzelc.com

REPORT 3(A) – EXHIBIT 14

Feziwe Phungula

From: She Yongjun <sheyongjun@126.com>
Sent: 20 December 2011 04:28
To: lindiwe.mdletshe2@transnet.net
Cc: sarah.assegaai@transnet.net; alton@mail.gofront.com; 332464066@qq.com
Subject: About the Payment for the RFP Document
Attachments: Debit Comfirmation of the outward remittance.pdf

Dear Lindiwe,
We have completed the payment for the RFP documents. Becauce we can not directly pay it with ZAR, so we can only pay it with USD dollars to Bank of China, which will be continuous to pay it to transnet's bank account with ZAR 20000. I hope you will receive the payment today. The current proof of payment which we have received from Bank of China refers to the Annex.
Could you send me the electronic RFP documents by this payment proofs?

Your prompt reply would be highly appreciated.

Thank you very much

Best regards

--
She Yongjun

International Marketing Center
CSR Zhuzhou Electric Locomotive Co. Ltd.
Tianxin, Zhuzhou, Hunan, China
Mobile: 0086-13762382226
Tel: 0086-731-28464116
Fax: 0086-731-28446446

Email:
sheyongjun@126.com
sheyongjun@csrzelc.com
Website: www.csrzelc.com

-------- Forwarding messages --------
From: "国际结算部 hnzzn" <0xLJB9FABCCABDE1CBE3B2BFzhnzzn@mail.notes.bank-of-china.com>
Date: 2011-12-20 09:53:29
To: sheyongjun@126.com
Subject: 回单

==========
BANK OF CHINA LTD.,ZHUZHOU BRANCH

TEL:0731-28817004/020/041
FAX:0731-28817005
ADD:61 Tiantai RD.,Tianyuan Dist.,Zhuzhou,Hunan,China
P.O.Number:412000
SWIFT CODE:BKCHCNBJ98C
==========

REPORT 3(A) – EXHIBIT 15

中国银行株洲分行国际结算部
国际汇款借记通知书
DEBIT CONFIRMATION OF OUTWARD REMITTANCE

致(To):南车株洲电力机车有限公司
Dear Sir/Madam:
下列款项我行已于即日借记你601557366040账户，如有问题请及时与我行联系，联系电话:0731-28
We confirm the following funds have been debited from your account. If you have any pro
please contact us as soon as possible. The contact Tel NO: 0731-28817041

交易名称：国际汇出汇款 TT　　交易日期：2011/12/20
Transaction Type: Outward Remittance　　Transaction Date:

支票号码 Cheque No.:
汇款人账号 Remitter' s A/C No.: 601557366040
汇款人名称 Remitter' s Name: 1/CSR ZHUZHOU ELECTRIC LOCOMOTIVE
扣款货币/金额 Debit CCY/AMT: USD/2,380.00
收款人账号 Beneficiary A/C No.: 203158598
收款人名称 Beneficiary: TRANSNET FREIGHT RAIL
收款人开户行名称Beneficiary Bank:
我行业务编号 Business Ref. No.: TT12690110000386
汇票号码 Draft No.:
汇款货币/金额 Remittance CCY/AMT:USD /2,380.00
买入价 Buying Rate: 0.0000
卖出价 Selling Rate: 0.0000
国际收支申报/核销号码 SAFE Declaration/Verification No.: 4302000001011[illegible]1220A001

中国银行股份有限公司株洲分行 汇出汇款业务专用章 97096201

核准: 7927870　经办:5229508　交易流水号: 057841431　交易机构: 12690　借贷标识:
Re-Checker　Handler　Transaction Journal No　Transaction Institution　CR/DR Fla

REPORT 3(A) – EXHIBIT 16

TRANSNET

PROCUREMENT PROCEDURES MANUAL

(PPM)

A MANUAL FOR PROCUREMENT, ACQUISITION COUNCILS AND CONTRACT ADMINISTRATORS

PART 1	:	PREAMBLE
PART 2	:	PROCUREMENT MECHANISMS
PART 3	:	ISSUING & RECEIPT OF TENDERS & QUOTATIONS (RFXs)
PART 4	:	EVALUATION
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(FOR INTERNAL USE ONLY)

26 May 2009

PROCUREMENT PROCEDURES MANUAL

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(signed) K. van Vuuren — **28 May 2009**

KAREN VAN VUUREN — **DATE:**
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STRATEGIC SUPPLY MANAGEMENT

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PART 1: PREAMBLE

1. Foreword

1.1 Transnet Strategy

Transnet is a diversified freight transport and logistics company wholly owned by the South African Government. With over 48 000 employees and assets in excess of R100 billion, the Group provides seamless and integrated bulk freight services through its Operating Divisions.

In terms of the Public Finance Management Act (PFMA) the Accounting Authority (i.e. the Transnet Board of Directors) has delegated the powers for the day-to-day running of the business to the Group Chief Executive, who in turn has delegated certain powers to the members of the Group Executive Committee, with the power to sub-delegate such powers. These Procurement Procedures are based on the abovementioned principle. The GM: Strategic Supply Management is the custodian of this document and the only person with the necessary Delegated Powers, working in conjunction with Transnet Group Legal, to effect any amendments thereto in line with governance and legislative changes, ensuring that these support the continued operations of the Operating Divisions. All procurement within Transnet shall be done in line with these Procedures. Non-compliance will result in disciplinary action and, depending on the severity of the non-compliance, possible dismissal.

1.2. Supply Management Strategic Objectives

(i) Transnet's objective when procuring goods or services, or disposing of scrapped or surplus materials is to achieve optimal value and efficiency by adopting best purchasing practices in Supply Management, ensuring where possible that open and fair competition has prevailed. Due regard must be given to the importance of:
- (a) The promotion of Transnet's Interdivisional Support Policy;
- (b) The promotion, development and support of Broad Based Black Economic Empowerment (BBBEE) initiatives;
- (c) The promotion of national and regional local suppliers, who are globally competitive, before considering foreign suppliers; and
- (d) The increase of National Value Add (NVA) in terms of promoting local manufacturing as it relates to Transnet's Competitive Supplier Development Programme (CSDP);
- (e) The development, promotion and support of Transnet's Code of Ethics on Purchasing, which requires that all commercial conduct be based on ethical and moral values and sound business practice. This value system governs all commercial behaviour within Transnet.

(ii) Transnet will strive to procure materials and services which contribute to its mission which is to anticipate and satisfy the requirements of its customers for highly responsive and cost-effective transportation service. In order to achieve this, Transnet is committed to working with suppliers who share its goals of continuous improvement in service, quality and reduction of TCO (total cost of ownership).

(iii) Transnet will in the interest of standardization and competitiveness strive to procure commercial off-the-shelf (COTS) commodities, instead of commodities unique to Transnet. The practice of drawing up Transnet-specific specifications for articles similar to normal off-the-shelf products has proven to be very costly for Transnet. This is due to the fact that manufacturers have to reset their production lines to manufacture non-standard and sometimes over-specified items. Hence, Procurement Departments and officials must engage on an ongoing basis with their customers and the relevant Engineering or Product Development counterparts to ensure that in no instance known effective COTS solutions are overlooked for one that is customized to Transnet unique specifications, and to ensure that COTS solutions are being tested until approved so that customization can be kept to a minimum.

(iv) Transnet will seek to develop and maintain positive, long-term relationships based on mutual performances, trust and respect with those suppliers who demonstrate their commitment to Transnet's shared goals.

(v) .Transnet will not do business with any agents ("middlemen"), who do not add significant value to the supply chain. In such instances Transnet will endeavour to contract directly with the overseas and / or local OEMs.(Original Equipment Manufacturers). In the case of dealing with overseas OEMs for relevant CSDP targeted commodities such as rolling stock and port equipment, Transnet will negotiate meaningful CSDP localisation initiatives directly with such overseas OEMs as part of their supply agreements to Transnet. Please also refer to the Supplier Development Plan (SDP), copy available on the Transnet Intranet, signed off by the Ministers of Public Enterprises and Trade and Industry in May 2008 for implementation over five years.

(vi) Transnet will also commit itself to being clear in its communication of requirements, professional, courteous, fair, factual and responsive in its business dealings.

(vii) Supporting good corporate governance by ensuring the preservation of the highest standards of integrity, objectivity, fairness, efficiency and professionalism; and

(viii) Promotion of an efficient and effective Procurement Policy and procedures so as to achieve optimal value for money based on life-cycle cost and quality (total cost of ownership) to enhance competitiveness of suppliers through the development of world-class professional procurement mechanisms.

(ix) The purpose of one uniform set of procedures for the whole Group is to achieve the best of both worlds, namely centralization and, where necessary, decentralization and facilitate a uniform interpretation internally as well as externally with Transnet's supplier base, whilst complying with the requirements of Section 51(1) (a) of the PFMA and Section 217 of the Constitution. The procedures also provide clear guidelines on aspects such as:-

(a) Contracting with other organs of State;
(b) Subcontracting with main suppliers prepared to promote BBBEE from their side; and
(c) Preference to BBBEE enterprises in terms of pre-determined qualifying criteria.

(x) **NB: Transnet's Procurement Procedures as encapsulated in this document (PPM), aims to lay down the framework and minimum standards and procedures. Other procedural manuals, either from SSM, or from an Operating Division or Group Function, should be read in conjunction with these procedures. Please refer to the relevant Annexures where stipulated in this document. Below is a non-exhaustive list of procurement (and disposal) related policies and procedures that are available on the Transnet Intranet:-**

Procure to Pay Procedures (P2P Manual)
Reverse Logistics Procedures
Contracting Procedures Manual for Strategic Sourcing
Disposal of redundant / obsolete PC equipment
Disposal of Cell phones, etc.

1.3. Guiding Principles

1.3.1 The Government of the Republic of South Africa through the Department of Public Enterprise, is the sole shareholder of Transnet. The following have been taken into consideration in the formulation of this document:-

(i) The Constitution of the Republic of South Africa which stipulates, inter alia, that State procurement processes should be fair, equitable, transparent, competitive, and cost-effective and that the imbalances of the past must be redressed.
(ii) The Public Finance Management Act (PFMA) (No. 1 of 1999, as amended).
(iii) Preferential Procurement Policy Framework Act (No. 5 of 2000, as amended).
(iv) The Companies Act (No.61 of 1973, as amended).
(v) The Competitive Supplier Development Programme (CSDP)
(vi) The Framework for the Operationalisation of Government's Procurement Policies in State Owned Enterprises (Dated 31 July 2001).
(vii) The King Reports I & II on Corporate Governance.
(viii) The Electronic Communications and Transaction Act (No. 25 of 2002).
(ix) The Promotion of Access to Information Act (PAIA) (No. 2 of 2000, as amended).

(x) The Broad-Based Black Economic Empowerment Act (No. 53 of 2003, as amended) and the Department of Trade & Industry's Codes of Good Practice.
(xi) The Prevention and Combating of Corrupt Activities Act (No 12 of 2004, as amended).
(xii) The Promotion of Administrative Justice Act (PAJA) (No. 3 of 2000, as amended).
(xiii) The Competition Act (No. 89 of 1998, as amended).
(xiv) The Conventional Penalties Act (No.15 of 1962).
(xv) Transnet's requirements on Interdivisional Support, Preferential Procurement, employment equity, profitability enhancement and social & environmental responsibility.
(xvi) The National Railway Safety Regulator Act (No. 16 of 2002) – also see paragraph 4.4.3 below
(xvii) The National Ports Act (No. 12 of 2005)
(xviii) The Construction Industry Development Board Act (CIDB Act) (Act No. 38 of 2000)

In addition, Transnet actively promotes the development and advancement of persons or categories of persons historically disadvantaged by unfair discrimination. **Transnet would therefore prefer doing business with enterprises that share these values and who are prepared to contribute to meaningful BBBEE initiatives (e.g. subcontracting, JVs etc.) as part of their tender responses. Transnet will accordingly allow a preference in accordance with the 90/10 preference system, as per the PPPFA, to companies who provide a BBBEE Accreditation Certificate. Refer to paragraph 9.2.3.3 below as well as the relevant clause in the different RFX templates.**

1.4 Scope

1.4.1 These Procurement Procedures are applicable to all Transnet Divisions (inclusive of Operating Divisions and Specialist Units). The Procurement Procedures aim to set the minimum standards for compliance, however, CEOs and their duly appointed Acquisition Councils may impose more stringent rules and thresholds than those laid down in the PPM
Transnet businesses such as Freight Dynamics, as well as divisions and businesses which have been privatised (e.g. Autopax (Pty) Ltd), and where Transnet still holds the majority shareholding, will also be regarded as Transnet Divisions in terms of these procedures.

1.4.2 **These procedures are derived from the Transnet Procurement Policy, and should be read in conjunction with delegated contractual powers granted in terms of any Special Delegation of Authority. (e.g. delegated contractual powers of say R5 million do not derogate from the monetary limits or jurisdictions assigned to specific governance structures such as the Divisional Acquisition Council (DAC) whose minimum monetary threshold is say R2million). Refer to paragraph 6.12 regarding Delegated Authority to conclude Contracts as well as the Transnet Group Delegation of Authority (Group Limits of Authority) - Copy available on the Transnet Intranet.**

NB. Non-compliance with these Procedures will be viewed in a serious light, and will lead to disciplinary action as such non-compliance could result in **irregular expenditure and/or fruitless and wasteful expenditure.** This places an obligation on Transnet to take the necessary appropriate action regarding acts of financial misconduct in terms of Section 83 of the PFMA.

1.4.3 These procedures cover the purchasing and supply of all goods, services (tangible and intangible), fixed assets, the appointment of consultants, and also covers the disposal (selling) of all surplus, redundant and obsolete stock and assets, movable and immovable. The aforementioned are in respect of both Operational and Capital expenditure, unless specifically excluded in terms of paragraph 1.4.4 below.

1.4.4 The specific exclusions are as follows:-
(i) Petty cash purchases, subject to such instructions as issued from time to time;
(ii) Inspection services in connection with the procurement /sale of goods / assets;
(iii) The rendering of inspection services by or to government departments, the SABS, etc, provided that rates charged by such institutions are market related or certified as fair and reasonable;

(iv) Media advertising (excluding campaigns involving professional advertising agencies);
(v) Income generating transactions (i.e. where Transnet's infrastructure, etc. is utilized to provide a service; including instances where cross-divisional support is engaged for strategic or other reasons, **but excluding** procurement for income-generating contracts - see paragraph 2.16);
(vi) Water and electricity which is supplied to Transnet, including the provision of services, as well as the relocation of such services as a result of Transnet's activities (e.g. the relocation of power lines or water mains due to the construction of a new railway line);
(vii) Rates and taxes and other levies raised by local authorities or provincial administrations, both of which are excluded from these procedures, by virtue of the fact that they can only be obtained from the particular local authority, but which are for purposes of good corporate governance, paid by means of blanket orders, or other approved methods;
(viii) Purchase of goods at auctions;
(ix) Sale of goods at auctions but excluding the appointment of auctioneers;
(x) Letting and hiring of dwellings, and acquisition and alienation of houses or acquisition of land for houses in terms of prescribed housing policy;
(xi) Letting and hiring, and acquisition and alienation of land and fixed property, which are governed by Delegated Powers;
(xii) Sponsorships and donations, which are strictly governed by Delegated Powers;
(xiii) Any such exclusions which a Transnet Division may apply for, through SSM, and which have been duly approved by the Transnet Group Chief Executive (GCE) or the Transnet Group Chief Financial Officer (GCFO); and
(xiv) Disposal of non-core businesses by the Transnet Restructuring Department, which is strictly governed by the Restructuring Committee, which is a sub-committee of Transnet's EXCO. Such disposals are on the strict proviso that any employee of the Transnet Restructuring Department, a Transnet Board member, or a senior manager (or higher) in the Transnet Group or any of its divisions will be disqualified from the bidding process for the said non-core businesses for a period of 18 months from the date of his/her exit from Transnet.

1.5 Ethics and Governance

1.5.1 Business Ethics within Transnet Entities

Transnet Entities are required to develop trust and a sound interdivisional working relationship with one another in the interest of Transnet. To achieve this, no renegade buying which damages the consolidation and leverage of Transnet spend, will be allowed. Entities undertaking work on behalf of other Transnet Entities should also price and carry out their services in such a way that interdivisional support is promoted and developed.

1.5.2 Transnet's Code of Ethics

Transnet subscribes to the following standards of commercial practice:

a) Transnet insists on honesty and integrity beyond reproach at all times and will not tolerate any form of improper influencing, bribery, corruption, fraud, or any other unethical conduct on the part of bidders / Transnet employees.

b) If, in the opinion of Transnet's GCFO or a duly authorised person, a tenderer / contractor / supplier has or has caused to be promised, offered or given to any Transnet employee, any bribe, commission, or any unauthorized gift, loan, advantage or other consideration, Transnet shall be entitled to revoke the tender / contract by following the process that governs the Exclusion of Tenderers. Upon approval by the GCFO or duly authorized delegate, Transnet will be entitled to place any Tenderer / Contractor / Supplier who has contravened the provisions of Transnet's business ethics on its List of Excluded Tenderers. This List will also be distributed to all other State Owned Enterprises and Government Departments.

c) Transnet invites its valued suppliers to report any allegations of fraud, corruption or other unethical activities to Transnet Tip-offs Anonymous, at any of the following addresses / contact numbers:-

- Toll-free anonymous hotline - 0800 003 056
- Email - Transnet@tip-offs.com
- Fax number - 0800 007 788
- Freepost DN 298, Umhlanga Rocks, 4320

Confidentiality is guaranteed.

d) Under no circumstances will Transnet employees be allowed to tender for Transnet's business. Employees who have a competing personal direct or indirect interest in a specific tender, quotation or offer, must declare such interest in writing and recuse themselves from the adjudication or tender evaluation process, as such competing interests can make it difficult for such employee to fulfill his/her duties impartially.
Conflicts of interest may occur in cases where an employee is a shareholder/director of a tendering company or where close relatives of an employee are in any way connected or related to a bidder, hence the requirement that interest be declared in writing.

e) Bidders are required to disclose any commercial interests and / or any business involvement or any personal relationship between any of their Directors or Officers with any Transnet employee in his or her personal capacity when submitting their bid responses. Bidders failing to declare such relationship/s will be disqualified from the tender process. Non-adherence to this rule will be regarded in a very serious light. Contracts concluded without adherence to this rule, will be terminated and disciplinary action will be taken against the relevant Transnet employee(s) and defaulting companies will be placed on Transnet's List of Excluded Tenderers.

f) Transnet reserves the right to exclude a tenderer from further business and/or to cancel all existing contracts, should a tenderer/supplier be found to have acted in bad faith or engaged in misconduct towards Transnet. Furthermore, no part of a contract may be subcontracted to an Excluded Tenderer. For this purpose, Transnet's List of Excluded Tenderers is displayed on Transnet's website http://www.transnet.net.

1.5.3 Transnet Code of Ethics on Procurement

1.5.3.1 Introduction

Ethical norms form a fundamental pillar of the culture of Transnet; hence a great responsibility rests on every employee to act ethically. The ethical norms and guidelines which follow are only broad principles to serve as guidelines and cannot cover every possible situation. Employees and their Managers should evaluate every situation on its own merits, bearing in mind the following basic principles:-

1.5.3.2 Code of Ethics

Employees of Transnet shall not use their authority or office for personal gain and shall seek to uphold the good name of Transnet by:-

(a) Maintaining unimpeachable honesty and integrity inside and outside the employment relationship;

(b) Fostering the highest standard of professional competence amongst the persons for whom they are responsible;

(c) Optimising the use of resources at their disposal so as to provide the maximum benefit to Transnet and a client-directed quality service;

(d) Complying with: –
  - (i) The requirements of the Law (refer to paragraph 7.12);
  - (ii) Transnet's Procurement Policy;
  - (iii) The guidance which Transnet provides with regard to professional conduct; and
  - (vi) Contractual obligations;

(e) Repudiating all business practice which is improper and at variance with expected moral and ethical principles, even though some in the business would regard it as "justified".

1.5.3.3 Declaration of interest

When a personal interest in any matter may impinge upon or might be deemed by others to impinge upon the objectivity or conduct of an employee of Transnet, he/she shall declare such interest to his/her Manager, in writing. A proper register of Declarations of Interest should also be kept by managers responsible for departments involved in purchasing and disposal functions as well as by the Secretariats of the relevant Acquisition Councils. (Refer to paragraphs 5.8.1 to 5.8.3 and 8.1.10.2).

1.5.3.4 Confidentiality and accuracy of information

All information which is received in connection with Transnet's business shall be handled confidentially and shall not be used for personal gain. No employee may discuss with, or disclose to outsiders, prices which have been quoted or charged to Transnet. All information furnished in the course of duty shall be complete, true and fair and not be intended to mislead. No information shall be disclosed which would have the effect, or be perceived to have the effect of placing a tenderer in a better position than its competitors or Transnet at a disadvantage against tenderers or suppliers. Employees are furthermore required to abide by relevant legal requirements at all times. Where it is necessary to disclose confidential information to potential suppliers in order to solicit bids, Non-Disclosure Agreements (NDAs) must form part of the tender documentation and must be signed by all bidders.

1.5.3.5 Competition and optimal value

While considering the advantages to Transnet of maintaining a continuing relationship with a contractor, any arrangement which might in the long term prevent the effective operation of fair competition or prevent Transnet from obtaining optimal value, must be avoided.

1.5.3.6 Gifts and hospitality

All Transnet procurement representatives should at all times be ethical and be seen to be ethical during the process of the procurement function.

Employees are not permitted to accept gifts except as stipulated below, or buy goods or services at artificially low prices, which are not available to the public at those prices, or accept personal favours and hospitality which might, or might be deemed by others, to impinge upon the employee's sound business judgment. Overseas visits on invitation by, and at the expense of prospective suppliers will under no circumstances be permitted. Should such overseas visits be deemed necessary for the purposes of evaluating the technical capability etc, of the supplier, this should be for Transnet's own account and be fully motivated in terms of normal laid-down procedures for overseas visits.

All decisions and business transactions should be made with uncompromised integrity, honesty and objectivity of judgment. Exchanging modest courtesies as listed below, is a common business practice meant to create goodwill and establish trust in the business relationship.

For the purpose of fostering inter-personal business relations, exceptions of the following nature are allowed, provided that the cost thereof, per incident, will not exceed a value determined in accordance with Transnet's Gift Policy :-

- meals and entertainment;
- advertising material of small intrinsic value such as pens, paper-knives, diaries, calendars, etc;
- incidental business hospitality such as business lunches/dinners, which Transnet is prepared to reciprocate;

- complimentary tickets to sports meetings and other public events, but excluding the cost of transport and accommodation, which the employee must bear. Invitations to official functions should be addressed to the Manager of the particular function or sub-division thereof, who may delegate a representative,
- the occasional gift voucher not exceeding the abovementioned value as determined in accordance with Transnet's Gift Policy. Under no circumstances may cash be accepted as a gift.

The occasional exchange of entertainment and gifts not exceeding R500 in value may be appropriate, as long as such courtesies are not specifically intended to influence any procurement or sales decision and are declared in the Declarations Register. Under no circumstances should gifts be accepted from prospective suppliers during the tender evaluation period as that could be perceived as undue and improper influence of the evaluation process. Gratuities, bribes or kickbacks of any kind must never be solicited, accepted or offered, either directly or indirectly. This includes money, loans, equity, special privileges, personal favours, benefit or services. Such favours will be considered to constitute bribery, which violates South African law and is against all that Transnet stands for. The offer of such "favours" or bribes must immediately be reported to the Manager in charge of the function for appropriate action. Any Transnet employee found guilty of any of the above will face dismissal and criminal or civil action. Transnet is entitled to recover from an employee, all damages suffered as a result of the employee's corrupt or negligent conduct, in accordance with the ordinary principles of delictual liability. Any person who has offered a Transnet employee a bribe may likewise face criminal or civil action and/or exclusion from future Transnet business. All tender advertisements, tender documents and purchase orders **must** contain a provision urging clients & suppliers to report fraud / corruption at Transnet to *Tip-Offs Anonymous* toll free on 0800 003 056.

Managers responsible for departments involved with purchasing and disposal functions within Transnet shall, as an audit trace, keep a proper Gifts register of all such gifts and hospitality offered to their employees by suppliers and contractors, and vice versa. Unauthorised gifts that have not been accepted (e.g. exceeding the abovementioned limit), should also be entered into the gift register, with an indication that they have been returned to the supplier, or surrendered to Transnet, or any other appropriate action that may have been taken, as part of the record.

All Gift Registers should periodically be reviewed by the relevant Acquisition Council (AC) at such intervals as may be determined by the relevant Chief Executive Officer (CEO) or the AC. A Gift Register Template is available on the Transnet Intranet and shall be used at all times to ensure that all the relevant information and signatures of approval are captured.

1.5.3.7 Provisions of the Companies Act, 1973 (Act 61 of 1973)

The following provisions, amongst others, of the Companies Act, are important:-
Sections 234, 250 and 266 - These sections of the Act stipulate, amongst others, that employees of a company shall be guilty of an offence if a personal interest in a contract is not declared, or if documents are falsified, concealed, destroyed etc. with the intent to defraud or deceive. In such instances the company may initiate proceedings against such employee or past employee where the company has suffered financial loss or damages or has been deprived of any benefit as a result of the wrong-doing of such employee.

1.5.3.8 Provisions of the Public Finance Management Act (PFMA) (Act 1 of 1999 as amended)

Section 51(1)(a) of the PFMA is of particular importance to procurement, and reads as follows:-

"51. General responsibilities of accounting authorities
(1) An accounting authority for a public Entity-
(a) must ensure that that public Entity maintains-

(i) effective, efficient and transparent systems of financial and risk management and internal control;
(ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77; and
(iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective;
(iv) a system for properly evaluating all major capital projects prior to a final decision on the project. "

PART 2: PROCUREMENT MECHANISMS (PROCUREMENT PATHS)

2. Important Factors to consider in selecting the best suited Procurement Mechanism

Depending in which category of the following four-quadrant matrix a specific commodity or service falls, the following important factors should also be taken into consideration when deciding which of the Procurement Mechanisms available, would be best suited for the particular procurement activity:

High

Difficulty to obtain = RISK
(Supplier's reliability and impact on business)

Bottleneck (Critical) (High risk– Low value)	**Strategic** (High Risk–High value)
Routine (Low impact)	**Leverage** (High Spend)

Low High

Value of Spend
(Supplier's Cost Effectiveness)

Therefore, depending on the circumstances of each requirement for the procurement or sale of goods and procurement of services, any one of, or a combination of the following procurement mechanisms (procurement paths) may be utilised:-
NB. The practice of issuing **tenders or requesting formal** quotes merely for budgeting purposes, or to test the market, is not allowed. See paragraph 2.2.1.8.below

2.1 Interdivisional Support Policy

2.1.1 The following Specialist Units which have been identified as strategically important to the core Divisions **must** be utilised by the core Divisions and **under no circumstances** may the external market be approached for goods and services falling within the strategic Specialist Units' core-competency areas, or provided by a core Division such as Transnet Rail Engineering (TRE). The business relationship between Transnet Divisions and Specialist Units must be governed by a Service Level Agreement (SLA) between the parties.

Transnet Rail Engineering (a specialist core Division)	Heavy engineering including locomotive, wagon and coach repairs, upgrades and maintenance.

The other Specialist Units are:-

Transnet Capital Projects	Multi-disciplinary design, project management and construction management services, as well as related rehabilitation, maintenance and emergency services.
Transnet Fuel Solutions (previously known as HSA)	Transnet-wide Fuel acquisition, distribution and management.
Transnet Freight Rail School of Rail	Training tailored exclusively for core businesses, e.g. Train drivers, Train Control Officers, as well as software training in general, etc.
Transnet Property	Property management, facilities management, property development, and property valuations / surveying

These Specialist Units and TRE **MUST** be utilised **in all instances** strictly in terms of the terms and conditions set out in the SLA entered into between the Divisions and the Specialist Unit, except where a specific service can be provided "In-house" by the Division itself, e.g.

construction or perway related work carried out by Transnet Freight Rail Infrastructure with its own resources/expertise, and provided that it is not in conflict with any terms and conditions agreed upon in the SLA. The same principle applies to other in-house expertise available in the resident Division such as for example, design work, project management, quantity surveying, contract management etc.

Only if the above strategically important Specialist Unit has indicated <u>**in writing**</u> that they do not have the capacity to provide the required goods or services, may this be sourced from the external market. Non-core Businesses wishing to utilise the services of the strategic Specialist Units, may do so after entering into the customary SLA with such Specialist Unit.

Such **Internal** interdivisional transactions between Transnet Divisions, (core, and non-core until their final exit) and such **strategically important Specialist Units, fall outside** the scope of the DAC (see paragraph 1.3.3.4 above) and are governed by normal Delegated Powers.

2.1.2 All non-core Businesses, such as Freightdynamics and Autopax (Pty) Ltd, etc. will henceforth enjoy **no interdivisional support** from the rest of the Transnet family. Business relationships with these Businesses will be on the following basis:-

2.1.2.1 Existing contractual arrangements, such as for example individual SLA's between a Transnet Division or Business, and such Specialist Unit, will be allowed to continue for the remainder of the contractual period.

2.1.2.2 On expiry of the SLA, continued and exclusive support of such non-strategic business will be the sole prerogative of the Division requiring the service and it will be dealt with in terms of these procedures. Should they wish to "benchmark" such service with the external market, the 3-quote system or open tender process must be employed. However, in such instances no preference whatsoever may be given to the internal Division or Business as that would be regarded as an unfair administrative process, exposing Transnet to the risk of litigation.

2.1.2.3 In certain instances, as part of the disposal agreement of the non-core Business, the parties may agree on Transnet's continued guaranteed business for a specified period. In the case of Viamax Fleet, disposed to the Bidvest Group, such a continued business relationship for a period of 5 years from date of approval by the Competition Board has been agreed upon. In this regard please refer to the SLA, copy of which is available on the Transnet Intranet. Arivia.kom and Transtel/Neotel will also receive precedence in terms of the current SLA with Transnet.

2.1.2.4 Transactions with non-strategic Transnet Businesses (while still in the Transnet family and after their final exit), fall within the scope of these procedures and therefore also within the jurisdiction of the DAC, depending on the value of the transaction.

2.1.3 Transnet Divisions and Businesses already disposed of some time ago, such as Chemical Services, have already enjoyed their "interdivisional" support period as agreed upon as part of the disposal transaction, and these ties may be severed in terms of existing contractual arrangements, i.e. termination dates and / or exit clauses. The said services must henceforth be sourced in terms of the normal Procurement Procedures (e.g. tender or quotation process) and the said entities will be allowed to tender/quote as well, but will receive no preferential treatment whatsoever.

2.1.4 The Transnet relationship with South African Airways (SAA) is addressed by the Transnet Travel Policy, copy of which is available on the Transnet Intranet.

2.1.5 Transnet's Interdivisional Support relationship with Connex and Skotaville/AIM/Khumbula Media Connection has now been terminated.

2.1.6. Whereas the first scenario (paragraph 2.1.1) as well as paragraph 2.1.4, falls outside the ambit of the Divisional Acquisition Council (DAC), see paragraph 1.4.4, the second scenario i.e. paragraphs 2.1.2, 2.1.3 and 2.1.5, should be dealt with in terms of these procedures and where applicable, the relevant Acquisition Council approval should be obtained in the normal manner.

2.2 The Open Tender process (RFP)

2.2.1 The open tender system or Request for Proposal (RFP) is the procurement/disposal mechanism best suited to the following circumstances:-

2.2.1.1 The monetary value of the purchases should be in excess of R2 million.

2.2.1.2 When it is an unknown market for the purchaser, it would be advisable to issue a local tender (RFP), even if the value is less than R2 million.

2.2.1.3 When the market is competitive (i.e. many potential suppliers are able to provide the required goods/services).

2.2.1.4 Clear and unambiguous specifications must be available to ensure that all potential suppliers tender for the same product.

2.2.1.5 Enough time should be available - open tenders should ideally be open for 3 to 4 weeks; international tenders even longer.

2.2.1.6 The open tender system is regarded as the procurement mechanism which best ensures open and fair competition. Tenders (RFPs) are invited publicly and any individual or enterprise is granted equal opportunity to tender for Transnet's business. Refer to paragraph 3.1 regarding fees raised for tender documents.

2.2.1.7 All tenders (RFPs) should close at a specified tender box (or e-mail address if electronic tenders are allowed) at a specified date and time. CEO's of Entities will determine the monetary limits for tenders closing at the DAC and Regional Purchasing Offices. In terms of good corporate governance, CEO's will ensure that segregation of duties prevails. A separate and therefore objective office removed from the purchasing department should receive, open and stamp the tenders. Thereafter, the procurement department which invited the tender will be responsible for the subsequent evaluation and/or recommendation of award of business against the said tenders.

2.2.1.8 It is unfair to tenderers if Transnet Entities use the tendering system merely to obtain market related prices for budget or benchmarking purposes. Tenderers' inputs in preparing a tender invariably cost them money and it is unfair to expect them to incur such fruitless expenditure, if Transnet has no intention of awarding any business against such tender invitation. In cases where it is absolutely necessary to obtain test quotes for budget purposes only, the request to prospective contenders must clearly and unambiguously state that the request for a quote is for budget purposes only and that no business will be awarded against this invite. Care should, however, be exercised that such budget pricing exercise is not abused merely to give only certain contenders advance notification of a new project in the pipeline. In cases where Transnet's needs / specifications, etc are still too vague to issue a formal tender, the two-stage tender system (RFI) should be followed (Refer to Paragraph 2.10 below).

2.3 Procurement/credit card purchases

2.3.1 Entities may at their CEO's discretion introduce the use of buyer and/or credit cards to facilitate easier purchase of low value day-to-day requirements. A record of all such purchases should be kept by the system for audit purposes. As a control measure, maximum transaction levels and permissible maximum expenditure level should be built into the system in consultation with the card user's manager and/or the financial office.

2.4 The 3-Quote System for values below R 2m (RFQ/RFP)

2.4.1 Procurement of goods and services (or offers received) less than R2 million in value should use the 3-quote system or request for Quotation (RFQ). With regards to Construction Industry

Development Board "CIDB-tenders", kindly note that the CIDB limit of R200 000 for 3-quotes is not applicable to Transnet.

2.4.2 With relatively low value purchases, circumstances may be such that it is just not possible, practical or economically viable to call for open tenders. **A manager who has been granted such specific powers in terms of his/her Special Delegation of Authority may, within his/her level of delegated powers**, grant authority or decide that 3 quotations be obtained where possible, or an offer be considered, where the value of the transaction does not exceed R2 million, but is still within his/her own delegated powers. **This is provided that, in the opinion of the manager, it is in the best interest of Transnet. Should this not be the case, the tendering process, as outlined in paragraph 2.2 above, should be followed.** Three quotes are not required for items that fall within a current existing contract with a preferred supplier (i.e. A new type of stationery item is needed and is supplied by a National supplier of stationery). In such cases the procedures relating to amendments to existing contracts as per paragraph 7.3 should be followed.

2.4.2.1 NB: The 3-quote system is intended for **non-frequent** purchases of fairly low value. It should **not** be used on a continual / repetitive basis for the same commodity i.e. instances where the same commodity is purchased (sometimes even from the same supplier), but on different purchase orders / requisitions. This procurement mechanism is not the most cost-effective and efficient, as the benefit of volume discount is lost, **and may also be regarded as parcelling - see paragraph 6.13.**

In instances of frequent repetition, consideration should rather be given to entering into a fixed term as-and-when-required contract. Alternatively, if market prices of the commodity are too volatile, making it impossible to obtain firm prices for a specific period (even with price review mechanisms included), consideration should be given to short term as-and-when-required contracts. In this way there would be no need to artificially keep the individual orders below the 3-quote threshold. This will not only reduce the number of individual purchase orders, lessening the administrative burden, but will also attract better prices since the order values are larger (economies of scale benefits).

2.4.3 CEO's may at their own discretion and bearing in mind the specific needs and purchasing focus of different managers in the Division's hierarchy (i.e. Procurement and non-procurement), decide to allocate different powers to different managers in terms of their Special Delegation of Authority. For example, a Manager in the Training Department should not have Delegated Powers to invite quotations, or to contract, as a segregation of duties must be maintained at all times to ensure good corporate governance. Hence all purchasing activities should be undertaken by the procurement function, which firstly, is objective since they are not the end-users, and secondly it has the necessary structures in place to ensure proper segregation of duties, i.e. a manager may not draw up the specification / tender document, issue and receive the tenders, evaluate the responses, award the contract and authorise payments. Therefore, the CEO (and ultimately the Chief Procurement Officer (CPO) will delegate specific powers to specific managers in the procurement function for firstly the inviting of quotations up to a certain value, and secondly for the award of the business resulting from such 3-quote system.

2.4.4 Similarly, the CEO at his/her own discretion and within the regulatory frameworks laid down by Group Financial Services, may introduce its own unique control mechanisms for these "low" value transactions (e.g. Petty cash policies, etc). Furthermore, the CEO will, in introducing such procedures, also bear in mind the purchasing focus of the different departments in its Division, for example, what is low for a professional buyer in the locomotive spares section of the procurement department, might be extremely "high-value" for a procurement manager in the stationery section of the same department. Control measures for the different R-value categories falling in this procurement mechanism, i.e. from lowest e.g. say less than R2 500 for telephone quotes, to R150k for certain procurement officials (say stationery), up to the high-value quotes say more than R150k to less than R2m reserved only for certain procurement officials involved in high value commodities (such as locomotive spares).
NB: Such higher value quotations (say those in excess of R150k) should be regarded as formal quotations i.e. received in a sealed Tender Box by a specified closing time, properly stamped

and recorded on a tender list, etc. (Refer to Part 3 – Issue and Opening of Tenders and Quotations).

2.4.5 It is imperative that BEE Suppliers also be utilised, as this mechanism is considered to be the best avenue to ensure entry levels for prospective BEE entrepreneurs. Optimal value and fairness are important considerations and therefore the practice of channelling all business to one or two BEE suppliers while there are many, should be avoided. In such instances the Division's BEE Database or Content Bureau's Vendor Master should be utilised **on a rotational basis.** Depending on the number of BEE companies appearing on such list for a specific service or commodity, more than the normal 3 quotes should be invited at a time, so as to give everyone on the list at least one or two opportunities per year to quote.

2.4.6 Please refer to Part 3 for the rules governing the receipt, opening, recording and stamping of tenders and quotations (telephone quotes and electronic tenders excluded).

2.5. Confined enquiries for proposals/quotations invited (or offers received) more than R 2m in value (RFP/RFQ)

2.5. This mechanism is only to be used in circumstances where due to urgency, emergency or a restrictive market, it will not be possible, practical or economically viable to invite open tenders. Depending on the degree of urgency, this procedure makes provision for the following variations:-
- authority to confine, quotations to close at DAC and DAC to approve award - 2.5.1.
- authority to confine, quotes need not close at DAC, but DAC to approve award - 2.5.2.(i)
- authority to confine and award, DAC informed only after award - 2.5.2.(ii)
- emergency – obtain retrospective authority from DAC afterwards - 2.5.2.2.

2.5.1 A deviation from the procedure prescribed for the calling of tenders may be authorized in the following circumstances:-

2.5.1.1 If the value of the transaction exceeds R2 million, the matter must be fully motivated in writing to the CEO or his/her duly authorized delegate for prior written authority to confine. Only if he/she agrees that the reasons advanced for the proposed confinement is in the best interest of Transnet, will the confinement of business to one or more contenders only be authorised.

2.5.1.2 **NB. Should the R-value of the proposed confinement exceed the Delegated Authority of the relevant CEO, the matter should be escalated from the DAC via the CEO to the GM: SSM or higher, depending on the R-value of the proposed confinement. Refer to paragraph 5.4.2 of the Transnet Group Delegation of Authority (Group Limits of Authority) Copy available on the Transnet Intranet, as well as the relevant PPM Circular available on the Intranet.**

2.5.1.3 After approval to confine has been obtained the quotations shall close at the designated closing venue for that particular R-value, (see paragraph 3.3.3 below). Once quotations have been obtained and evaluated approval for the award of the business must be obtained from the DAC, or from the person with the necessary delegated authority if in excess of the DAC's (CEO's) jurisdiction, for that amount before business is awarded.

2.5.2 **In exceptional circumstances** where it would be impossible for the quotation to close at the designated venue, the CEO or his delegate may authorise that:-

(i) The quotation close at the local department itself, and/or
(ii) The quotation / offer be accepted without the DAC first having considered the actual award of the business to the successful contender.

This should be fully motivated in the original request for confinement to the CEO, his delegate, or higher authority, (see paragraph 2.5.1.3 above), depending on the R-value of the proposed transaction. Such confinement approval shall be obtained in writing, for the purposes of the necessary audit trail in terms of good corporate governance principles.

2.5.2.1 The matter shall be reported for the information of the relevant authority (or CEO or relevant delegate) immediately after the actual award of the business, indicating full details of the award.

2.5.2.2 **NB:** In emergencies such as derailments the work is performed, and a full motivation submitted only afterwards in the normal manner, to obtain the necessary "retrospective authority for confinement". This is because it would be impossible to obtain the necessary prior authority to confine. The words "In exceptional circumstances" shall be applied judiciously and restrictively. Misuse of this concession as an excuse for bad planning will be regarded as a serious contravention and will be dealt with severely.

2.6 Approved List purchases

2.6.1 This procurement mechanism is ideally suited for the strategic, high-value, high-risk items, non-standard items which are not available "off-the shelf", or where equipment can only be obtained from OEMs (Original Equipment Manufacturers) or limited suppliers.
NB: "Approved Supplier" status can only be attached to a supplier after the process as stipulated below has been followed and DAC approval in terms of this paragraph has been obtained. Approved Supplier status cannot be acquired merely by being on the Division's Vendor Master or on a BBBEE Manager's List of EME or QSEs for a specific commodity or service.

2.6.1.1 A CEO may, at his/her discretion and subject to the concurrence of the DAC, decide that quotations for certain specialised goods/services which are in constant demand and not freely available in the market or which are manufactured solely in accordance with Transnet's own specification, be restricted to only those suppliers who comply with the relevant Transnet requirements, as laid down from time to time and whose products have passed the necessary quality tests. The framing of such lists of approved suppliers is subject to the concurrence of the DAC. The invitation for quotations shall be confined to the suppliers of goods or services appearing on the relevant approved list,

unless

(i) due to specific circumstances it is considered more advantageous for Transnet to call for open tenders in respect of such goods/service. Where the approved list is used, open tenders should not be invited.
(ii) where open tenders are invited, however, suppliers on the approved list should be advised that open tenders are being invited in that particular instance.

2.6.1.2 Depending on the specific market, there are several categories of approved suppliers, over and above the "normal approved supplier" whose product has been tested and whose name has been included on the Approved List after DAC / CEO approval has been obtained (paragraph 2.6.4.2), e.g.:

(a) *Preferred suppliers* are those who have been certified as best suppliers by means of a thorough certification process based on their past performance, price, quality, delivery as well as their innovative and pro-active response to unforeseen events in the market e.g. increase in demand, changes in specification, new technology, improved processes, etc.
(b) *Strategic supplier partnering* is a co-operative and collaborative way in which the specific buyer and his/her key suppliers intensively interact with each other to achieve mutual "win-win" long term benefits. The goods/services purchased from these suppliers are always of strategic importance to Transnet, resulting in long term commitments, confidential information sharing, co-operative and continued improvement efforts, all of which facilitate the sharing of risks and rewards. Formal and thorough supplier performance evaluation mechanisms should be in place to ensure that the relationship remains sound and that the set objectives (the continual improvement philosophy) are adhered to.

The process of framing approved lists of these "special category suppliers" is identical to the process outlined in paragraph 2.6.4.2 for normal approved suppliers.

open tend

2.6.1.3 **NB:** So as not to constrain market competition, it is imperative that all approved lists be advertised at least every 2 years, by means of a public notice in the appropriate media, inviting all interested parties to submit applications for possible inclusion on the relevant approved list. A list of all approved lists, with their respective specifications, etc. (but not the names of the present approved suppliers) should also be displayed on the Division's (OD's) Tender Notice Boards as well as electronic websites/tender bulletins, where available, to promote easy access for possible newcomers in those markets. Any possible new applications received outside of the 2 year advertising intervals should be dealt with immediately and **not** held over until the next advertisement. Should the new application be successful, such approved list should be updated immediately.

2.6.2 **Framing of approved lists**

2.6.2.1 When obtaining the DAC's approval for the framing of an Approved List, an indication should be given as to which of the following three methods have been used:-

(a) By publicly advertising the intention to frame an approved list in a notice requesting all prospective suppliers to formally apply.

(b) By framing an approved list in the light of experience gained and/or tests carried out in the past, in instances where it is possible to frame a sufficiently comprehensive list of preferred suppliers without previously having resorted to (a) above. Suppliers falling in this category would include suppliers with whom "long term joint venture arrangements" have been established over the years in terms of sound best purchasing practices.

(c) By framing a list of aspiring suppliers who applied for inclusion on the approved list, but whose goods or services have not been tested. When suppliers already appearing on the approved list are approached for quotations, the aspiring prospective suppliers may also be invited to submit quotations. If such aspiring applicant is awarded a portion of the contract for evaluation purposes and performs satisfactorily, their name may be placed on the approved list by following the normal process outlined in paragraph 2.6.1 above. This method could be utilized in instances where it is not practical for an applicant to submit his own samples for testing, e.g. overhaul of traction motors; reconditioning of transformers for electric substations, etc.

2.6.3 **Suitability of supplier for inclusion**

2.6.3.1 No name shall be included on any approved list, unless the business in question is suitable to undertake Transnet's contracts and –

(i) is able to manufacture/supply goods or to render services of the magnitude and standard required;

(ii) if so required, has submitted samples or delivered goods which have satisfactorily passed Transnet's tests.

NB: Specifications must be drawn up to promote fair competition as much as possible. Compiling of a specification around one supplier's product should be avoided at all cost. In the interest of cost-effectiveness, Entities must attempt as far as possible to procure off-the-shelf goods as opposed to drawing up its own specifications. Also refer to paragraph 4.16.1 below regarding patented articles.

2.6.4 **Removal of name from the approved list**

2.6.4.1 The name of an enterprise may be removed from an approved list at any time if the enterprise:-

(i) Has been convicted of any offence under any law relating to wages, hours of work or

other conditions of employment;

(ii) Fails or ceases to comply with the requirements of such approved list;

(iii) Performs unsatisfactorily when measured on any of the following criteria; timeliness, quality, price escalation and service and has been informed accordingly;

(iv) Sublets the whole or any portion of a contract for the supply of goods or the rendering of services in respect of which such list has been framed, to an enterprise or person whose name does not appear on that list, or otherwise acts in a manner which, in the opinion of Transnet, is construed to nullify the object of framing any such approved list;

(v) Has ceased to carry on business under that name and has not informed Transnet of this change;

(vi) Has been dealt with in terms of Transnet's List of Excluded contractors;

(vii) Has shown little interest over a reasonable period to submit quotations when invited to do so or has not been awarded any business over a reasonable period due to non-competitive prices;

Before a name is removed from an approved list, the enterprise concerned shall be notified in writing of the nature of the complaint against it and the intention to remove it from the approved list unless sufficient reasons can be given by it as to why its name should not be removed.

2.6.4.2 **The framing of an approved list or any amendment thereto has to be approved by the Division's CEO upon a recommendation from the DAC, which will also be responsible for the distribution of the List within the Division. Should more than one Division be utilising the same Approved List, the DAC should liaise with SSM which will distribute the said list to the other relevant DACs. The Division which initiated the List will, however, be responsible for the periodic updating thereof.**

2.6.5 **Procedure for the invitation and receipt of quotations in terms of approved lists**

2.6.5.1 Such quotations shall be dealt with in all respects in terms of the normal laid-down procedures (i.e. Parts 3 to 7 – see introductory paragraph, Part 3)

2.6.6 **Representations to the General Manager, SSM**

2.6.6.1 Any person or enterprise whose application for inclusion on the approved list has been refused or whose name has been removed therefrom, may make representations to the relevant CEO. Should it not be satisfied with the CEO's ruling, an appeal may be made to the General Manager, SSM, whose decision shall be final.

2.6.7 **Confidentiality of Approved Lists**

2.6.7.1 Information regarding Transnet's Approved Lists shall be regarded as confidential and may not be disclosed to anyone outside Transnet without the written approval of the General Manager, SSM.

2.6.7.1.1 **NB: The names of Tenderers shall not be read out at public tender openings if an approved list is utilised, nor shall the unsuccessful tenderers be advised of the name (or price) of the successful tenderer who had been awarded the business. This is to prevent the possibility of collusion between a limited number of suppliers appearing on an approved list. In accordance with paragraph 6.3.1, unsuccessful tenderers should merely be advised in which category(ies) they were unsuccessful.**

2.7 **Post-tender negotiation**

2.7.1 Post-tender negotiation is an effective tool to drive down cost and can be used very effectively in conjunction with any other procurement mechanism. It is important to note that it is reserved for high-value, strategic commodities. Depending on the circumstances, this tool can be used either with all technically compliant tenderers, or a selected short-list, or even with the preferred bidder only (as duly approved by the relevant Acquisition Council), but subject to the following provisos

to ensure good corporate governance. **Refer to paragraph 2.17 regarding post-tender negotiation on CIDB-tenders.**

2.7.2 Where post-tender negotiation is envisaged, the tender document must clearly indicate this intention. The thresholds and evaluation criteria which will be used to control entry into the post tender negotiations must also be disclosed at the outset of the tender process.

2.7.2.1 **Before** post-tender negotiations are conducted with the preferred bidder or short-listed bidders, it must be duly approved by the relevant Acquisition Council. The R-value of the proposed contract to be negotiated will determine within which AC's jurisdiction the matter falls. The submission requesting authority to negotiate should include the following:-

- List of preferred bidders (or bidder) and how it has been determined
- The composition of negotiating team
- The targeted price reduction (say 10% discount)
- BBBEE commitment and
- Other aspects that will be negotiated to achieve a "win-win" situation, e.g. payment terms, minimum order size and frequency, delivery/lead times, etc.

2.7.2.1.1 It would also be acceptable, especially on transactions falling below the AC minimum R-thresholds, for certain officials, preferably in Procurement, to be given specific standing delegated powers to conduct or authorise post-tender negotiation, without the necessary prior AC approval as contemplated in paragraph 2.7.2.1 above. This authority must be obtained from the Line Manager or CPO and must be included in the Special Delegation of Authority of the relevant official. The Standing Delegation of Authority must clearly reflect the maximum transaction value for which the official may conduct Post Tender Negotiations. A standing authority to negotiate is distinguishable from a standing authority to communicate (refer to paragraph 3.18 below) and separate authority must be obtained. Standing delegated powers to negotiate will be granted with great circumspection and only to employees who have the necessary negotiation skills' training. A full audit trail of the bidders who have been negotiated with, how this has been determined, including their best-and-final offers should be kept on the appropriate files.

Matters falling within the jurisdiction of the AC (i.e. above the minimum R-threshold of the AC), should be submitted for the approval of the AC in the normal manner, indicating in detail the process followed in determining the shortlist of bidders negotiated with, details of the agenda that was negotiated, as well as full details of the best-and-final offers (refer to paragraph 2.7.2.5 below), when a recommendation on the final award of the business is made to the relevant AC. Copies of such standing authority must be submitted with the relevant submission to the AC. Under no circumstances may prices of one bidder be disclosed to another with the request to improve on such price in order to be awarded the business. This is considered as horse-trading which is an unfair business practice and such misconduct will not be tolerated.

2.7.2.2 On higher value transactions, the negotiating team to be appointed by the relevant AC, shall comprise of procurement, technical, financial and commercial (marketing) and legal disciplines, (where appropriate), to facilitate unity of purpose from Transnet's perspective and to enable the tenderer to deal with all relevant matters before making a final offer. Post-tender negotiation may only be conducted by expert, trained negotiators. Highly skilled negotiators will be drawn from SSM and the various Entities to form part of the multi-disciplinary negotiation team. During post-tender negotiations, prices of one bidder will not be disclosed to others as this is prohibited in terms of Transnet's Code of Ethics. It is also important that all members of post-tender negotiation teams should sign Declarations of Interest and Non-disclosure/confidentiality agreements when appointed to such teams. Such signed forms should be kept on the appropriate contract files.

2.7.2.3 A fixed format must be followed in all negotiations and this format must be made known in advance to all bidders. In terms of fairness, as far as possible the same agenda must be used with all short-listed suppliers to ensure that all suppliers are provided with the same information. The objectives of the negotiating team must be recorded in consultation with the financial,

technical and commercial discipline concerned and duly approved by the relevant AC. The financial advantages, or other objectives sought (e.g. BEE commitment, faster delivery, etc.), must be quantified and no negotiation will be regarded as final until all the approved objectives have been properly negotiated by the negotiating team, and the results recorded in writing against the envisaged objectives.

2.7.2.4 Negotiations must be preceded by thorough research and a caucus discussion by the cross-functional negotiation team to be able to obtain a co-ordinated approach. Under no circumstances should a preferred bidder be informed that "he has been awarded a contract" prior to the post-tender negotiation process, as that would jeopardise Transnet's negotiation power. This is particularly important if one considers that even if the negotiations were not 100% successful i.e. the target price could not be achieved, one would not be able to eliminate the preferred bidder, and award to another contender (say the second-best), unless such bidder was also on the short-list, and therefore part of the post-tender negotiation. In such cases i.e. where post-tender negotiations are to be conducted with a short-list of contenders, the ultimate award of the business, whether awarded to one or more than one contender, should again be presented to the relevant AC which approved the preferred bidder/short-list – refer to paragraph 2.7.2.1 above.

2.7.2.5 Decisions reached during the negotiations with the tenderer must be recorded in concise minutes. This record shall be signed-off by the Negotiation Team Leader and a copy forwarded to the relevant AC to be kept as part of the record..
NB: Where post-tender negotiations are conducted with a duly approved short-list of preferred bidders, all such bidders must be requested to deposit their "best-and-final offer" in the tender box by a set closing date. This method may also be employed in the single preferred bidder scenario, if there is reason to believe that this may yield a further price reduction subsequent to the negotiation session.

2.8 Contract negotiation

2.8.1 This mechanism is normally used where an oligopolistic or a monopolistic situation exists whether so dictated by market forces or because of legal or proprietary rights such as patents, registered designs or licenses.

2.8.1.1 The prescripts for **Contract negotiation** are exactly the same as those for Post-tender negotiation, except that for post-tender negotiations, authority to negotiate is obtained **after** the evaluation process has been finalised and a preferred bidder(s) has/have been determined, having followed a fair and transparent selection process. When using Contract Negotiation, the relevant authority must be approached **for prior approval before** going to market. (i.e. the sole supplier is engaged). The motivation should include similar details to that in paragraph 2.7.2.1 above.

2.8.1.2 Decisions reached during the negotiations with the sole supplier(s) must be recorded in concise minutes. ~~This record shall be signed-off by the CPO and emailed by the CPO to the lead~~ negotiator and kept as part of the record. Alternatively, all tenderers with whom contract negotiations have been conducted could be requested to tender their negotiated (or better) price by depositing their final bid in the tender box before the set closing date/time.

2.8.1.3 Should exceptional circumstances necessitate a contract being concluded forthwith, e.g. without DAC's approval, the necessary mandate should be obtained from the required authority before negotiations are conducted and a contract concluded. Details of the contract concluded must be submitted to the relevant authority as soon as possible after the contract has been concluded.

2.9 Long-term contracts

2.9.1 This mechanism is used in instances where high value goods of strategic importance to Transnet are purchased and where considerable input is required from the supply market, the cost of which cannot easily be recovered over a relative short period of time. Long term

contracts will indicate commitment from both contracting parties and will generally realize considerable savings both in the short and long term.

2.9.2 Where more than one supplier is capable of providing the goods or services the open tender process should be followed with the subsequent negotiation process, if deemed appropriate, in order to further drive down costs. **See paragraph 6.14 below- the DAC's prior approval for inviting a tender on a period in excess of 2 years, must be obtained.**

2.9.3 In instances where post-tender negotiations are considered advisable and in view of the long term commitment to such suppliers, it is imperative that all aspects pertaining to such relationships be handled by skilled, multi-functional negotiation teams to ensure best value for money for Transnet. **Refer to paragraph 2.7 above for the prescripts on post-tender negotiations.**

2.10 Two-stage tendering system (RFI/RFP process)

2.10.1 This mechanism is used in assessing the availability of products/services where there is no clear specification of requirements or where the suitability of service providers must first be determined prior to the undertaking of any development work.

2.10.2 In the first stage, which is the pre-qualification stage, prospective bidders are invited by means of an open Request for Information (RFI) to submit their proposals. These RFIs are returnable to the DAC's designated closing venue in the normal manner. It is advisable to request prospective bidders to provide rough ball-park costing estimates during this first stage, otherwise the possibility exists that Transnet may be exploited, especially if only one bidder eventually makes the shortlist.

2.10.3 All the RFIs received are evaluated for suitability in accordance with pre-determined evaluation criteria which have been made available to all contenders in the RFI documentation. After evaluation, a recommendation must be made to the DAC or relevant authority regarding the eligibility of bidders to participate in the second stage. Should the DAC agree with the recommendation made, it effectively "authorises" that the second stage be "confined" only to those selected bidders on the shortlist.

2.10.4 In the second stage, only the selected pre-qualified bidders are invited to tender in the normal manner. After evaluation, a submission is made in the normal manner for DAC consideration.

2.10.5 This RFI process is ideally suited for capital projects such as land or port development projects. This is to prevent prospective tenderers from incurring fruitless expenditure in preparing detailed development studies and cost estimates.

2.11 Fixed period contracts (as-and-when required)

2.11.1 This mechanism is employed where a continuous demand for a particular requirement exists, but actual volumes and scheduled delivery dates cannot be determined accurately at the tender stage. These contracts run over periods of one or more years depending on the commodity. Estimated quantities are merely given as a rough indication of our requirements but cannot be guaranteed to the supplier. This mechanism is ideally suited for off-the-shelf commodities, but may also be used on Approved List purchases. By consolidating the Division's (or Transnet's) buying power, all depots/regions/ports of the Division (or all Divisions i.r.o. a Transnet wide contract - see paragraph 2.12 below) will benefit from the resultant lower price.

2.11.2 Divisions must draw their requirements against these transversal contracts, and may not purchase outside these contracts, even if better prices or terms can be obtained locally. Important to note that the TCO is based on total volumes over the full contract duration and maverick purchases could destroy this value.

2.11.3 SSM will immediately advise the relevant DACs as well as the CEO and CPO of each Division when such a Transnet-wide national contract has been concluded. The CPO must then ensure

that all buyers in his/her Division are made aware of the existence of such contract and use it to draw their requirements from it.

2.11.4 These contracts can also be concluded by Divisions themselves in respect of unique business-specific needs on a national or a regional basis. Should it be considered advisable to conclude a contract for a period longer than two years, **the DAC's prior approval must be obtained. See paragraph 6.13 below, as well as Paragraph 5.4.4 of the Transnet Group Delegation of Authority (Group Limits of Authority) - available on the Transnet Intranet.**

2.11.5 **NB:** It is unethical and not in Transnet's best interest for Divisions to use such existing contracts as a basis for further negotiation. Purchasing outside such contracts from another supplier (who now undercuts the contract price after having lost the business) will discredit Transnet's tendering system and could lead to legal action against Transnet.

2.12 Transnet-wide / National network contracts

2.12.1 This mechanism is employed by Transnet where goods or services are used by more than one Division and where SSM and the relevant CPO's have agreed on the consolidation of Transnet's buying power by selecting a specific brand or supplier for a specified contract period. This can lead to considerable savings for Transnet as a whole. These commodities can be of a capital nature (e.g. cranes) but can also be consumable goods financed from the different Divisions' operating budgets.

2.12.2 Such consolidation of buying power will be negotiated with and on behalf of all the relevant Transnet Divisions via the SSM cross-functional Strategic Sourcing Teams. No Division may buy outside a national contract, unless the necessary **prior** authority has been obtained from the GM: SSM.

2.12.3 National contracts can also be on an "as-and-when required" basis as contemplated in Paragraph 2.11 above, where the commodities are not of a capital nature, such as fuel, tyres, truck tarpaulins, steel, stationary, etc.

Also refer to paragraphs 2.11.3 – 2.11.5 above as these apply to both fixed period and Transnet-wide contracts.

2.13 Disposal of movable and immovable goods

2.13.1 Disposal of all movable goods must be properly controlled and Divisions must have proper disposal policies/procedures in place for the disposal of such assets. Where the Division does not have the necessary Delegated Powers, the manpower or expertise to dispose of such goods per tender or public auction, Freight Rail Supply Chain Services (Reverse Logistics) should be approached to provide this service at a fee, on behalf of the Division. Refer to the Transnet Group Delegation of Authority (Group Limits of Authority) available on the Transnet Intranet.

2.13.2 There are, however, specific commodities such as ferrous scrap (steel) and non-ferrous scrap, which are disposed of in terms of a single Transnet contract for better control and to curb the theft of those valuable materials. (See Disposal Policy available on the Transnet Intranet for details). Other commodities as issued by the GCE (or Group Executives) from time to time are also addressed and / or appended to this procedural manual, e.g. Disposal of redundant PC equipment, cell phones, etc. Redundant office equipment and furniture must be disposed of in terms of the individual policies/procedures as laid down by each Division. (Refer to paragraph 5.7.1 below)

2.13.3 Disposal of all redundant fixed property falls outside the scope of these procedures. (Refer to Paragraph 1.3.3.4. above for Exclusions) and is subject to prior written approval of the CEO, OPCO, or higher, depending on the market value of the property. Refer to Paragraphs 5.1.6 and 5.1.7 of the Transnet Group Delegation of Authority (Group Limits of Authority) - Available on the Transnet Intranet.

2.14 Appointment of consultants

2.14.1 Authority to appoint a consultant and the DAC's involvement

2.14.1.1 Regardless of the value of the business or procurement mechanism used, no person may appoint a consultant without the prior written approval of the CEO or higher. Refer to paragraph 5.4.1 of the Transnet Group Delegation of Authority (Group Limits of Authority) - Available on the Transnet Intranet. Any additional work or extensions to such consultancy contracts exceeding 10% of the original contract value should be regarded as another (new) consultant appointment and subjected to the same approval process. Extension or additions not exceeding 10% in value should be submitted to the relevant DAC for prior approval before such additions / extensions to the contract may be authorised.

2.14.1.2 Transnet entities shall have appropriate and transparent selection procedures for the appointment of consultants.

2.14.1.3 After approval is obtained from the CEO (or higher, depending on the value) for firstly, the appointment of a consultant (i.e. the need) and secondly, the process to be followed (e.g. confinement or open tender), the manager concerned shall deal with the transaction the same as any other i.e. if the value of the transaction falls within the jurisdiction of the DAC, it's prior approval must be obtained before the business is awarded.

2.14.1.4 Tenders should be invited for consulting services where at all possible, but especially where:-

(i) there is competition in the market; and/or
(ii) pre-qualification is necessary to establish whether tenderers have the technical, financial and other resources to be able to quote for a second stage tender in respect of a design type of project; or
(iii) an external organisation is party to the appointment of the consultant.

2.14.1.5 If it is not possible to invite open tenders, at least 3 RFPs (if possible) should be obtained.

2.14.2 Definition of a consultant

2.14.2.1 A consultant means a person, partners in a firm, a company or a close corporation who has advanced educational qualifications and who can provide expert or specialised skills. This definition excludes anyone who also carries out the physical work or provides the end product. Such consultancy service normally pertains to a specific project and therefore should be non-repetitive in nature and is usually confined to design work, investigation or advice on management, financial, business or technical matters based on his/her own professional or expert advice.

2.14.2.2 A consultant does not supply the ultimate end product but merely gives a recommendation or supports the implementation of recommendations based on his/her expertise of the best solution to a specific problem.

2.14.2.3 Should the "consultant" design, develop and supply the end product to Transnet, he/she does not act as a consultant but provides a complete "service" and therefore acquires the status of a "contractor".

2.14.2.4 Should a "consultant" in performing his/her functions have to perform physical work, for example drilling of test holes in order to provide a sub-surface soil report, he/she actually provides the end-product and should therefore be regarded as a Contractor.

2.14.3 **Cognisance should also be taken of the difference between a labour resource contractor and consultant. Kindly note that the utilisation of labour brokers for the sourcing of temporary employment (e.g. private secretaries, data capturers) does not fall in the category of a consultant and should be regarded as a normal sourcing of services.**

2.14.3.1 **Definition of a labour resource Contractor**

An external service provider required to provide:-

(i) A new skill which Transnet does not have yet.
(ii) A skill which Transnet does not have enough of.
(iii) A skill for a once-off job
(iv) A historic or legacy skill which is not warranted to exist in-house.
(v) **(Deliverables:** Day-to-Day Analytical, Project or Operational capacity)
(vi) **Example:** A SAP specialist employed for a period of 2 years to assist with the implementation of a SAP program throughout Transnet.
(vii) **Attributes:**
  (a) Is a natural person*.
  (b) Is engaged via a normal HR process for a minimum period of 3 months and a maximum period of 3 years.
  (c) Has an employment contract with Transnet, and is paid a salary via the payroll.
  (d) Motivation to HR must include why the required capacity is not available in Transnet.
(viii) Such engagement is not considered to be a procurement matter and falls outside the ambit of this Procedure.

* Should the services of non-SA citizens be utilised, it should first be ascertained whether such individual(s) have the necessary work-permits to be employed in South Africa.

2.14.3.2 **Definition of a labour resource Consultant**

(i) An external advisor required on the basis of his/her expertise, Research and Development, Specialist knowledge, or past experience for
  (a) Operational, Tactical, or Strategic input
  (b) Design
  (c) Problem Solving (Specific).
(ii) **(Deliverables:** Specification, Design, Report, proposal i.e. not the ultimate end-product which still has to be provided in terms of the specification design etc. provided by the consultant.
(iii) **Example:** An Engineering Consultancy firm contracted to prepare the specification and Design Drawings for the construction of a new Ship to Shore Container Handling System.
(iv) **Attributes:**
  (a) Is a Juristic Person, or member of a Juristic Person.
  (b) Is engaged via a standard Procurement Process for Goods and Services (i.e. Specification, Advertisement, Tender, Evaluation, Award, or alternatively Confine, as per standard Procurement Process).
  (c) Is paid via an Invoice.
  (d) Motivation to relevant Authority (refer to paragraph 2.14.1.1 above) must include why the required capacity/expertise is not available in Transnet.

2.14.3.3 **NB:** In order to accommodate emerging "One-Man Businesses", it may be appropriate (and cheaper) in the case of single person CCs, to engage the resource as a Contractor if that is the required skill/contribution. However, labour regulations (PAYE, etc) must be adhered to.

2.14.3.4 **Fundamental Principles**

(i) As a broad and all embracing objective, the following fundamental principles will apply with regard to the selection and appointment of consultants.

(a) The utilisation of consultants which merely duplicates management positions/functions should be avoided.
(b) Consultants should have no powers in terms of decision making.
(c) The participation of consultants in project steering committees should be limited and where their involvement is absolutely necessary, it should be formally motivated and the required contributions or inputs defined.
(d) Where applicable there should be skills transfer to Transnet's own staff. A skills transfer programme should be embodied within the consulting contract as part of the delivery mechanism wherever this is practicable.
(e) Appropriate contracts should be negotiated with the consultants and the resulting projects should be managed accordingly. A standard contract document with predefined criteria should be developed and implemented by every division, designed to suit its own unique requirements, but conforming to the general rules of project management.
(f) Consultants employed must have the required skills to ensure that Transnet is not exploited as a training ground. The skills and expertise of consulting personnel to be assigned to the project should be assessed thoroughly both before and after a contract is entered into. Such contracts should also, if applicable, include a professional indemnity clause as well as a confidentiality clause, to safeguard Transnet.
(g) Incidental expenditure such as meals, telephone, local and overseas air travel as well as motor car and accommodation allowances should be in terms of the limits laid-down from time to time by Group Financial Services/Group Human Resources and must be stipulated in such consultancy contracts.
(h) Good corporate governance requires that Transnet avoid using consultancy services that may be provided by our external auditors. Any potential use of these consultants must be reviewed by SSM to ensure proper use of these services.

2.15 e-Procurement Call-offs

E-Procurement is an effective tool to efficiently do call-offs from already approved National- and As-and-when-required contracts, by utilising pre-approved catalogues/hotlists.

2.15.1 Fixed Term e-Contract Suppliers

The following benefits can be achieved by Transnet through the use of fixed–term contracts (whether supported by SAP or an e-Procurement system) and their suppliers:-
(i) Improved control for standardization, consolidation and leverage of the Transnet spend.
(ii) reduces off-contract / maverick buying.
(iii) consolidates volumes for leverage, which reduces item unit prices.
(iv) reduces procurement process costs.
(v) improved procurement governance and strategic sourcing.
(vi) enables the development of best practices that can be shared throughout the Group.

2.15.1.1 Commodities being purchased through the e-Procurement system will therefore be from one or more Contracted E-Suppliers only. These contracted E-Suppliers will have been sourced by the relevant Strategic Sourcing Team of the Division, having considered standardization and/or consolidation as far as practically possible. To ensure fairness and transparency, contracted E-Suppliers will only be placed on the system after one of

the normal procurement mechanisms have been utilized **and approval by the relevant Acquisition Council,** if the estimated value expected to emanate from such e-Procurement contract is expected to fall within the jurisdiction of such Council. Consequently, the e-Procurement system will act as a tool to efficiently conduct call-offs against such duly approved contracts.

NB: The e-procurement system to be utilised for this purpose (whether the Supplier's or Transnet's own system) needs the prior approval of the Transnet Chief Information Officer (CIO) Council. Therefore, **before** any e-procurement commodity contract (e.g. stationery) may be concluded, the Group ICT Function must first be approached. The latter office will ensure compliance with Transnet ICT procedures and principles, and will also be responsible for the submission to, and obtaining the approval of the Transnet CIO Council.

2.15.1.2 Individual call-offs against such approved catalogues will not require separate DAC approval but will be regulated by the e-Procurement system itself by means of internal business policies, monetary levels and approval flows built into the system. The relevant Strategic Sourcing Commodity Manager will be responsible for the monitoring of the total spend by the different users, to ensure that the total estimated value of the contract as approved by the Acquisition Council is not exceeded, and that the necessary Acquisition Council approval for the increase of the estimated contract value, or any amendment to the contract (e.g. adding of additional items to the catalogue/hotlist), is obtained timeously.

2.15.2 **Non-catalogue items from Contracted E-Suppliers**

Where approved catalogues for a specific commodity group exist, but a newly required item does not appear on the contracted Suppliers' approved catalogues, the Strategic Sourcing Commodity Manager in charge of the specific contract will source all such items from the contracted supplier of that specific commodity group, by obtaining prices by means of the most appropriate manual procurement mechanism and add the item to the catalogue with the new price and terms, once DAC approval has been obtained in the normal manner in terms of paragraph 7.3 below (i.e. the 10% rule).

2.15.3 NB: The normal principles which guide the Procurement Procedures also apply to e-Procurement.

2.16 Income Generating Contracts [and associated expenditure (procurement) contracts]

2.16.1 Although income generating contracts are in principle excluded from this Procedure Manual, all associated expenditure contracts necessary to fulfil such contracts (i.e. procurement contracts to acquire the necessary goods or services), do fall within the PPM jurisdiction . For example Freight Rail negotiates an income generating contract (i.e. no open tender process) to transport fuel from the Port of Durban to Zimbabwe. This would be a pure income generating contract and although it might require Freight Rail Exco or even Transnet Board of Directors approval, it would fall outside the scope of the PPM and DAC approval would not be necessary. (This is if Freight Rail's existing infrastructure and rolling stock can cope with the contract).

2.16.2 However, if Freight Rail needs to purchase 2 additional locomotives and 90 rail tank wagons to provide this service (fulfil the contract), such associated expenditure / procurement contracts would fall within the ambit of the PPM and would also require prior DAC approval.

2.16.3 The only exception to this rule would be in circumstances where a Transnet Division, Specialist Unit or Business needs to respond to an external tender invitation (e.g. Rail Engineering responding to a tender issued by Metrorail for the supply of suburban coaches). In such instances the limited time available to respond to such tender invitation would not allow the Transnet Division, Specialist Unit or Business to invite tenders or obtain quotations/authority to confine, etc. in respect of possible portions of the project that need to be outsourced, or material that need to be purchased externally. In such cases, irrespective of the monetary value of such

transaction(s), the CEO may authorise such confinements and/or approve the selection of possible joint venture partners/subcontractors, etc, without DAC approval, provided that the matter(s) be reported for the DAC's information as soon as possible after the Transnet Division has lodged its tender. Such transaction(s) reported in detail to the DAC as stated above, need not again be submitted to the DAC, should the Transnet Division be selected as the successful bidder, as this could lead to delays in the execution of such external income generating contract.

2.16.4 On completion of the project, the DAC should be informed of the outcome in detail, e.g. how the selected subcontractors/JV Partners performed, was the project completed on time, etc.

2.17 CIDB-Tenders and NEC Contracts

2.17.1 Scope and Definitions

The Construction Industry Development Board (CIDB) by virtue of the CIDB Act No. 38 of 2000 is empowered to promote efficiency and uniformity in the construction industry. The CIDB implemented the following to give effect to its mandate: -

1. **A Code of Conduct:** To promote uniform and ethical standards, the CIDB published a Code of Conduct for all construction-related procurement, as well as for all participants involved in the construction procurement process. The Code and its requirements are contained in the CIDB Board Notice 127 of 2003. Further information on CIDB requirements is available on the Transnet Intranet.

2. **A Register of Contractors:** As per the CIDB Implementation Program, Transnet is obliged to implement this Register with effect from 30 November 2005. This implies that no construction related contract may be awarded to a contractor, whose name does not appear on the CIDB's Register of Contractors for that particular class of construction works (CE, EE, GB, ME or specialist works) and tender value ranges (Level 1 - ≤R200 000 to Level 9 - ≥R100million). This also implies that the newspaper advert, Notice to Tenderer and Tender Data must indicate that only CIDB Registered Contractors will be considered. To award such a contract to a non-CIDB-registered contractor would be a criminal offence. The alpha-numerics associated with Contractor Grading Designations are depicted on Annexure G of the Standard for Uniformity.

3. **A Register of Projects:** In order for the CIDB to keep track of projects and build a database of contracts, the Register of Projects was introduced. An employer must within 21 days of awarding a contract, register the contract on the Register of Projects if the value of the contract exceeds the under mentioned limits as laid down by the Minister by Notice in the Gazette. Presently these values are R200 000 for the public sector (Transnet included) and R3 000 000 for the private sector. The implementation date for the Register of Projects for Transnet is also 30 November 2005.

4. **Standard for Uniformity:** The Standard for Uniformity aims to bring about standardisation and uniformity in construction procurement documentation, practices and procedures. The Standard for Uniformity and its requirements are contained in the CIDB Board Notice 99 of 2005.

   Apart from Best Practice Guidelines issued by the CIDB, it also selected 4 suites of best of breed contract documents (general conditions of contract), all of which are well known and widely used in the construction industry. Transnet decided to standardise on the NEC suite of documents and has introduced the ECC3 (Engineering and Construction Contract). This means that none of the old contract documents may now be used.

   The Standard for Uniformity makes provision for 8 different procurement procedures. These procedures are in line with Transnet's procurement mechanisms and are reflected below for ease of reference.

CIDB Standard Procurement Procedure	Transnet equivalent in terms of PPM, Part 2, Procurement mechanisms
P1. Negotiated procedure	Contract Negotiation PPM 2.8 or Confinement PPM 2.5
P2. Nominated procedure	Approved List PPM 2.6

P3. Open Procedure	Open tendering process : PPM 2.2
P4. Qualified procedure (expression of interest)	Stage 1 of 2 stage tender PPM 2.10 or advertisement for framing of an Approved List PPM. 2.6.2.1.
P5. Quotation procedure	Confined enquiries < R2m : PPM 2.4
P6. Proposal Procedure (Two envelope system)	Not a preferred procedure in Transnet. If justified in specific circumstances, it is suggested that DAC approval be obtained prior to going to market.
P7. Proposal Procedure (Two stage tendering)	Two stage tendering system : PPM 2.10
P8. Shopping procedure	Three quote system for low value purchases <R5000 : PPM 2.4

The CIDB Standard for Uniformity further provides for 4 different methods of evaluating tender submissions, namely:-

Method 1	Financial Offer
Method 2	Financial Offer and Preferences
Method 3	Financial Offer and Quality
Method 4	Financial Offer, Quality and Preferences

The CIDB requires that the tender document (Tender Data) indicate which of the above 4 evaluation methods would be used in a particular tender evaluation. In addition, it is also required that the weightings of the 3 main components be disclosed in the tender document so that tenderers may consider this during preparation of their tender response. For example:-

Financial Offer (Price/TCO)	=	50*
Quality	=	40**
Preference (BBBEE)	=	10 (always 10 in line with PPPFA)
Total	=	100

* The weightings of Financial Offer and Quality may be adjusted depending on the merits of each case, but should always add up to 90. For example, on a specific consultancy service the weighting may be 70 for quality and 20 for price.

** In addition to this, one can also stipulate a minimum cut-off point on quality e.g. 70, which means that any tender scoring less than 70 points on Quality, will automatically be disqualified and regarded as non-responsive.

Extreme care must be taken where Methods 3 or 4 are used. In most instances, the evaluation of quality is inherently subjective. Quality measures must also not promote captive markets and should result in appropriate quality to comply with user requirements as opposed to best quality available. It is recommended that where possible, quality be introduced as eligibility criteria in the Tender Data. It is anticipated that Transnet, in most instances, will be using **Method 2** for evaluation of tenders. Refer to Part 9 for more detail regarding Price / BBBEE evaluation.

Other CIDB prescripts

1. *Prices must be read out at public tender openings.* However, the CIDB has agreed that **Transnet need not read out prices,** as this would compromise the post-tender negotiation process. The requirements of paragraphs 3.11 and 3.13.2 as well as 6.3.1 therefore also apply to CIDB tenders.

2. *The maximum limit for 3-quote system is R200 000.* However, **Transnet, being a Schedule 2 company in terms of the PFMA is exempted from this requirement.** Hence the Transnet limit of R2million for the 3-quote system (Paragraph 2.4) also applies to CIDB tenders.

3. *The validity period (option date) of CIDB tenders may not exceed 8 weeks.* The CIDB agreed that the validity period of bids for mega projects may be longer, provided that it can be justified. However, this is the exception. In general, validity periods should not exceed 8 weeks. Should the award of

business be delayed due to unforeseen circumstances, resulting in validity dates expiring, tenderers may be requested to extend their validity periods. Please, however, refer to paragraph 3.5.2 below for the consequences of extending option dates. Care must also be taken not to award any contract outside the validity period (or extended validity period). After the validity of a tender has expired, no contract can come into existence, as there is no legitimate "offer".

4. *Tenders may not be cancelled and re-issued on the same specification (substantially the same scope) within a period of six months.* This requirement must be complied with for all CIDB tenders.

5. *Tender documents MUST be completed in black ink only.* The CIDB agreed that it is acceptable for tenders to be completed in a dark permanent ink which is legible and which can be clearly photocopied. Tenders completed in pencil may under no circumstances be allowed. This requirement must be clearly stated in the Notice to Tenderer, [over and above the Standard Conditions of Tender (Annexure F of the Standard for Uniformity)].

6. *All late tenders must be returned unopened. In addition, if only one tender had been received and it is the intention to rather cancel and re-issue (in such a case the 6 month requirement per paragraph 4 above would not apply), this will only be allowed if the one tender received is returned unopened.* Divisions must therefore have procedures in place to ensure that where a single response to a CIDB tender is received, it is not "prematurely" opened.

7. *CIDB tenderers may withdraw their tenders after the closing date, but before business is awarded.* This is different to the norm (See paragraph 7.5.1.1 below) because a CIDB tenderer may have been awarded another contract in the interim and does not have the capacity to undertake both contracts.

8. *Payments to be made within 21 days from date of invoice, otherwise interest at Prime plus 2% will automatically accrue.* Divisions may however stipulate its own payment conditions in the Contract Data of the NEC contract templates utilised. Payment terms, depending on the Division's own payment policies, should as far as possible not be longer than 30 day from date of invoice, since such long payment terms will inevitably have an impact on the prices quoted by prospective tenderers. It is essential that proper procedures be put in place to ensure that payments in respect of CIDB contracts are handled expeditiously. Late payments could be considered as "fruitless and wasteful" expenditure in terms with the PFMA.

9. *Tender prices may not be adjusted due to arithmetical errors made by the tenderer.* This is one of the very strict prescripts of the CIDB and MUST be complied with. If there is an arithmetical error in the calculation of the pricing of a particular item the total will have precedence. The unit rate has to be adjusted. If the tenderer is not prepared to adjust his unit rate to bring it to his tendered total for that item, his/her tender becomes non-responsive. Should an adding error have been made on one of the pages of the price schedule, **the grand total (total tendered price) will take precedence.** The CIDB Standard for Uniformity, however, also allows for the correction of arithmetical errors, **provided that the competitive position does not change**, e.g. the correction may not change the position of the second lowest tenderer to the lowest, or vice versa.

10. *The various monetary limits laid down by the CIDB, as well as the Rand values of the different categories of contractors e.g. the CE 5 : >R3m to ≤ R5m are inclusive of VAT.* This is important since Transnet monetary limits (delegated authorities) are all exclusive of VAT.

11. *All CIDB information relating to BEE still refers to the PPPF Act, which is based on the narrow based principle.* Transnet has decided to embrace the DTI's BBBEE principles as defined in the BBBEE Act and Codes of Good Practice. Tender documents should therefore clearly indicate that **"Preference" would be evaluated and scored in terms of the Broad-based principles.** Refer to Part 9 for more details regarding the implementation of BBBEE.

12. *The CIDB will be administering a list of excluded tenderers. (Contractors who have defaulted on any CIDB contract awarded by another public Entity).* This list will be similar to the Transnet List of Excluded Tenderers and will run in conjunction with Transnet's List. This means that if a Contractor's name appears on the CIDB's List of Excluded Tenderers, he will not be eligible to be awarded a

contract and his tender will automatically be "non-responsive". For easy reference, the CIDB's List will be published (and updated) in tandem with Transnet's own List of Excluded Tenderers. The GM: SSM will on the merits of each case decide whether such restriction will be applicable to CIDB-tenders only or for non-construction related work as well.

13. The CIDB has now amended legislation to incorporate post-tender negotiations with one or a shortlist of responsive tenderers into its Standards for Uniformity.

14. The CIDB has also exempted Transnet from the CIDB Regulations in respect of Contracts relating only to "construction works involving any installation, repair, maintenance or alteration of **mechanical material handling systems and lifting machinery in relation to the movement of containers and bulk material.** A copy of the CIDB's letter dated 14 September 2007 in this regard is available on the Transnet intranet.

15. As mentioned before Transnet decided to standardise on the NEC suite of documents. The NEC documents, mainly differ from the now defunct E5 document in the following respects:-
    - whereas the E5 aimed to place all the risk on the contractor (which unfortunately comes at a premium), the NEC advocates the principle of risk sharing.
    - similarly, the NEC allows for the speedy and amicable settling of claims and disputes between the two contracting parties without having to resort to expensive and protracted litigation.

    The effect of this is that certain powers which rest with the AC on non-CIDB contracts (See paragraph 7.3 below), is now under the sole discretion and jurisdiction of the **"Project Manager"** and to a lesser degree the **"Supervisor"**. The NEC also grants certain powers to the "Employer", i.e. the CEO or his / her delegate who signs the actual Contract in terms of a proper Special Delegation of Authority document. These Transnet employees or agents are appointed in person and by name for a specific contract.

    Although the initial contract will be approved by the relevant AC and signed by the "Employer" with the appropriate Delegated Powers, the Project Manager and Supervisor will be responsible for the day-to-day administration of the contract, without any further AC approval in terms of their specific delegations, both in their personal capacity (i.e. by virtue of their Special Delegation of Authority), as well as by virtue of their appointment as either Project Manager or Supervisor in terms of the NEC contract.

    All such powers exercised in terms of the contract and which entails a material amendment to the contract, shall be reported for information to the relevant AC as soon as practicable after the event. For example, the raising of penalties for the late completion of the project or one stage of the project, is not a material amendment. However the issuing of a Compensation Event (Variation Order in E5 terminology) constitutes an amendment to the contract and will have to be reported to the AC. Certain compensation events (e.g. additional work >10% of the initial contract value at non-scheduled rates (refer to Paragraph 7.3 below) may require prior AC approval, before such compensation event may be signed off by the Project Manager.

PART 3: ISSUING AND RECEIPT OF TENDERS AND QUOTATIONS (RFXs)

3. Drafting of RFXs

NB: **Chapters 3 to 9 will apply to all the procurement paths mentioned in Part 2, unless otherwise stated. The Tender documents should be compiled strictly in terms of laid-down guidelines. Refer to the various standard forms and templates and the Contracting Procedures Manuals for Transversal tenders and Division-specific tenders, available on the Transnet Intranet.**

ISSUING

3.1 All notices and adverts calling for tenders / quotations shall be issued in the name of Transnet Limited

3.1.1 Notices and the appropriate forms and draft agreements for tenders and quotations shall be issued in the name of Transnet Limited and shall be published (advertised) in the Republic of South Africa and abroad, if necessary. The name of the relevant division shall be indicated supplementary to the name of Transnet Limited, e.g. Transnet Freight Rail, a Division of Transnet Limited (Reg. No. 1990/000900/06). Refer to the various media advert templates available on the Transnet Intranet.

3.1.2 The rationale for issuing such notices in the name of Transnet Limited is that every legal document has to reflect the registered company name i.e. the legal persona of the company which will be contracted with. The tender advertisement is a legal document as in legal terms this becomes the request to offer to which any interested party can respond by submitting an "offer".

3.2 Notices and adverts inviting tenders or quotations should reflect all important information pertaining to the collecting and lodging of such documents

3.2.1 Notices and advertisements calling for tenders shall include the following:-

- the tender number,
- a brief description of the commodity / service required,
- where the prescribed forms may be obtained and the cost to purchase them (if any),
- the closing date, the time and the place where tenders must be lodged,
- information pertaining to site inspections or pre-tender briefing sessions,
- the contact person's address and telephone/fax number, and
- particulars of Transnet's fraud line.

3.2.2 The advert should be as short as possible but nevertheless contain all relevant information. This is to enable prospective tenderers to plan properly taking into account the time required to fulfil all the abovementioned obligations. **(See paragraph 2.17 above for requirements for CIDB tenders)**
Employees listed in tender notices as contact persons should ensure that they are available to answer queries. Care should also be taken when responding to enquiries from potential bidders, not to reveal additional information not in the tender document, to one contender and not to the others. In such an event, in the interest of fairness, a proper addendum to the tender should be issued to all tenderers who drew tender documents. Communication with potential bidders during the open period of a tender (i.e. before the closing date) should be handled with circumspection so as not to favour one tenderer above the other. Refer to paragraph 3.15.2 below for the rules pertaining to site inspections and tender briefing sessions,

3.2.3 The notice / advert shall be duly published on or before the day of issuing of the tenders. Tenders may be published in trade magazines, newspapers which are distributed locally or wider, in electronic tender bulletins, other media which specifically targets specific markets or small business enterprises, whichever is best suited to reach the potential tenderers. The office responsible for placing the adverts shall retain copies of all adverts as placed by the relevant media, for audit purposes.

3.2.4 With regard to BEE, special effort should be made to advertise through media and publications which will reach the required target area e.g. Sowetan, Enterprise, Pace as well as the Transnet database. Copies of the notice and prescribed forms shall be furnished to the AC secretariat where the tender or quotation can reasonably be expected to fall within the jurisdiction of such Council i.e. over the laid-down limit or longer than 2 years or where there is uncertainty as to whether it will fall within the jurisdiction of a manager. Any subsequent amendments to notices inviting tenders e.g. extension of closing date shall be communicated to the AC (Secretariat) timeously.

3.3 Closing dates of tenders and quotations should be clearly specified and should be as soon as practicable after the issue date, considering the circumstances of each case

3.3.1 The closing date for the submission of tenders or quotations shall be as soon as possible after the date on which tenders or quotations are invited but must be long enough to allow prospective tenderers sufficient time to prepare and submit a tender. For off-the-shelf type of purchases a minimum of two weeks should be allowed, if possible. For more complex tenders such as construction works which involve quantity surveying etc, a minimum of 3 weeks should be allowed. The period shall be considered reasonable if the response is sufficient, considering the specific market. Allowance must also be made for the time required to make delivery of tender documents from other regions.

3.3.2 Tender closing dates should be scheduled to ensure that a particular tender box is only opened once a week where at all possible. This is to eliminate the possibility of tampering with tenders already in the box prior to the official closing date. When the closing date inadvertently falls on a Saturday, Sunday or a public holiday, tenders or quotations shall be received up to 10:00 of the next working day.

3.3.3 The closing venue should likewise be clearly stipulated. Divisions and/or ACs are responsible for the opening and receipt of all tenders issued by the Division. Depending on the structures and locations of regional offices and/or regional Acquisition Councils, the CEO/AC may decide to delegate the closing of lower value tenders and quotations to regional offices/local tender committees provided that it complies with the minimum requirements as laid down in this Procedure Manual.

3.4 All tenders and quotations shall be given a business unique consecutive number plus a cryptic description, and all pages shall be indexed and numbered

3.4.1 The issue of Tender / Quotation numbers should be controlled by a responsible person, to also ensure the correctness of all tender adverts before they go out to market. Each tender / quotation which is issued shall be given a consecutive number. This number shall clearly indicate whether it was an open tender or a quotation, as well as identify the division which issued it e.g. TENDER NO. TPT/IT/01/04. Following the unique number, a cryptic (short) description of the requirement should be added, e.g. "SUPPLY OF PRINTER CARTRIDGES TO TRANSNET PORT TERMINALS FOR A PERIOD OF TWO YEARS". Where practicable all pages of the tender documents shall be indexed and numbered consecutively in order that both tenderer and contract administrator can easily check the completeness of the tender document.

3.4.2 In view of the various differences between normal tenders and CIDB-tenders as outlined in Paragraph 2.17 above, it is suggested that ODs allocate a unique prefix to the Tender Number to indicate that it is a CIDB-tender. Similarly a specific digit or character can be allocated to indicate whether such tender will close at the AC or at Regional/depot level e.g. TPT/M/01/06/D/cidb.

3.5 Validity periods should allow ample time for evaluation, drafting of the recommendation as well as approval by all the necessary governing structures necessary for that particular contract and contract value

3.5.1 Unless circumstances require a longer or shorter period to be fixed, tender documents must state that the tenders or quotations must hold good for **at least** 30 days from the closing date thereof. If an unavoidable delay occurs with adjudication, it must be arranged to extend the validity period. This is subject to the necessary authority to communicate having been obtained. **(Refer to paragraph 2.17 above for specific requirements on validity periods for CIDB-tenders)**

3.5.2 **NB:** The extension of a validity date effectively "opens the tender up" again and a tenderer has the right to amend his price or any other tender condition. Transnet will have no option but to

accept increased prices or less favourable tender conditions, should such tender still be the most acceptable bid. Therefore every effort should be made to avoid delays.

3.6 Tenderers may be allowed to only tender for certain items or portions of the total project, where deemed advisable

3.6.1 Tender documents may allow for tenderers to tender for one or more items or for a part of one or more items but Transnet reserves the right to accept a complete tender or quotation even if it is not the lowest provided it is in the best interest of Transnet. Tender documents must be specific as certain contracts will require that the whole contract be completed by the same contractor in order to establish responsibility.

3.7 The raising of a non-refundable charge for tender documents is at the discretion of the Manager concerned

3.7.1 A manager with the necessary Delegated Authority for the monetary value of the particular contract, may decide at his/her own discretion that a **non-refundable** charge be raised for tender forms, plans, specifications and samples depending on the nature, magnitude and value of technical information or samples supplied.

3.7.2 This mechanism may also be utilised where it is deemed necessary to eliminate "fly-by-night" tenderers. However, this should be done with great circumspection so as not to unnecessarily and unfairly eliminate QSE/EME companies.

The following guidelines (though not prescriptive) may be used to determine a fee for tender documents:-

<R2million	: no charge
>R2million to <R5 million	: R250
>R5million to <R10 million	: R500
>R10million to <R35 million	: R750
>R35 million	: R1000 or higher (discretion of CPO)

Where a fee for a tender (RFP) document is to be charged, the advert should clearly state the payment method. Due to the risks involved in having large amounts of cash in hand, the sale of tender documents at site meetings, especially in remote areas, should be avoided. Strict control over cash received should be exercised and documentary proof of documents sold and receipts issued should be kept on the appropriate files as part of the record.

3.7.3. Should cash payment be one of the chosen payment methods, tender documents must clearly stipulate that payments be made to the finance office (or another office independent from the office that issued the tender). The finance office must ensure that the Tender Number is clearly reflected on the receipt. Tender documents may only be issued to bidders producing a valid original receipt clearly indicating the relevant tender number. A copy of the receipt with the signatures of the issuing officer and the bidder who purchased the document must be kept on the appropriate tender file as part of the record. The following important information pertaining to all tender documents issued must be entered into the RFX Issue Register, i.e. Tender Number and description, receipt number, document number e.g. copy no.3 of tender document, name and contact particulars of person who collected documents, the bidder's (company) name and date of purchase. At the tender opening, the number of responses received must be checked against the number of payments received.

LODGING

3.8 Tenders are to be lodged and kept in a controlled environment at all times

3.8.1 All tenders/quotations falling within the jurisdiction of the DAC should clearly indicate the physical (and courier address, if not the same), and postal address of the DAC where such tenders will be received.

3.8.2 Where the tender/quotation price is reasonably expected to fall within the jurisdiction of a Manager (i.e. below the jurisdiction of the DAC), the tender document must clearly indicate how tenders are to be addressed. Tenders anticipated to fall below the DAC's jurisdiction, and upon receipt found to be falling within the DAC jurisdiction, must be referred to the DAC for consideration in the normal manner, with an explanation as to why the tender did not close at the DAC as laid down. Under no circumstances should such tenders be cancelled and re-issued with the correct closing venue as that would discredit the whole tendering system. Tenders anticipated to fall within the DAC threshold, and which consequently closed at the DAC, and upon receipt found to be below the DAC threshold, may be dealt with by the AC (or the Manager if it also falls below the AC jurisdiction), provided that the matter is reported to the DAC for information and records.

3.8.3 Tenders/quotations must be submitted by the tenderer in a sealed envelope. The envelope must indicate the tender/quotation number, the subject and closing date, time **and venue** so that there is no need to open the document and risk the possibility of tender prices being leaked.

3.8.4 The tenderer or his agent shall immediately place the unopened tender/quotation in a locked tender box for safekeeping until the specified closing date and time.

3.8.5 The tender box shall be fitted with 2 locks and the keys kept separately by two nominated officials. No single person shall be allowed to open a tender box on his / her own. Both officials shall be present when the box is opened on the stipulated closing date.

3.9 Tenders received open or without the relevant information on the envelope shall be re-sealed immediately

3.9.1 If a tender/quotation is received open or without the relevant information on the envelope, the contents shall be ascertained and then sealed with a note made on the envelope indicating: –

(a) the date of receipt and by whom (name, designation and contact number);
(b) the state in which the tender parcel had been received;
(c) the tender/quotation number and description in respect of which the documents are submitted; and
(d) the correct closing date, time and venue.

It will then be placed in the correct tender box for opening at the appropriate closing time.

3.9.2 When finally opened, such envelopes shall be kept on the appropriate files as an audit trail. The tender list compiled by the officer responsible for the tender opening should also indicate that such tender was received open, so that the evaluating team can consider possible malpractices. However, such tenders should not be summarily disqualified.

3.10 Fax and e-mail tenders/quotations, and tenders/quotations lodged through an electronic tendering system will be considered only if the tender document specifically provides for it

3.10.1 No tender or quotation received by e-mail or fax will be considered unless the tender document specifically provides for it.

3.10.2 Where the tender document specifically provides for e-mail, fax or electronic reply, provision must be made in the tender document for Transnet to be indemnified against any and all claims which may arise as a result of the tenderer not being able to communicate with Transnet electronically for any reason whatsoever before the closing time.

3.10.3 If at all possible the tender document should be arranged so that the critical information is listed on one or two pages for the convenience of tenderers so as not overload fax machines.

3.10.4 There should be strict control measures over such fax machines. Fax or e-mail tenders received should immediately be endorsed "subject to confirmation", placed in an envelope, sealed and

deposited in the relevant tender box, if physical (hard copy) tendering is allowed in conjunction with electronic tenders. Should e-mail tenders only be allowed in specific circumstances, these need to be received in a controlled environment and only be down-loaded from the system after the stipulated closing time.

3.10.5 Such tender/quotation shall be stamped and recorded with the others received provided that;-

(a) the e-mail or fax is received before the closing time;
(b) at least the name of the tenderer, the tender number, description of goods / service tendered for, the price (separately or as a lump sum as required) and discounts (if any) are clearly mentioned in the e-mail or fax tender;
(c) the tender/quotation is confirmed per letter or by means of the official tender form duly completed which is delivered at the closing venue within a reasonable period after the closing time or forwarded by courier service and received within a reasonable period thereafter to allow due adjudication thereof; and
(d) adequate proof of the requirements in (c) above is furnished to the person in charge of such delegated office responsible for the receipt of tenders/quotations falling within its jurisdiction.
(e) The abovementioned requirements do not apply where tenders/quotations are submitted by means of an electronic tendering system where all tender information and prices are kept confidential and secure in the electronic tendering system until the closing time of the tender.

OPENING

3.11 Tenders/quotations shall be opened as soon as possible after the closing date

3.11.1 All tenders shall be opened in public (if required by prospective tenderers) as soon as possible after the expiry of the advertised closing time and date. At such public tender openings only the names of the tenderers are read out but not the prices. **This also applies to CIDB tenders – see paragraph 2.17 above.**
All quotations i.e. responses received in terms of procurement mechanisms 2.6, 2.7, 2.8, 2.9 (second stage), 2.11, 2.12 (second stage) and 2.13 and 2.14 if applicable, are excluded from public tender openings. When such quotations are opened, the names of contenders who responded are therefore not read out, nor are their prices disclosed. This is to prevent collusion between a limited number of contenders or in the event of one supplier only, the creation of a monopolistic situation.

3.11.2 A register reflecting the names of the tenderer's representative(s) attending the public opening, the company's name and the tender number shall be kept on the tender file as part of the record.

3.11.3 Tenders/quotations shall be opened by a duly authorised senior employee in the presence of at least one other employee. Neither of them shall have a personal interest in the tender/quotation nor be involved in the issuing, evaluation or adjudication thereof. See paragraph 5.8.1 below for procedure to be followed should a tender opening official have an interest in any tender dealt with at a particular tender opening session.

3.12 Tenderers shall delete items which they do not wish to tender for on the price list

3.12.1 Where tenderers insert prices on price lists supplied by Transnet, they shall delete items for which they did not tender. If the price has been included elsewhere in the price list, it should be indicated. After tenders/quotations have been opened, tenderers may not supplement their original offer which was incomplete. Where prices have not been inserted in all the relevant spaces on the forms and such items have not been deleted by tenderers, such spaces shall be stamped "no price" by the employee who opens the tenders/quotations.

3.13 Tenders are to be stamped and the names of the tenderers read out as they are opened

3.13.1 Should tenderers insist on a public tender opening, as each tender is opened (not quotations) the name of the tenderer shall be read out. An employee shall date-stamp the tender or quotation and all enclosures which indicate the prices, delivery periods and special conditions. Tenders/quotations shall be numbered in the sequence in which they have been opened and the words "and last" shall be endorsed on the last tender/quotation. Where only one tender has been received, the words "and only" shall be endorsed on such tender. The employee in charge of the tender opening will record particulars of all tenders received in duplicate. The original list of tenders received must accompany the original tender documents. The name and signature of the person collecting the tenders must be obtained and the duplicate list with the signature will be kept by the tender opening office, either on the appropriate file or in a register, as part of the record.

3.13.2 **NB: It is Transnet's policy not to disclose tender prices.** With regard to quotations, names of tenderers should not be read out. (See paragraph 3.11.1 above).

3.14 Late tenders will not be considered

3.14.1 Tenders/quotations arriving after the specified closing time shall not be considered and will where practicable not be opened but kept sealed in the envelopes. A letter explaining the circumstances will be sent to all "late tenderers" and such tenderers may then make arrangements for the collection of their late tender if they so wish. Tender documents must emphasise to the tenderers the importance of ensuring the correct closing venue, as tenders delivered at the wrong tender box will not be considered if received at the correct closing address **after** the closing time.

3.14.2 Where it is necessary to open a late tender/quotation to obtain the name and address of the sender, each page of the document shall be stamped "late tender" before the tender is placed on the appropriate files. The envelope must be stamped and initialled and be retained for record purposes on the appropriate files.

3.14.3 NB: Late tenders that are not considered must be retained for a period of at least 6 months before being destroyed (Record of destruction to be recorded on the relevant file). Tenderers may be allowed to collect their late tenders if they so wish. **In exceptional circumstances the Chairman of the DAC has the discretion to decide whether a late tender may be considered. Refer to paragraph 2.17 regarding late CIDB tenders. This should be done with great circumspection and all documentary evidence leading to such decisions, plus proof of the decision itself, should be kept on the appropriate files as part of the record.**

3.15 Amendments before the closing date are permitted provided all tenderers are informed

3.15.1 Transnet is entitled to amend any tender condition, validity period, specification or plan; or extend the closing date **before** the closing date, or in the case of a compulsory tender briefing session, **before** the scheduled session. However, a minimum of 3 working days before the scheduled date, such amendments or extension must be advertised and/or all tenderers who obtained tender documents must be advised in writing per fax or e-mail of such amendment or extension. The new closing date and time must be clearly reflected. For this reason, employees issuing tenders shall keep a record of the names and contact particulars of the persons or enterprises to which tender documents have been issued.

3.15.2 Where a compulsory site inspection/briefing session has been stipulated in the Tender Notice, under no circumstances may an additional session be arranged merely to accommodate tenderers who failed to attend a scheduled compulsory session. Such tenders must be disqualified, and Tender Notices must clearly indicate this. Should a tenderer arrive late, he/she should be allowed to enter but under no circumstances will Transnet repeat issues already addressed prior to his late arrival. This **must** be stated clearly in the tender documents. Should the tenderer wish to address any issue after the meeting, he/she may do so and all tenderers especially those who arrived on time, should be invited to stay behind if they wish, to ensure that

the same information is disclosed to all tenderers – Refer to the relevant PPM Circular available on the Transnet Intranet.

3.16 Tenders and quotations already received, and of which the closing date has been extended, shall be kept unopened in the tender box

3.16.1 Where the closing date of a tender/quotation is extended, the notice which makes the extension known shall also state that tenders/quotations already received, will be retained unopened in the tender box and be duly considered after the expiry of the extended period. However, the tenderer may request that such tender/quotation be returned to him/her or the tenderer may cancel it by submitting a later dated tender/quotation before the extended closing date.

3.17 Amendments after the closing date are permitted provided that all tenderers are informed

3.17.1 Transnet is entitled to amend any tender condition, validity period, specification or plan after the closing date of a tender. However, all parties who obtained tender documents and submitted valid tenders must be advised thereof in writing by registered post or fax and be given the opportunity of tendering/quoting on the amended basis by an extended closing date and time. Tenderers who, for example submitted their tenders late, or who did not attend the compulsory tender briefing session/site inspection, did not in fact submit valid tenders and cannot participate in the extended invitation. Authority for such communication is to be dealt with in terms of paragraph 3.18.below. In the event of a significant change to the specification to which other new tenderers could possibly respond, a fresh tender would be required. Paragraph 5.6 below stipulates that DAC approval should be obtained in such instances.

3.18 Communication with tenderers during the evaluation period is not permitted unless prior authority has been obtained

3.18.1 In all cases **a tenderer** may only communicate with the person listed on the tender document on any matter regarding his tender/quotation **prior to the closing date** of the tender/quotation. In the interest of fairness and transparency, any additional information made available to one tenderer (in response to a query) should also be made available to the other tenderers. After the closing date a tenderer may only communicate with the Chairman of the relevant DAC.

3.18.2 No communication between a tenderer or any other party who has an interest in a tender and **any employee** of Transnet is allowed after the closing date, i.e. during the period between the closing date for the receipt of the tender/quotation and the date of notification of the successful tenderer of acceptance of his tender/quotation, except as provided for in paragraph 3.18.3 below. Every case of unauthorised communication shall forthwith be reported to the Chairman of the DAC. If unauthorised communication has occurred, that tender/quotation may be disqualified.

3.18.3 The Chairman, Deputy Chairman or the Secretary of the DAC, or the CEO of a Division, or his delegate, **who has been delegated such specific powers in terms of his/her Special Delegation of Authority**, may subject to the provisions of paragraphs 3.18.4 and 3.18.5 below, authorise an employee, in writing (including by fax or e-mail) to communicate with a tenderer during the period mentioned in paragraph 3.18.2 above for the purpose of:-

3.18.3.1 Explaining and verification of declarations made in tender response;
3.18.3.2 Confirming that a quoted price is correct **(Refer to paragraph 2.17 above re arithmetical errors on CIDB tenders);**
3.18.3.3 Confirming technical particulars and the compliance thereof with specifications;
3.18.3.4 Determining whether there will be any change in price if only a portion of the work is awarded to a tenderer;
3.18.3.5 Requesting an **explanation for an unreasonable price increase** when it is compared with a previous price and the interim movement of a relevant price index; **(Please note that this is not an opportunity to re-tender)**
3.18.3.6 Clarifying delivery times/quantities;
3.18.3.7 Extending the validity period of a tender, quotation or offer;

3.18.3.8 Amending any tender condition, validity period, specification etc. **after** the closing date in terms of Paragraph 3.17 above;
3.18.3.9 Clarifying any other commercial aspect; and
3.18.3.10 Carrying out of site inspections of the tenderer's premises.

NB: **The abovementioned communication issues do not include post-tender negotiation. This is covered in paragraph 2.7 above.**

3.18.4 Where the tender/quotation is managed by a Specialist Unit with a specific strategic focus on behalf of the user Division, the Specialist Unit shall coordinate all communication of a technical, financial or commercial nature between Transnet and the tenderer to promote unity of purpose and to obtain maximum advantage for Transnet.

3.18.5 In all cases where authority to communicate with tenderers has been granted in terms of 3.18.3 above, the submission to the AC should clearly state the nature of the communication as well as who granted the authority to communicate and the outcome thereof. Documentary evidence of all authorisations to communicate, the actual communication as well as the outcome thereof (tenderer's response) should be kept on the appropriate files, as part of the record.

PART 4: EVALUATION

4.1 All tenders/quotations received must be recorded on a comparative list and forwarded for evaluation to the employee concerned as soon as possible after the tender opening

4.1.1 After all the tenders/quotations have been opened and recorded on a comparative list; it shall be forwarded to the manager in the Division concerned. After the tenders/quotations have been entered on a comparative list and evaluated, the manager shall return the tender documents together with a recommendation to the DAC for consideration. If other Specialist Units call for tenders/quotations on behalf of a Division, the recommendation of the user department shall, if necessary, be obtained before the manager concerned or his delegate submits his recommendation to the DAC. The consumer's recommendation, or in instances where other criteria (other than price) are a prerequisite, a memorandum motivating how the relevant selection criteria can best be met, shall also be submitted to the DAC. The criteria used during the evaluation process may not include any additional criteria which have not been disclosed at the outset in the tender document.

4.1.2 Paragraph 4.1.1 also applies to tenders/quotations falling outside the DAC's jurisdiction, except for the requirement to make a recommendation to the Council. If necessary, the tenders and comparative list shall be submitted to the end user concerned for his report, and be returned together with his recommendation. Upon receipt of this recommendation, the manager in the procurement/Specialist Unit, who has the necessary contractual powers in terms of his/her Special Delegation of Authority, shall indicate his decision on the comparative list or the memorandum motivating how the selection criteria can best be met, before the contract is concluded.

4.1.3 The comparative list which is submitted for adjudication shall also indicate the price and quantity of the same goods or service on an existing contract (if any) or details of price, quantity, delivery and date of similar previous purchases, sales or services (if any), together with appropriate benchmarking information, such as price index shift or rate of exchange fluctuation during the full duration of the contract.

4.1.4 It is not a requirement that Tender Evaluation Committees be appointed for each and every tender. In cases where a properly appointed multi-disciplinary evaluation team might be an "overkill", due to there being very limited criteria for consideration due to the absence of complexity, there is no real requirement for the constitution of such committees. However, in instances where a number of technical criteria are evaluated on a weighted point system method, an evaluation committee would be a requirement. Refer to paragraph 9.4.1 below for tender evaluation with regard to BBBEE and the use of the BBBEE Calculator as a tool to evaluate tenders in terms of the 90/10 point preference system.

Also refer to the Manual for Evaluation of Tenders, available on the Transnet Intranet.

4.2 Tender prices must be recorded on a comparative list and be converted to a common basis to facilitate a fair comparative analysis.

4.2.1 In order to facilitate fair comparison between the tenders/quotations, all bids shall be converted to a common basis (which should have been developed during the tender development process) on the comparative list (paragraph 4.1 above) taking the following into account:-

(a) Tender price preference points, as determined from time to time, e.g. the BBBEE Preference - see Part 9) must be allocated to the total scores where applicable.

(b) Railage
Should a tenderer have tendered a free on rail price (FOR), the railage calculated at the public tariff applicable from the point where the goods have been offered or the port of entry to the place where the goods shall be delivered shall be added to the tender price. (Refer to paragraph 5.3.1.9 below for instances where the tenderer has specifically stated that the railage costs will be for his own account, i.e. not FOR).

(c) Other costs in respect of goods from abroad to be added to tender price. Inspection costs, the freight and insurance from the place where the goods have been offered to the destination where it shall be delivered, landing charges, wharfage, the applicable import levies as stipulated by the Government from time to time in respect of the imported goods or that which forms part of the goods produced or made in the Republic of South Africa. (Refer to paragraph 4.15.1 below re Incoterms)

(d) Commercial discounts to be subtracted from the tender price.

(e) Other factors such as price adjustment conditions, exchange rate fluctuations, etc. that affect the prices **over the full period of the contract** i.e. an apparent lower price at tender evaluation stage may become the highest, due to unexpected exchange rate fluctuations during the course of the contract. (see directive on Embedded Derivatives available on the Transnet website)

(f) Any other incidental costs which may arise from the acceptance of an offer.

(g) Differences in quality which can be expressed in monetary value.

(h) Time value of money where cash flows differ.

4.2.2 The comparative list should, where applicable, show the comparison of prices under the following headings:

(a) Tendered prices.

(b) Comparative prices (sub-paragraph (4.2.1)(a), (b), (c) and (d)).

(c) Future anticipated prices (sub-paragraph (4.2.1)(a), (b), (c), (d), (e), (f) and (g)).

(d) Nett Present value (sub-paragraph (4.2.1)(h)).

4.3 The Department of Public Enterprises' Competitive Supplier Development Programme

4.3.1 Transnet is exempted from the Department of Trade and Industry's (DTI's) National Industrial Participation Programme (NIPP), which relates to importation of goods in excess of $10 million. In terms of NIPP, overseas suppliers are liable for a NIPP obligation amounting to 30% of the imported content.

Transnet has instead implemented, with effect from February 2007, a Competitive Supplier Development Programme (CSDP) as an alternative means of achieving the aims of the NIPP. Tenders which have been issued prior to this implementation date, or after this date, and which are still in the adjudication / negotiation stage, may be re-negotiated on the CSDP principles, provided that details of such cases are reported to the GM: SSM so that the DTI and the DPE may be informed accordingly.

4.3.2 The goals of the CSDP are to increase the competitiveness, capacity and capability of the local supply base. Therefore, in all tenders where overseas tenderers will be responding, these goals will be taken into consideration when tenders are adjudicated, and overseas tenderers should be requested to include proposals in this regard in their tenders.

4.3.3 Foreign suppliers are therefore requested to consider, as part of their tender response, to commit themselves to mutually acceptable initiatives which will be contributing towards sustainable industrial development and job creation in South Africa by means of direct and indirect investments into South Africa.

4.3.4 One of the evaluation criteria of such tenders issued to foreign suppliers will therefore be the extent to which the foreign suppliers provide option(s) for possible Foreign Direct Investment (FDI) in local manufacturing, supplier partnerships with local firms, sustained skills development programmes and other interventions aimed at strengthening local suppliers, with the aim of working towards global competitiveness.

Refer to the Supplier Development Plan, available on the Transnet intranet, for more details regarding Transnet's CSDP programme.

4.4 Transnet supports local industry by utilising SABS (including SANS) specifications, where possible

4.4.1 Where it is in the interest of Transnet, it supports South African industrial and commercial undertakings when purchasing goods and to this end it uses SABS (South African Bureau of Standards) including SANS (South African National Standards), and CKS-specifications (Central Standardisation Committee), as far as possible in the preparation of tender documents. Other specifications must be drawn up in consultation with local industrialists in order that maximum competition may be achieved.

4.4.2 If one industrialist is contracted to develop a specification in collaboration with Transnet, it must be arranged in terms of a development contract which effectively controls development costs. The agreement must be on the clear understanding that the specification/products so developed shall remain the property of Transnet which retains the right to call for tenders for the supply of the goods in terms of that specification.

4.4.3 In terms of the National Railway Safety Regulator Act, consideration **must** be given to safety during the procurement of goods and services for the Rail sector. Transnet contracts must therefore impose specific duties upon suppliers to ensure compliance with safety requirements/standards prior to and on delivery of their products/services to Transnet. The contracts must also include penalties for non-compliance. Furthermore, if a supplier is required to provide a permit as per the Regulations, Transnet may not accept such goods/services without such permit being made available. It is important to note that Transnet thereafter bears the onus of ensuring that the safety requirements are upheld for the rest of the lifecycle of that product. Transnet must therefore implement mechanisms for the periodic measurement of performance, monitoring, review of deliverables, reporting on non-adherence to the agreed standards as well as proposed remedial action. Refer to the various standard tender and contract templates available on the Transnet Intranet.

4.5 Transnet supports local industry by considering the local content portion of the tendered price

4.5.1 Tenderers shall indicate in the tender documents against each item tendered for, the amount included in the tendered price which constitutes the local content portion of the tendered price.

4.5.2 If any doubt exists regarding the bona fide production, manufacture or assembly of the tendered goods in the Republic of South Africa, the employee who shall compare the prices may after having obtained the necessary authority to communicate -

(a) call for documentary proof from the tenderer to substantiate any information furnished by the tenderer, or
(b) take such steps as he may deem necessary to verify any information before he makes a recommendation to the AC.

4.5.3 Where business is awarded as a result of its local content, the amount due in terms of the contract for the quantity of goods supplied, shall not be paid to the contractor unless and until he has furnished an affidavit or auditor's certificate to the effect that the amounts stated in sub-paragraph (a) above, are correct and constitute the local content portion which has been included in the tendered price of each item tendered for.

4.6 Preference will be given to tenderers nearest to the place of delivery if all other things are equal

4.6.1 If all other things are equal (e.g. price, BBBEE, delivery lead times, technical compliance), preference will be given to tenderers nearest to the centres at which the goods must be delivered.

4.6.2 Where the tenders/quotations are equal in all respects including 4.6.1 above, the award shall be determined by the drawing of lots at a meeting of the AC, or in cases where the value of the tender falls outside the AC's jurisdiction or sub/regional tender committee (if applicable), the manager concerned shall draw lots in the presence of two other employees.

4.7 Tenderers who submit incorrect or false information in their tender documents, will be dealt with severely

4.7.1 Where a tender/quotation has been accepted because of certain commitments made by the tenderer at tender stage and it is thereafter established to Transnet's satisfaction that the criterion were not met or were less than originally tendered, the loss/damage suffered by Transnet as a result, shall be recovered from the contractor without prejudice to any right which Transnet may have to repudiate the contract, in so far as it has not yet been completed. Consideration can also be given to placing such contractor on Transnet's List of Excluded Tenderers (See paragraph 7.5 below).

4.7.2 The amount representing any loss, damage or penalty referred to in paragraph 4.7.1 above may be recovered by deduction from moneys owing by Transnet to the contractor, whether under the specific contract or through any other cause or by action in any competent court or partly by one and partly by the other of these methods.

4.7.3 For the purposes of paragraph 4.7.1 above, Transnet shall be deemed to have incurred loss/damage only where it can be shown that, if the degree to which the selection criteria had been met, had been offered at tender stage, the contract would <u>not</u> have been awarded to the contractor. The amount of recoverable loss/damage shall be the amount by which the contractor's tender price or quotation exceeds the price that would have been payable to the tenderer to whom the contract or order would probably have been allocated. In determining the price that would have been payable to the other tenderer as aforementioned, account shall be taken of any incidental costs and charges (over and above the tender price) which would have been borne by Transnet in the normal course of business.

4.8 Goods manufactured locally should where possible be marked "Manufactured in South Africa" or "Proudly South African"

4.8.1 Goods of South African manufacture purchased by Transnet shall, if possible, be marked by the supplier/manufacturer to indicate that they have been manufactured in South Africa, primarily to ensure that the local product is not substituted for an imported product, but also to promote local manufacture by openly displaying Transnet's support of local manufactured goods. Similarly goods entitled to use the "Proudly South African" mark should be marked as such.

4.9 The experience, equipment, financial standing and previous performance of tenderers, will be taken into consideration in the evaluation process

4.9.1 A tender/quotation shall not be recommended for acceptance if based on reasonable grounds, there is any doubt as to whether the tenderer is sufficiently experienced, equipped and of sufficiently sound financial standing to satisfactorily carry out the contract.

4.9.2 Tenderers for services shall indicate their experience by submitting a schedule of work which they have previously / recently undertaken.

4.9.3 A tender/quotation shall not be recommended for acceptance if the tenderer's previous performance based on timeous performance, quality, price escalation and service was not satisfactory and he has been informed accordingly.

4.9.4 So as not to expose Transnet to unreasonably high-risk situations, it is imperative to obtain and verify the Company Registration Documents, etc or the personal Tax Clearance Certificates in the case of individuals, from companies and/or individuals unknown to Transnet.

4.9.5 This, however, does not derogate from Transnet's BBBEE policy. Therefore BEEs unknown to Transnet but who have been identified as potential suppliers should be assisted where possible in terms of the aforementioned policy.

4.10 Tenders/quotations shall be carefully checked for compliance with Transnet's specifications or requirements

4.10.1 All tenders/quotations received shall be carefully perused for compliance with Transnet's requirements and specifications. Provided other tenderers are not prejudiced thereby, any deviations from the specifications or prescribed conditions, or new conditions stipulated by the tenderer which are acceptable to Transnet, should be incorporated in the contract. This is to ensure that all tenderers are treated fairly and that "apples are compared with apples" in accordance with the same specification. Also refer to paragraph 5.2.

4.11 Tender documents should indicate the approximate quantities required at each centre

4.11.1 When goods are to be distributed throughout the RSA, the tender forms shall, as far as possible, indicate the approximate quantities required at each centre and not merely the total quantity required. This is to enable tenderers to suitably price their tenders taking into account transport costs but also to ensure that goods purchased are not transported unnecessarily.

4.12 Goods imported from abroad shall be shipped to the closest port of discharge

4.12.1 Goods from abroad shall be shipped to the airports or ports in the RSA most advantageously situated in relation to the point at which the goods are required, taking into account the availability of transport modes and facilities.

4.13 Perishable goods shall be purchased locally and as close as possible to the centre where it is required

4.13.1 Purchases of goods of a perishable nature shall as far as possible and justifiable be made at or near the centre where the goods are required.

4.14 Goods/services may be imported if local suppliers' products are not acceptable

4.14.1 When it is considered that the prices of goods/services from within the RSA or from abroad through local representatives are too high, or the quality or service is unsatisfactory, or when acceptable tenders cannot be obtained in the RSA or the goods/services are not available in the RSA, such goods/services may be obtained from abroad in terms of the normal procedures.

4.15 Tender documents should, where applicable, contain conditions regarding shipping

4.15.1 Where possible tender documents should stipulate a "Delivered" price basis since this places the responsibility and cost of import on the supplier, as well as the risk of possible late deliveries. If deemed more advantageous for Transnet to import direct from the overseas manufacturer, tender documents shall contain appropriate conditions to ensure fulfilment of the terms of any shipping freight agreement or customs and clearing agents to which Transnet is a party. Refer to

Definitions: Part 10 for the various Incoterms. Tender documents should stipulate that Transnet reserves the right to undertake its own clearing, shipping or insurance should the tenderers' prices be found to be unreasonably high.

4.16 Proprietary articles shall not be used to limit competition

4.16.1 When a patented article is used as a sample or when the name of a manufacturer or of a certain trade mark or brand is quoted, it shall only be to indicate the type or quality of the article required and not to limit competition to that article. Tender documents or enquiries must specify not only the patented article or the name of the manufacturer or trade mark or brand but also mention that goods of a similar kind or quality will be considered (in order to obtain optimal value). The same principle also applies where Transnet specifications are drawn up – See paragraph 2.6.3.1. above. Should it, for example, be prudent to specify a specific standard for warranty purposes (e.g. GEC electric traction motor spares), strenuous efforts should be made to obtain quotations from the OEM, as well as various agents / distributors and retailers.

4.16.2 Transnet will acknowledge and respect the intellectual property (IP) rights of suppliers. However, Transnet also needs to be seen to promote fair competition where at all possible. Therefore it will strive to strike a fine balance between fair competition and protecting the intellectual property rights of suppliers. Depending on the merits of each case, one or a combination of the following approaches will be followed:-

(i) Transnet may choose to pay the supplier outright for its IP in that product and purchase the product with its IP. This applies to all specifications, drawings and/or prototypes. The supplier relinquishes its rights to the IP completely and Transnet will own all rights in that development. As far as possible, Transnet will disclose this at RFP stage, and all aspects pertaining to IP will be negotiated and captured in the contract between the parties. Compensation for the supplier's design inputs, etc., may be in the form of awarding a significant order or by outright payment for design / development costs and the supply of the relevant drawings, specifications and/or prototypes. Transnet shall have the right to procure its future requirements via a tender process and the original designer/developer will be free to participate. The IP-value in these cases will normally be of lesser significance and therefore a patent/licence will not be registered.

(ii) Transnet may choose to share the IP with the supplier where it jointly developed the product. Both parties shall share the IP and royalties emanating from the use/licencing of the particular product in such cases, and this will be clearly set out in the contract between them. The IP-value in these cases will normally be of more significance and a patent/licence will be registered jointly in the names of both parties.

(iii) Where a product has been developed exclusively by a supplier for Transnet, such IP shall vest in Transnet. Although such product(s) could have been developed solely by the supplier, it(they) may not be patented by a supplier without Transnet's consent as this could jeopardize the fairness of the procurement process for Transnet's future needs. Such consent will not be unreasonably withheld.

(iv) Where an existing patented article is required by Transnet, and depending on the specific product and availability of similar products in the market, (whether patented or not), Transnet may choose to either confine the purchase of the patented article only or issue an open tender clearly specifying that the patented article or "anything similar" will be considered.

4.17 Transnet will not accept liability for the cost or delivery of samples made from Transnet's material

4.17.1 Samples made from material supplied by Transnet will not be returned to the tenderer and Transnet will not necessarily accept any liability for the cost of the manufacture of such samples.

4.18 Transnet will deal with samples supplied by tenderers, as follows:-

4.18.1 Transnet reserves the right to retain samples which tenderers are required to furnish in compliance with the tender conditions.

4.18.2 Transnet will not pay for samples submitted by the successful tenderers and it may retain the samples for the purpose of determining the quality and workmanship of the goods delivered in execution of the contract.

4.18.3 If the samples of unsuccessful tenderers are retained and such tenderers require payment for them, Transnet will make payment at the tendered price of the article. If Transnet does not want to retain such samples and the tenderers require their return, Transnet will accept liability for their return to any place within the RSA.

4.18.4 Transnet is not liable for samples furnished by tenderers on their own initiative. If tenderers desire the return of such samples, these will be returned at the tenderer's risk and cost.

4.18.5 Prospective suppliers who fail to furnish samples when specifically required to do so, may be disqualified.

PART 5: RECOMMENDATION

5.1 A memorandum of reasons for awarding business (fulfilling the criteria) should accompany the recommendation (précis) to the AC.

5.1.1 Where tenders/quotations are invited and selection criteria other than price alone will be a deciding factor, e.g. environmental impact, local community involvement, job creation, BBBEE involvement, a memorandum motivating how all the relevant selection criteria can best be met, should form part of the submission (précis) to the relevant AC, or in cases falling below the AC's jurisdiction, to the Manager with the necessary delegated powers.

5.2 Tenders which do not comply with tender/enquiry conditions should as a general rule be rejected

5.2.1 Tenders/quotations which do not comply with the tender/enquiry conditions, or which are incomplete should, as a general rule, be rejected. Such tenders/quotations may only be taken into consideration if other contenders are not prejudiced thereby, and it is regarded to be in the best interest of Transnet. When the documents are returned to the Chairman (or manager in respect of those tenders falling below the AC's jurisdiction) the recommending officer shall submit a certificate giving details of any aspect of the tender conditions which has not been complied with but which is nevertheless recommended for acceptance. – Also see paragraph 4.10.above.

5.3 Transnet is not obliged to accept the lowest, or any bid

5.3.1 The lowest, or any tender/quotation, shall not necessarily be recommended for acceptance. Refer to paragraph 5.6 below, should none of the tenders received, be acceptable. The acceptance of the whole or part of any tender/quotation, or in the event of a number of items being tendered for, any item or part thereof may be recommended, provided that this was a tender condition. Suppliers, who in conflict with the tender conditions, qualify their bids on the basis that the whole tender/quotation should be accepted, must be advised that the restriction must be withdrawn before their tender/quotation can be considered.

5.3.1.1 Price

As Transnet is operating in a competitive transport market, price is a very important factor as it ensures optimal value for money and reflects directly on Transnet's bottom line. However,

unless cost will be the determining factor on whether a project will go ahead or not, price should not be regarded as the only factor. Generally, all tenderers are to be scored using a pre-determined scoring matrix reflecting the relevant selection criteria and their weightings. PRICE and BEE should be kept separate from technical / quality / service related criteria so as not to dilute their importance as will be noted from the BEE scoring matrix – See Part 9.

Price should therefore not be the main or only criteria for selecting the successful tenderer, especially if there are other equally or more important criterion. Depending on the circumstances and merits of the case, any one (or more) of the following criteria can have a larger or lesser impact, or may even be the single deciding factor for the award of the business.

5.3.1.2 Total Cost of Ownership (TCO)

In terms of open and fair competition, as far as possible specifications are not written around specific products but drawn up to accommodate as many acceptable products as possible. When different products are compared, other aspects such as guarantee periods, expected lifespan, cost and availability of spare parts/components, after sales service, etc should be taken into consideration to ensure that the TCO is compared and not merely the tendered price in isolation.

5.3.1.3 Service and supply chain reliability

In order to reduce inventory levels and the high cost associated with stockholding, i.e. warehouse space, staff, inventory control systems, etc a reliable supply chain with the shortest possible lead times for delivery will have a direct influence on the eventual TCO of the product.

Transnet may at its own discretion prefer not to keep high-value emergency spares/components in stock due to the negative impact it will have on inventory levels. The supplier may therefore be required to keep such stock and supply to Transnet on very short notice (e.g. traction motors, container crane components) in which case this would either become a tender condition or a very important evaluation criteria.

5.3.1.4 Quality

As Transnet's reputation as a safe transport provider is dependent upon the quality of its service, the quality of the goods and products utilized to provide that service cannot be compromised. However, one should guard against "over-specification" (i.e. specifying more than the minimum requirement to do the job). One should strike a balance between optimal cost and quality.

Quality will be crucial when it cannot be compromised without endangering human lives or Transnet's service levels, e.g. train signaling equipment or rolling stock equipment.

5.3.1.5 Local community involvement

A project may be identified and set aside specifically as a community upliftment programme where the success of the project is dependent upon the support and recognition of the local community, e.g. the erection of a day-care centre for employees' children.

5.3.1.6 BBBEE

Transnet has aligned the measurement of BBEEE to the DTI Generic Scorecard and will accept BBBEE scorecards issued by Verification Agencies accredited by SANAS and who are using the latest Codes of Good Practice. Refer to Part 9 for a full description of the BBBEE methodology and the 90/10 preference point system utilized by Transnet as well as the relevant BBBEE Circular and RFX clause available on the Transnet Intranet.

5.3.1.7 Utilising local labour force

On high-tech, high-value construction contracts, there is always some unskilled or labour intensive work that could possibly be outsourced to the local community. The main contractor takes responsibility for the project in totality and is responsible for training and skills transfer to the local community labour force. In such instances, the tender documents should stipulate that it is either a pre-condition or a favourable consideration that the successful tenderer make use of the local workforce for the labour component of the contract.

5.3.1.8 Environmental impact

5.3.1.8.1 The importance of environmental conservation as an evaluation criterion cannot be over-emphasised. This does not only cover construction type contracts which may have a direct impact on the surrounding environment but also include any other indirectly related matters such as manufacturing processes where the raw materials or products used are not environmentally friendly.

5.3.1.8.2 This category is relevant where the feasibility of a project is dependent upon the environmental impact it will have on the surrounding properties (e.g. harbour developments adjacent to a nature conservation area or where the disposal of a product at the end of its life-span will have a cost implication, e.g. nuclear waste disposal).

5.3.1.9 Reciprocal Business

Since Transnet's focus is to provide a world-class multimodal transport service, prospective tenderers should be encouraged to utilise such services to transport their raw materials and/or finished products. Therefore, depending on the commodity being purchased and the applicability of utilising Transnet's services, reciprocal business may be one of the important evaluation criteria and stipulated as such in the tender document.

5.3.1.10 Transnet's public image

5.3.1.10.1 Transnet, a public company, with its sole shareholder being Government should always be aware of the image it portrays to the public. Its tendering processes should therefore always be seen to be fair, open and transparent. Business transactions and dealings with service providers who do not share these same goals should be avoided.

5.3.1.10.2 This category as an evaluation criteria will be applicable where Transnet's public image is at stake and will be the deciding factor e.g. in an advertising or marketing campaign.

5.3.1.11 **NB:** The abovementioned are merely some examples of selection criteria and it is not intended to be limited to only these. So as not to create false expectations with tenderers, it is important that the selection criteria, not necessarily in order of importance, and without any reference to the individual weightings, be clearly stated in tender documents.

5.4 Reasons for recommendation must be clearly stated in the recommendation to the DAC and where applicable should be accompanied by the relevant certificates.

5.4.1 The reasons for recommending tenders/quotations shall be clearly stated by recommending officers.

5.4.2 When only one technically acceptable tender/quotation is received and recommended for acceptance, it shall be indicated whether the prices are fair and reasonable and how this has been determined (e.g. previous prices etc).

5.4.3 If a tender/quotation other than the lowest is recommended, the recommending officer shall certify with reasons that this represents optimal value and is in the best interest of Transnet. The AC shall furnish reasons should it not be satisfied with a recommended tender/quotation. In both instances such reasons shall be recorded in the DAC minutes.

5.4.4 When business is awarded to a supplier (who is not the lowest tenderer) because of his ability to best meet the selection criteria, this must be clearly indicated in the recommendation to the AC/manager together with an indication of the cost-premium payable by Transnet.

5.5 Disagreement between recommending officers shall be referred to higher authority within the division, or to the DAC

5.5.1 Where the decision of the manager who may conclude the contract conflicts with the recommendation of the consumer, the dispute shall be settled by the employees concerned having regard to technical and commercial considerations. If it is not resolved it shall be referred to higher authority within the division concerned or to the DAC for a decision.

5.5.2 Should a dispute arise between the recommending officer and the DAC regarding a submission made to the AC, consensus should be sought from the CEO of that Division on business matters, or from the Group Supply Management Function on policy and procedural matters. Should consensus not be reached (i.e. if the CEO/Group Supply Management also agrees with the DAC), the recommending officer may escalate the matter to the GM: SSM for a decision and, if still not settled, to the Transnet GCFO, whose decision shall be final and binding on all parties.

5.5.3 **NB: As the DACs are governance structures instituted by Transnet Executive Committee and appointed by the CEO of the Division, nobody other than the CEO (in cases where the CEO him/herself is not the Chairman of the AC), may "overrule" a AC decision. (See paragraph 8.1.11,2 below for more details)**

5.6 Non-award of business shall be submitted to the DAC for consideration

5.6.1 Non-award of business (as a result of Transnet's bad planning) should for obvious reasons be minimised as far as possible as tenderers inadvertently incur expenses in preparing and lodging tenders. In such cases, consideration should be given to refunding the tender document charge if tender documents were sold. When no tender/quotation can be recommended for acceptance, the manager concerned shall submit the non-acceptance with reasons as well as an indication of how the required goods/service will now be met for DAC consideration.

5.6.2 The same principle shall apply if part of a tender, or certain items, is not awarded.

5.6.3 If the award of business as approved by the DAC is not awarded the matter must be motivated and submitted for DAC consideration. Transactions falling below the DAC's jurisdiction (or regional / local DAC) should be dealt with similarly, except that the Manager concerned will consider such non-award.

5.7 Sales to or purchases from employees to Transnet will not be permitted.

5.7.1 No sale to or purchase from a Transnet employee shall be permitted under any circumstances. This procedure does not apply to sales by auction or such other exceptions as may be authorised by Management from time to time.

5.8 Employees who may have an interest in a tender shall declare such interest and recuse themselves.

5.8.1 Employees who may have a competing direct or indirect personal interest in a specific tender, quotation or offer, must declare such interest and recuse themselves as such competing interests can make it difficult to fulfill his/her duties impartially. The employee must declare such interest in writing to his/her superior and recuse him/herself from the receipt, evaluation, adjudication or acceptance of the tender/quotation/offer. Declarations of interest in any business must be kept in a proper register with the relevant Head of Department for audit purposes. In addition, all employees involved in any way in the tender process must sign a Declaration of Interest Certificate and indicate whether or not they have an interest in the tender. This record must be kept on the appropriate tender file for the record.

5.8.2 A direct interest in a tender includes the following:-
The employee:-
- Being a shareholder / member / director of a tenderer;
- Being a shareholder / member / director of the holding company of a tenderer; and
- Being a shareholder / member / director of a subsidiary of a tenderer.

or

a direct family member as defined in paragraph 5.8.4. below, or a close friend:-
- Being a shareholder / member / director of a tenderer;
- Being a shareholder / member / director of the holding company of a tenderer; and
- Being a shareholder / member / director of a subsidiary of a tenderer

5.8.3 Likewise, any indirect interest of an employee in a tender/quotation or offer should also be declared. The Manager will rule whether he/she should recuse him/herself and the reasons should be minuted and kept on file for the record. Indirect interests may be, but are not limited to:-

- Having been involved with the drafting of the specification or tender documents, or the issue / advertising thereof;
- Having been involved in the evaluation/adjudication of the said tenders (applicable to members / alternates serving on the relevant DAC).

5.8.4 Tender documents must always contain a clause for prospective tenderers to declare any possible direct family relationship with a Transnet employee. Direct family relationship includes husband/wife, children (own and step), parents and grand parents (own and in-law), brothers and sisters (own, step and in-laws). Although business with such enterprises is not forbidden, it is imperative that it be properly declared, and explicitly pointed out in the submission to the AC in order that the AC may consider all the relevant facts and decide whether such involvement by a Transnet employee could be regarded as fair or whether other prospective tenderers will be prejudiced or may be perceived to have been prejudiced thereby.

5.9 Ex-employees shall not be restricted from doing business with Transnet

5.9.1 Ex-employees of Transnet shall not be restricted from doing business with Transnet unless a Restriction of Trade Agreement concluded at their time of departure from Transnet exists. Due diligence should however be exercised by evaluation teams to determine whether any undue influence/unfair advantage could have been possible between any Transnet employees and the ex-employee. This should be stated clearly in submissions to the AC or to the delegated manager for transactions falling below the AC's jurisdiction. NB: This is not applicable to the disposal of non-core business of Transnet - refer to paragraph 1.3.3.4. (xiv) above.

5.9.2 In terms of Transnet's Social Plan, ex-employees who have been retrenched may be assisted to establish entrepreneurial ventures through the Transnet Development Agency. Such commitments from Transnet's side should be formally approved in terms of Transnet's Social Plan. Such ex-employees (or groups of ex-employees) will obviously not be restricted from doing business with Transnet – In fact, once the terms of the TDA and the way in which it will function has been agreed upon with the unions, it might even be decided to give such entrepreneurial ventures some sort of preference.

PART 6: CONTRACT ACCEPTANCE

6.1 Employees shall not anticipate approval of acceptance of tenders and prematurely inform the recommended tenderer of the acceptance of a tender

6.1.1 No employee shall anticipate the approval of acceptance of tenders/quotations and shall not enter into contracts verbally or in writing or place orders before the prescribed procedure has

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Title	Description
8.1	The 26 July 2011 memo entitled "approval to proceed with the acquisition of locomotives by Freight Rail in respect of GFB Diesel and Electric Fleets, the locomotive fleet modernization plan".
8.2	The memorandum and minutes of the meeting of 20 April 2011 where the plan was approved by the board.
8.3	The 2011/12 Corporate Plan
8.4	The locomotive procurement strategy dated 03 August 2011.
8.5	Business case for the 95 locomotive acquisition.
8.6	Minutes of the BADC meeting of 03 August 2011.
8.7	Minutes of the Capic meeting of 21 August 2011
8.8	Submission entitled "approval for Transnet Freight Rail to proceed with the acquisition of 138 locomotives (43 diesel and 95 electric locomotives) submitted to capic on 21 August 2011.
8.9	Recommendation by Molefe dated 5 September 2011 for the submission to be presented to Capic.
8.10	The 2009 Transnet Procurement Procedure Manual.
8.11	The minutes of the Transnet Board meeting of 31 August 2011.
8.12	Tender documents for tender RFP: HOAC-HO-7801.
8.13	Advertisement for the above tender.
8.14	Memo from Gama to Jiyane dated 24 January 2012 requesting the extension of the tender from 28 February 2012 to 1 May 2012.
8.15	Approval by Gama to extend the closing date 28 February 2012 to 17 April 2012.
8.16	Notes of compulsory briefing sessions held on 31 January 2012.
8.17	Tender documents collection list dated 30 January 2012.
8.18	Letter form Wang Pan to Molefe dated 19 January 2011 (or, according to you 2012)
8.19	Any response by Molefe to the above letter
8.20	Gama's submission to Molefe dated 20 April 2012 and approval by Molefe on 22 April 2012.
8.21	Memo by Gama and Jiyane dated 06 June 2012 requesting approval of shortlisted tenders.
8.22	Approval by Molefe dated 08 June 2012.
8.23	Evaluation results of stage one dated 03 May 2012.
8.24	Memorandum dated 12 July 2012.
8.25	The 10 July 2012 CFET recommendation that Bombardier is the preferred bidder.
8.26	The CFET report dated 08 August 2012.
8.27	Letter by Singh to the Chairperson of BDAC dated 08 August 2012.
8.28	Memo from Gama to Molefe requesting approval to award to award dated 04 September 2012.
8.29	Letter dated 05 September 2012 from Molefe to Pan

8.30	Memo from Gama to Molefe dated 17 September 2012 requesting that CFET team visit CSR China Plant
8.31	Correspondence from Transnet to National Treasury informing Treasury of the acquisition of the 95 locomotives.
8.32	Sect 54 application by Transnet to the shareholder Minister and related correspondence.
8.33	Assurance reports from the legal, audit and risk team relating to the transaction

been performed and authority has been duly granted therefor by a manager with the appropriate Special Delegation of Authority.

6.2 The decision to accept tenders/quotations may only be communicated once all the provisos have been adhered to

6.2.1 A manager may only communicate the acceptance of a tender/quotation i.e. conclude the contract if the following provisos have been adhered to:-

6.2.1.1 he has complied with all internal Policies and Procedures and if applicable obtained the DAC's concurrence by means of an approved DAC minute;

6.2.1.2 the value of business awarded is within the level of his/her powers to contract in terms of his Special Delegation of Authority; or where the value exceeds his/her powers, he/she shall obtain a mandate from higher authority to conclude and administer the contract; and

6.2.1.3 where the value of business exceeds the relevant CEO's delegated powers to contract, a mandate in favour of a nominated manager shall be obtained from the relevant higher authority (e.g. Transnet GCFO or GCE, depending on the value of the contract) to conclude the contract with one or more specified contractors for a specific amount, and to administer such contract.

6.3 Notices of non-acceptance to unsuccessful tenderers, and conclusion of a contract(s) with the successful tenderer(s) shall be finalised as soon as possible after approval has been received

6.3.1 **As soon as possible** after approval to award a contract has been received, the OD which invited the tender/quotation shall arrange to conclude the contract i.e. to inform the successful tenderer of the acceptance of his tender/quotation. This notice may only be communicated by a person with the necessary Special Delegation of Authority, or a person with a written mandate for a specific contract. Unsuccessful tenderers shall be advised in writing of the name of the successful tenderer **but not the value of the contract** as it is Transnet's policy not to disclose tender prices. The disclosing of the successful tenderer's name does not apply to business which was confined to one or more contenders, Approved List purchases included. On award of business to the successful contender all unsuccessful tenderers, including those who responded on confined enquiries and quotations, will be informed of the reason as to why their tenders had been unsuccessful, e.g. price, delivery period, quality, BEE or any other reason.
Details on how tenderers responded to the relevant evaluation criteria should also not be disclosed (See Paragraph 5.3.1.1 and 3.11 above).

6.4 Applications received in terms of the Promotion of Access to Information Act (PAIA)

6.4.1 Should an application be received in terms of PAIA, the "requestor" should be referred to the Transnet Limited Information Manual. The purpose of this Manual is to set out the procedures to be followed and criteria that have to be met for anyone (the "requester") to request access to records in the possession or under the control of Transnet Limited and its Entities.

6.4.2 As the Transnet GCE is automatically designated the Chief Information Officer, requesters are required to address all requests to the relevant Deputy Information Officer of Transnet as per the Manual. It is important to note that all requests received in terms of PAIA must be dealt with immediately as there are deadlines within which to respond to the requester.

6.5 The SA Post Office and/or Telkom SA Ltd shall be regarded as the Agent of the Tenderer if delivery of acceptance to the tenderer is communicated by means of a telegram or letter

6.5.1 When a tenderer has been advised by telegram or letter of the acceptance of his tender/quotation, the South African Post Office Limited and/or Telkom SA Limited shall be regarded as the agent of the tenderer and delivery of such notice of acceptance to the above-mentioned offices shall be considered as delivery to the tenderer.

6.5.2 Where a tenderer has been informed per fax of the acceptance of his tender/quotation, the acknowledgement of receipt transmitted by his fax machine shall be regarded as proof of delivery to the tenderer.

6.6 Types of contracts

6.6.1 The contracts of Transnet may be for, but not limited to:-

6.6.1.1 a specific service based upon a lump sum price or on a priced schedule of approximate quantities;

6.6.1.2 a definite quantity of goods at an agreed price,

6.6.1.3 the supply of an estimated quantity of goods or rendering of a service at an agreed price, during a fixed period, provided that the estimated quantity of goods to be supplied or service to be rendered may be increased or decreased by ten per cent if allowed for in the contract.

6.6.1.4 the supply of an unspecified quantity of goods or rendering of a service at an agreed price, during a specified period, provided that details furnished of similar goods supplied or services rendered during a previous period or of possible future requirements are for the information of the tenderer only and shall not be binding;

6.6.1.5 lease for a specified period at an agreed rental, with or without the options of renewal or for an unspecified period, but provided that normally six months' notice of termination may be given.

6.7 A formal written contract shall be entered into with the successful tenderer

6.7.1 A formal written contract shall be entered into with the successful tenderer unless the goods or services are for immediate delivery or execution, or in cases where a duly approved procurement/credit card is utilised (refer to paragraph 2.3). In all instances where a formal contract is not concluded, the acceptance in writing of a tender/quotation, setting forth all the material terms agreed upon (i.e. exchange of letters agreement, a purchase order, letter of intent, etc), shall be sufficient compliance with this directive. No payments shall be made in the absence of documentary proof of a contractual commitment existing on the part of Transnet as well as the conditions pertaining thereto. This is to ensure that Transnet is suitably covered should it become necessary for Transnet to resort to litigation for any reason. The rules governing safe custody of contracts (refer to paragraph 6.9.1 below) equally apply to "contracts" of this nature.

6.8 Formal contracts are to be entered into in the name of Transnet Limited

6.8.1 All contracts shall be concluded, as soon as possible after the award of the business to the successful tenderer, in the name of Transnet Limited, according to guidelines issued and shall be signed for and on behalf of Transnet by a manager with the appropriate Special Delegation of Authority.

6.8.2 Internal contracts (SLA's) between Operating Divisions and Specialist Units are dealt with in the terms of the Interdivisional Support Policy. Such contracts do not require AC approval. However, any external contracts which may be required by the internal Specialist Unit are subject to these Procedures and require Acquisition Council approval. Since all ACs are governed by the same rules, it is immaterial whether the client's or the Specialist Unit's AC is utilised. This aspect may be stipulated and agreed upon between the two parties when formalising the Service Level Agreement. Since the SLA per se, does not require specific AC approval, the contractual limits laid down in terms of a manager's Special Delegation of Authority may be used as a guideline to determine the level of approval for such SLA's.

6.9 Divisions shall arrange for the safe custody of all their contracts and contract files

6.9.1 Every division shall arrange for the safe custody of contracts at a suitable, approved centralised or regional location which is acceptable to the CEO. Similarly, all related documents and correspondence relating to a specific tender/contract should be kept for audit purposes.

Related documents which should be kept on contract files as part of the record include, but are not limited to, documents such as, for example, Request to Purchase (requisition), the going to market strategy, tender advertisements(unless kept by a central tender issuing office), authorisations to confine, minutes and score-sheets as well as declaration of interest documents signed by members of evaluation teams and post-tender negotiation teams, certificates authorising communication with tenderers, minutes of tender briefing sessions, agendas and minutes of post-tender negotiation meetings, correspondence with tenderers, etc. Refer to the Transnet Intranet for the checklist template of documents and signoffs which should be kept on contract files.

The following may be used as guidelines as to how long different documentation / correspondence should be kept in safe custody:-

- Unsuccessful tenders must be kept for 3 years after completion of the contract, and thereafter it may be destroyed.
- Successful tenderer's tender / contract document, as well as the contract file and related general correspondence must be kept on site in a proper and safe archiving facility for a period of 5 years after completion of the contract, thereafter may be archived in an off-site archiving facility in terms of normal archiving procedures.

These files should be properly archived and tracked by means of a proper register so that they can be easily traced when required for audit investigations and/or litigation purposes.

6.10 Where deemed advisable for the fulfilment of the contract, Transnet may insist on a suitable security/guarantee

6.10.1 When security has to be provided by successful tenderers in terms of the contract, the delegated manager entering into a contract shall ensure that adequate security is obtained for the fulfilment of the contract. It shall preferably be in the form of a guarantee by a bank or approved guarantee corporation, or a deposit with Transnet of approved Government or municipal stock in negotiable form. All securities shall be safely held by the division concerned which shall keep a register thereof and shall ensure that the security does not lapse before the contract is completed.

6.10.2 Cash deposits or a "guarantee" in the personal name of an official of a bank or other institution is not acceptable.

6.10.2.1 On construction/engineering related contracts, and provided that the contract document allows for that, one can also revert to the practice of retaining part of the payment as retention money. Retention money, normally 5 to 10% of the individual payments, is held back by Transnet as a guarantee for the satisfactory completion of the project. When such amounts have accumulated sufficiently, consideration is normally given to the refunding of the guarantees or sureties. Retention moneys are only refunded after completion of the guarantee period (normally 6 to 12 months, depending on the risk of latent defects).

6.10.3 Depending on the risk to Transnet, these measures may be relaxed to facilitate Transnet's BBBEE Development Program, as provided in Part 9 hereof.

6.11 In the event of the successful tenderer failing to sign the contract, Transnet may, subject to certain provisos, decide to award the contract to the next favourable tenderer

6.11.1 When a successful tenderer, after having been informed of the acceptance of his tender, fails to sign a contract within a reasonable period after being called upon to do so, or to provide the necessary security if any, and it is not practical within the time available to call for fresh tenders, the acceptance of the next most favourable tender/quotation shall be considered if that tenderer is prepared to enter into a contract on this basis. In the case of tenders/quotations which fall

within the DAC's jurisdiction, the matter shall be referred to the DAC with a recommendation from the manager of the division concerned.

6.11.2 In the case of tenders/quotations originally accepted by a manager and the value thereof still does not fall within the DAC's jurisdiction, the manager shall, on the same lines as above, decide on the acceptance of the next most favourable tender if it also falls within his delegated power and not within the DAC's jurisdiction.

6.12 Transnet may decide to divide the total requirement between two or more tenderers

6.12.1 When it is considered in Transnet's best interest to divide the total requirement of a tender between two or more tenderers (e.g. in order to draw from the most convenient or nearest source, or to ensure continued competition or to optimise available resources or to support a BEE Company) a supply or service may be divided amongst several tenderers, and contracts can be placed accordingly, provided that this was a tender condition. The total value of the business to be awarded, and not the individual contracts, will however determine whether such tender falls within the AC's jurisdiction or not. Once approval for the award of the business has been obtained from the AC, the individual contracts may be signed by the person with the necessary contractual powers for the individual contracts.

6.13 No person may communicate the acceptance of a tender, quotation or offer without the necessary delegated powers

6.13.1 No person may communicate the acceptance of a tender/quotation to a tenderer (that is to conclude a contract) unless;-

(a) he/she has been duly authorised thereto by a valid Special Delegation of Authority, and
(b) he/she has complied with the internal Policies and Procedures (e.g. used approved procurement paths, obtained DAC approval if falling within its jurisdiction etc).

6.13.2 **NB: A manager may not delegate more than he/she has been authorised to and no person may parcel the total quantity required for particular goods/services to bring the amount within an employee's delegated powers to contract, or below the DAC's jurisdiction.**

6.13.3 Should it be decided to divide the total requirement or project between more than one tenderer, the total value of the business and not the individual contracts shall determine the level of approval required. Only after the necessary approval has been obtained, may the individual contracts be signed by the manager with the necessary delegated contractual powers. If a project is divided into smaller manageable portions for the sake of BEE, the total value of the individual small contracts (e.g. NEC Short Form of Contract) should likewise determine whether or not DAC approval is required.

6.13.4 The same principle also applies when determining whether a matter falls within the jurisdiction of the DAC, within the Delegated Powers of the CEO, or relevant higher authorities.

6.14 No contract may be entered into for periods longer than two years without the DAC's approval (Non-core businesses only one year)

6.14.1 No contract shall be entered into for a period **longer than two years (non-core businesses one year)**, without the DAC's written approval, except for large construction contracts where the period allowed will be the completion period of the project. Property leases are also excluded from these Procedures and approval levels are determined by means of the Special Delegation of Authority of those employees, CEO's and higher authorities of the relevant property divisions.

6.14.2 If it is the intention to enter into a contract initially for a period longer than two years, or to extend an existing contract on the same terms and conditions, or on terms and conditions which are more favourable to Transnet than those in the existing contract, so that the original period and the extension of the period(s) together are longer than two years, the DAC's prior written approval of the recommendation in respect of the tender/quotation or extension of the period

shall be obtained. A detailed motivation must be given as to whether the proposed contract or extension of the period of the existing contract is the best value for money in the market place, and how this has been determined. Alternatively, instead of obtaining the DAC's prior approval, tender documents may be structured to require prices on different periods depending on the particular market and price drivers. Documents should, however, clearly stipulate that Transnet has the sole discretion to decide which contract period will be most advantageous to it.

6.14.3 When it is the intention to stipulate in a contract, an option to extend or renew the contract period, firstly the tender document should stipulate that, and secondly, if such contract falls within the DAC's jurisdiction, the initial recommendation to the DAC in respect of the tender/quotation must include particulars of the proposed option.

6.14.4 Should it be decided to exercise the option during the course of the contract, the recommendation to exercise the option shall be submitted to the DAC for prior written approval in the normal manner. An indication must be given at that stage that the exercise of the option is still the best value in the market place.

PART 7: CONTRACT ADMINISTRATION

(Refer to the Contracts Management Manual available on the Transnet Intranet)

7.1 All goods are to be delivered strictly in accordance with the contract, and contractors will not be allowed to supply substitute goods

7.1.1 When a contract is placed for South African goods, the supplier shall not be permitted to substitute imported goods without the DAC's written approval. For tenders/quotations below the DAC's jurisdiction, the manager concerned shall decide whether imported goods may be substituted; provided that where the successful tenderer has secured the business by reason of the local content offered he shall not be allowed to substitute imported goods for those that were to have been supplied from South African sources, except where the supply from the SA source has become absolutely impossible due to reasons beyond the contractor's control.

7.1.2 Employees responsible for the inspection and/or receipt of delivered goods must ensure that all goods are provided:-

i) strictly in terms of the contract – i.e. the delivery note may differ from what was required in terms of the contract or purchase order, and

ii) that the goods delivered corresponds exactly with the delivery note – i.e. short supplies should be clearly endorsed on the delivery note and over-supplies should be returned to the company and the delivery note clearly endorsed as such.

7.2 Timeous arrangements shall be made for the inspection of shipments and deliveries in terms of the contract, where applicable

7.2.1 In the case of imported goods, the contractor shall notify Transnet's agents as to when consignments are ready for inspection or shipment in order that arrangements may be made for inspection and/or shipment, except in instances where it has been specified that the goods shall be inspected at its destination.

7.2.2 In the case of locally manufactured goods, where quality is not assured by means of SABS (including SANS) or ISO 9000 or similar standards, other suitable quality assurance mechanisms must be provided for in the contract e.g. inspections during manufacturing process, inspections at point of despatch or delivery. Where goods are of such a nature that quality inspections are not deemed necessary, a suitable clause should be included in the relevant contract to the effect that Transnet reserves the right to return defective goods for replacement according to specification.

7.3 No material amendments to a contract shall be effected without the necessary written approval

7.3.1 No material provisions of any contract which arises out of a tender/quotation which falls within the DAC's jurisdiction, irrespective of whether the DAC considered the initial award of the business or whether it was merely submitted for information in view of exceptional circumstances, (paragraph 2.5) shall be amended in any way without the concurrence of the relevant DAC, except as stipulated in paragraph 7.3.1.1, 7.3.1.2 and 7.3.2 hereof.
NB: Note the Definition of "material provisions" in Part 10. Extension or termination of Contracts, additional work, increase in quantities, price amendments not in terms of the contract, cession and assignments, waiving of penalties, etc., are all defined as material amendments to contracts and need to be dealt with in terms of this paragraph. Also refer to the relevant PPM Circular available on the Transnet Intranet for more information regarding amendments to contracts and the implementation of the 10% rule.

7.3.1.1 Where a contract or a portion of a contract is based on -

(i) **a lump sum price**, with or without a list of quantities or prices which comprises the lump sum price, or
(ii) scheduled rates, for approximate quantities but
- the **scheduled rate has to be adjusted**, or
- a **new scheduled rate has to be included**,
(iii) **estimated quantities** at tendered unit prices in respect of "as-and-when required" purchase or service contracts, or
(iv) **fixed quantities** at tendered unit prices in respect of purchase or service contracts, or
(v) **specific quantities** at tendered **unit prices** over a **fixed period** contract,

a manager may approve any increases or decreases in quantities or additions or additional work of which the total value **does not exceed** 10 per cent of the original value of the contract, and **inform** the DAC accordingly. Note that this does not include **price increases**, i.e. the same work or the same quantities are provided but at an increased price. Such matters should be presented to the DAC for prior approval in terms of paragraph 7.3.4 below.

Such amendments on Engineering / Construction (NEC) contracts only, **exceeding the** laid-down limit of 10%, must be submitted for the relevant Acquisition Council's consideration in terms of sub-paragraph 7.3.4 hereof, **before** such amendments **at non-scheduled rates** are ordered, **unless due to exceptional circumstances** and at the discretion of the Project Manager or Engineer in charge of the contract and the concurrence of his line manager or CEO it would not be in Transnet's best interest to stop the work to first obtain the AC's approval. Full details and a motivation of the exceptional circumstances should be furnished for the relevant DAC's information as soon as possible after the additional work has been ordered.

Note: Scheduled and non-scheduled rates must be calculated separately in calculating the 10 % deviation.

7.3.1.2 Where a contract or a portion of a contract consists of **scheduled rates**, which are based on estimated quantities as the exact quantities can only be determined once the works have been opened up –

a manager may **increase or decrease** such quantities, at the same scheduled rates, provided that when the cumulative value of such amendment/s **exceed** 10 per cent of the original value of the contract the reasons for such amendments must be submitted for **information** of the DAC as soon as possible after such increase or decrease (at scheduled rates) has been ordered or determined by measurement, or on completion of the contract.

7.3.1.3. Notes:

(i) A scheduled rate is a unit price for a labour or service related component of a bigger engineering project, the total extent or quantity of which is unpredictable and cannot be accurately determined at tender stage. When a scheduled rate is tendered at tender stage, that rate is based on an estimated quantity only, as the exact quantity is dependent on site conditions such as underground soil conditions, rock formations etc. which can only be determined once the situation has been opened up or as the work progresses e.g. additional land filling as a result of subsidence or washaways.

(ii) Construction work composed of prefabricated, dimensionally pre-determinable building commodities e.g. brick, prefabricated walling, roof covering, etc., are not regarded as scheduled rates and the lump sum method, with or without a bill of quantities should be adopted in these instances (sub-paragraph 7.3.1.1(i)).

(iii) Purchase contracts based on estimated quantities (as-and-when required contracts) fall within sub-paragraph 7.3.1.1(iii) hereof, and purchase contracts for fixed quantities within sub-paragraph 7.3.1.1(iv).

(iv) Service related type contracts where the quantities may be increased/decreased due to emergencies or changed requirements e.g. a security contract where additional ad-hoc guards are required for a specific period or where the number of guards need to be reduced as a result of say the closing of a station or the reducing of the number of trains on a specific section of line, fall within sub-paragraph 7.3.1.1(v).

7.3.2 Where the original value of the contract falls below the DAC's jurisdiction, a manager may approve additions, increases or decreases provided the total value of the contract is still within his delegated powers and does not fall within the DAC's jurisdiction.

7.3.3 Should the value of the contract be within the DAC's jurisdiction, a manager may approve the amendment of **non-material provisions**, or new provisions not in conflict with the existing provisions or these procedures, provided that such amendment or addition shall be reported for the information of the AC as soon as possible.

7.3.4 Where the additions, amendments, increases or decreases do not fall within paragraphs 7.3.1.1, 7.3.1.2 or 7.3.2 and/or 7.3.3 or where any material provision needs to be amended (e.g. price or delivery date, cession and assignment of contract, or the termination of a contract, waiving or reduction in penalties, etc.) the manager concerned shall submit a recommendation for AC consideration together with a certification that the proposed amendment to the contract is in the best interest of Transnet and that it represents the optimal value for Transnet, and how this has been determined.

7.4 A tenderer who fails to perform, may be held liable for all additional expenses incurred by Transnet

7.4.1 Provision shall be made in the tender documents (as well as in the eventual contract) for the tenderer to undertake that if, after he has been notified of the acceptance of his tender or quotation, he fails to perform, whether by not entering into a contract or to undertake any steps when requested to do so within a period stipulated in the tender conditions or within such extended period as Transnet may allow, he will be held liable for any additional expense which Transnet may incur in having to call for tenders or quotations afresh and/or accepting any less favourable tender or quotation to complete the whole or remaining portion of the contract. In addition, consideration can also be given to placing such contractor on Transnet's List of Excluded Tenderers (See paragraph 7.5 below).

7.4.2 Where the contractor commenced the work but delivered/completed it only after the contractual completion date and this was a tender condition, the penalty clause may be invoked in terms of extant instructions in this regard – See relevant PPM Circular available on the Transnet Intranet, for more details in this regard.

7.5 Transnet may at its discretion decide to exclude a tenderer from further business

7.5.1 If any person/enterprise which has submitted a tender/quotation, concluded a contract, or

in the capacity of agent or subcontractor, has been associated with such tender or contract:-

7.5.1.1 has withdrawn such tender/quotation after the advertised closing date and hour for the receipt of tenders (Refer to paragraph 2.17 above re the exception with regards to CIDB-tenders); or

7.5.1.2 has, after being notified of the acceptance of his tender, failed or refused to sign a contract when called upon to do so in terms of any condition forming part of the tender documents; or

7.5.1.3 has carried out any contract resulting from such tender in an unsatisfactory manner or has breached any condition of the contract; or

7.5.1.4 has offered, promised or given a bribe in relation to the obtaining or execution of the contract; or

7.5.1.5 has acted in a fraudulent or improper manner or in bad faith towards Transnet or any Government Department or towards any public body, enterprise or person; or

7.5.1.6 has made any incorrect statement in the affidavit or certificate with regard to the local content of his goods or his BEE involvement and is unable to prove to the satisfaction of Transnet that-

(i) he made the statement in good faith honestly believing it to be correct; and
(ii) before making such statement he took all reasonable steps to satisfy himself of its correctness; or
(iii) caused Transnet damage, or to incur costs in order to meet the contractor's requirements and which could not be recovered from the contractor,

7.5.1.7 has litigated against Transnet in bad faith. Transnet recognizes that trust and good faith are pivotal to its relationship with its suppliers. When a dispute arises between Transnet and its supplier, the parties should use their best endeavours to resolve the dispute in an amicable manner, whenever possible. Litigation in bad faith negates the principles of trust and good faith on which commercial relationships are based. Accordingly, Transnet will not do business with an entity that litigates against it in bad faith or is involved in any action that reflects bad faith on its part. Litigation in bad faith includes, but is not limited to the following instances:

7.5.1.7.1 Vexatious proceedings. These are frivolous proceedings which have been instituted without proper grounds;

7.5.1.7.2 Perjury. Where a supplier commits perjury either in giving evidence or on affidavit;

7.5.1.7.3 Scurrilous allegations. Where a supplier makes allegations regarding a senior Transnet employee which are without a proper foundation, scandalous, abusive or defamatory.

7.5.1.7.4 Abuse of court process. When a supplier abuses the court process in order to gain a competitive advantage during a tender process.

The Transnet GCFO or his delegate may, upon a recommendation by the relevant DAC and the GM: SSM decide that no tender/quotation from that person or enterprise be considered/accepted or any new contracts concluded for a specified period as may be determined. Depending on the seriousness of the wrongdoing, the Transnet GCFO or his delegate may decide, after consultation will all the role-players, to also terminate all existing contracts between the said enterprise and other Transnet Entities. In cases of fraud and corruption (involving Transnet employees), consideration should also be given to the exclusion of the "internal accomplices". This is to prevent the possibility of Transnet employees being dismissed (or resigning) as a result of their wrongdoings, opening up new businesses in order to continue doing business with Transnet.

7.5.2 Exclusion of a company does not necessarily mean that all existing contracts with the contractor should automatically be terminated. All contracts will remain operational until their normal expiry date, or until they have been terminated by following the necessary due processes, bearing in mind that:-

(i) there must be valid reasons for terminating a specific contract,

(ii) the termination procedure as specified in the specific contract document must be followed and DAC approval must be obtained for termination of contract in terms of paragraph 7.3.4 above, and

(iii) the contractor must be informed and given the customary 14 days notice period mentioned in paragraph 7.6.4 below, to also have the opportunity to make written representations as to why existing contracts should not be terminated, in addition to the intention to place its name on the Transnet List of Excluded Tenderers.

7.5.3 All tender documents and ensuing contracts must state that Transnet reserves the right to exclude a tenderer from further business and/or to cancel all existing contracts and the grounds upon which such action may be taken. Furthermore, it must be stated that a contractor may not subcontract any part of a contract to an excluded tenderer. For this purpose, Transnet's List of Excluded Tenderers will be displayed on the Transnet website for tenderers' information so as to ensure that they do not sub-contract to Excluded Tenderers. This should be conveyed to prospective tenderers by means of a suitable clause in all "Notice to Tenderer" documents.

7.6 Divisions shall immediately report all cases of apparent unlawful conduct by tenderers/ contractors

7.6.1 Any case that may appear to fall within these provisions must be immediately reported in writing to the DAC irrespective of whether the tender amount falls within the DAC's jurisdiction or not. Most cases will inevitably emanate from Internal Audit investigations. However, it is imperative that Internal Audit be informed of, and where appropriate, involved in all matters, even those exposed by means of the Division's own internal processes - See paragraph 7.6.4.1 below.

7.6.2 The AC shall consider the OD's recommendation as soon as possible (by calling a special meeting if required) and if in agreement, notify the GM: SSM via e-mail/fax. All relevant documentation including supporting documentation must be provided.

7.6.3 The GM: SSM shall promptly provide the relevant DAC the go-ahead to inform the person/enterprise concerned, per registered mail, of Transnet's intention to exclude him/her/it, as well as associated companies, from further business, and the reason(s) therefor. The enterprise/person, as well as associated companies, must be afforded the opportunity to furnish reasons as to why he/she/it should not be excluded from further business. Before the letter is signed by the Chairman of the DAC, it has to be vetted by the Division's legal department or Group Legal.

7.6.4 The person/enterprise concerned, as well as associated companies must be given 14 days to respond. During this period:-

7.6.4.1 Should details of associated companies not be available as yet, Internal Audit should be requested to do the necessary ITC searches to determine associated links between the enterprise/person(s) to be excluded and other enterprises, ID numbers of directors, etc; . Immediately this information becomes available, the said associated companies should be informed of Transnet's intention as detailed in paragraph 7.6.3 above.

7.6.4.2 the Division is to determine whether it intends (or can afford operationally) to terminate all existing contracts as well, or whether the restriction will only apply to future new business;

7.6.4.3 As soon as the 14 day period(s) has(have) lapsed, the DAC must consider the tenderer's response (if any). However, before presenting the matter to the DAC, the Secretary should send

a copy of the précis as well as a copy of the tenderer's (and associated companies') response to the GM: SSM, for prior perusal.

7.7 The Transnet GCFO shall make the final decision based on a recommendation from the DAC and the GM: SSM

7.7.1 After the DAC has formally considered the matter at a meeting and concurred in the recommendation to exclude the enterprise, it has to promptly present its recommendation to the GM: SSM for consideration and presentation to the Transnet GCFO, or his delegate for **exclusion of the enterprise, its directors/owners/partners, as well as associated enterprises.**

7.7.2 Upon approval by the Transnet GCFO or his delegate, the List of Excluded Tenderers will be updated by the GM: SSM who will also be responsible for notifying the relevant company(ies) and its directors/owners/partners, as well as associated companies, per registered mail of Transnet's decision to place them on its List of Excluded Tenderers for a specific period.

7.8 Rescinding of a decision taken may only be considered by the Transnet GCFO

7.8.1 The Transnet GCFO or his duly authorised delegate may at any time, on good cause shown, rescind a decision taken or reduce the period of exclusion as initially determined.

7.9 The extent of exclusion shall be determined by the Transnet GCFO

7.9.1 Any restriction imposed upon any person/enterprise shall, unless the Transnet GCFO, or duly authorised delegate, determines otherwise, apply to any other associated enterprise/s under the same or different name. However, the associated enterprise must also be afforded the opportunity to make representations as to why it should not be excluded from business with Transnet. Any such exclusion may also be applied to an agent or employee of the person/enterprise concerned, or his/her spouse who may be doing business under a different name.

7.10 SSM shall be responsible for the updating and distribution of the List of Excluded Tenderers

7.10.1 Any decision taken by the Transnet GCFO, or duly authorised delegate, in terms of these directives on exclusion or any rescission or modification of any such decision shall be reported to the GM: SSM who will notify all the Transnet Entities.
As stated in paragraph 2.17 above, the CIDB will also be administering a similar list. (Contractors who have defaulted on any CIDB contract awarded by another public entity) This list will be similar to the Transnet List of Excluded Tenderers and will run in conjunction with Transnet's List. This means that if a Contractor's name appears on the CIDB's List of Restricted Tenderers, he will not be eligible to be awarded a contract and his tender will automatically be "non-responsive". The GM: SSM will notify Transnet entities as and when the CIDB list is updated, and will, on the merits of each case decide whether such restriction will be applicable to CIDB-tenders only or for non-construction related work as well.

7.11 Representations re exclusions may be made to the GCE whose decision shall be final

7.11.1 Any person/enterprise against whom a decision with regard to exclusion from further business has been given may make representations to the GCE whose decision shall be final.

7.12 The Law of the Republic of South Africa shall govern all contracts

7.12.1 The law of the Republic of South Africa shall govern the contract created by acceptance of a tender/quotation. The address for the serving of notices shall be a place in the RSA to be specified by the tenderer in his tender/quotation, at which all legal documents may be served on the tenderer who shall agree to submit to the jurisdiction of the courts of the RSA. Tenderers

from abroad shall, therefore, state in their tender/quotation the name of their accredited agent in the RSA who is empowered to sign a contract in the event of their tender/quotation being accepted and to act on their behalf in all matters relating to the contract.

7.12.2 Where the risks involved in direct purchases from or direct sales to tenderers abroad are reasonable in relation to the savings or advantages which could be brought about as a result of this method of purchase or sale, such transactions may be arranged direct with tenderers abroad, provided that the contract clearly indicates which country's law will apply, taking into consideration the cost which may be involved in the participation in any legal steps.

NOTE: Before agreeing on another foreign jurisdiction's law, the legal department's opinion and consent must first be obtained. A Division must use its own internal legal department or Group Legal if it does not have its own.

PART 8: DETAILED FUNCTIONS OF GOVERNANCE STRUCTURES

8.1 DIVISIONAL ACQUISITION COUNCILS (DACs)

Each Division will have its own DAC which will consider and approve all expenditure contracts as well as the sale of goods falling within its jurisdiction [i.e. above the minimum threshold as determined by the CEO - See paragraph 8.1.3.1(iv)below], and within the CEO's Delegated Powers. Transactions exceeding the CEO's delegated powers will likewise be considered by the DAC and if it concurs with the recommendation, refer the matter to the relevant person in the hierarchy with the appropriate delegated powers for the particular R-value of the transaction. [Refer to Paragraph 5.4.4 of the Transnet Group Delegation of Authority (Group Limits of Authority)]

A Transnet Acquisition Council (TAC) with similar roles and responsibilities to that of the DAC's, will cater for the Group Corporate Head Office requirements. The TAC will have no higher status than the DAC's, and therefore any matters handled by the DAC which exceed the jurisdiction of the DAC (i.e. the Delegated Powers of the CEO of the particular Division), will not be referred to, or via the TAC, but directly to the person with the necessary Delegated Powers for the relevant R-value of that particular transaction. For more details regarding the role, function and composition of the TAC, please refer to Paragraph 8.2 below.

8.1.1 Composition of the DAC

8.1.1.1 The DAC shall consist of senior management members/Divisional Exco members within the Division who shall be appointed by the CEO of the Division for a specific term:

(i) A Chairman who will either be the CEO, or an executive or senior management member appointed by the CEO, preferably the Chief Financial Officer (CFO) of the division.
(ii) A Deputy Chairman, who shall be one of the members mentioned in paragraph (iii) hereof.
(iii) Members with alternates, all of whom are Transnet employees in the particular division, selected by virtue of their specific expertise or business focus. They must be capable of exercising sound, unbiased judgement and offer constructive comment. It is a minimum requirement for members to complete Level 2 of the Certificate in Purchasing and Supply. The Chief Procurement Officer (CPO) should also be a member.

8.1.1.2 Members, by virtue of their expertise, are required to attend all meetings if at all possible. For this reason, DAC meetings should be scheduled well in advance. Should a member not be able to attend a specific meeting, his/her alternate should then attend so that that particular expertise will not be lost at that particular meeting. Ideally, attendance and participation by members and alternates should be one of their KPIs, measured by the Chairman of the DAC.

8.1.1.3 Members are required to treat all information they receive as DAC members as strictly confidential. Should a member wish to have anything clarified or explained prior to a scheduled meeting or during circulation of a matter, such query should be referred to the Secretary.

8.1.2 Meetings

8.1.2.1 The DAC shall meet at such intervals and on such special occasions as may be determined by it, provided that the CEO may instruct that a meeting of the DAC be called at any time.

8.1.3 Functions of the DAC: Expenditure contracts

8.1.3.1 The functions of the DAC are:-

(i) To consider all recommendations from its division with regard to the award of external contracts for the procurement of goods and services, or sale of surplus goods, where the total value of the business exceeds R2 million.

(ii) To consider all subsequent amendments to material provisions (i.e. which have a cost or risk implication) of contracts exceeding R2 million or where the original value of the contract plus the value of the amendments will exceed R2 million (Refer to Paragraph 7.3 below).

(iii) To consider all recommendations in respect of tenders/quotations as well as any extension of existing contracts of which the original period, or the original period and the extension of the period together is/are longer than 2 years regardless of value, and all subsequent amendments of material provisions of such contracts. Should it be the intention to invite tenders/quotations for contracts longer than a period of 2 years, the DAC's prior written approval should be obtained.
NB. For non-core businesses this limit is one year – refer to CEO's Delegated Authority as stipulated in the Transnet Group Delegation of Authority (Group Limits of Authority)- Available on the Transnet Intranet.

(iv) **With regard to (i), (ii) and (iii) above, DACs may at their own discretion decide to lower these limits and/or introduce similar structures on local or regional level, to cater for matters falling below the jurisdiction of the DAC. All such "deviations" from the laid down thresholds <u>must</u> be clearly stipulated in the Terms of Reference of the respective DACs. It is also advisable that the Divisional Delegated Power Matrix, similar to the Transnet Matrix be included as part of the relevant DAC's Terms of Reference so as to ensure that there is no uncertainty as to the approval thresholds.**

(v) When considering any tender/quotation or any amendments thereto, the DAC may -
- (a) ask questions and request information or advice from any person;
- (b) request any Transnet employee to appear before the DAC;
- (c) refer the submission back for reconsideration;
- (d) offer comments, or note matters submitted for information only;
- (e) condone the non-compliance with the laid down policies and directives provided such non-compliance is submitted via the relevant line manager of the employee in the particular Division. The DAC may at its own discretion decide to report any non-compliance with laid-down policies and directives to the CEO (should the DAC not be Chaired by the CEO him / herself);
- (f) reserve a decision pending further information or clarification of a specific matter; and/or
- (g) withdraw an item from the agenda of any meeting of the DAC;

(vi) To consider and approve the Division's Lists of Approved Suppliers/Products, as well as all aspects pertaining to such Approved Lists, and to administer such lists utilised in its division. This function may not be delegated to Local / Regional DACs.

(vii) To consider and make recommendations to the GM: SSM regarding all aspects pertaining to Transnet's List of Excluded Tenderers. The GM: SSM will administer the List.

(viii) To monitor/administer the opening of all tenders/quotations irrespective of the value. DACs may at its own discretion and depending on internal structures, delegate the opening of tenders/quotations under a certain monetary value, to regional Procurement

offices/local sub-tender committees, provided that it has satisfied itself that proper procedures as specified in this Procedures Manual, are in place and are monitored from time to time.

(ix) To obtain statistics and review at regular intervals, details of all transactions falling below the DAC's jurisdiction (See template available on the Transnet Intranet). Any alleged irregularities or trends that may arise out of the purchase, sale, hire or letting of goods and the procurement of services, must be investigated and corrective measures taken if deemed necessary.

(x) To refer to the GM: SSM for directives all policy and legal questions which arise out of the laid-down procedures or out of a tender/quotation, contract or contract amendment;

(xi) To exercise such powers and perform such duties as may be conferred or imposed by the laid-down procedures;

(xii) To perform other functions as the GM: SSM; CEO or CFO may determine or deem necessary.

(xiii) NB: Submissions by divisions to their Divisional Exco's, Transnet Exco or to the Board of Directors regarding income generating contracts do not derogate from the DAC's jurisdiction in respect of **possible associated expenditure (procurement)contracts** as the latter falls within the DAC's jurisdiction. (Refer to paragraph 2.16 above).

(xiv) NB: It is imperative that DACs (specifically the Secretary) be pro-active and clarify uncertainties before the meeting, so that matters are not referred back unnecessarily, thus inevitably causing delays. Under no circumstances should matters be referred back by DACs for trivialities.
NB: The DAC may only refer a matter back for reconsideration or remotivation. It may under no circumstances change a submission or change the award of the business. On receipt of a revised / remotivated submission the DAC will again consider the matter. Refer to paragraph 8.1.11 above for the procedure to be followed in instances where the DAC still does not agree with the revised / remotivated submission of the line manager.

8.1.4 DAC Approvals: Provisos

8.1.4.1 All DAC approvals are subject to the Manager concerned being satisfied that -

(i) there is still the need for the purchase, sale, hiring, or letting of goods and procurement of services **before** the acceptance of the tender/quotation is communicated to the tenderer (i.e. the contract is concluded) by a manager with the appropriate Special Delegation of Authority;

(ii) the financial provision is adequate; and

(iii) the best interest of Transnet is still being served at the time of concluding the contract.

8.1.5 Functions of Deputy Chairman

8.1.5.1 In the absence of the Chairman, the Deputy Chairman shall act for him/her and shall be empowered to perform all the duties and exercise all the powers held by the Chairman under the laid-down procedures.

8.1.6 Absence of Chairman and Deputy Chairman

8.1.6.1 In the absence of the Chairman and the Deputy Chairman from a meeting of the DAC, a Chairman shall be elected out of the members who are present.

8.1.7 Quorum

8.1.7.1 Fifty percent plus one of the members appointed at any given time shall form a quorum.

8.1.7.2 Should exceptional circumstances necessitate that a member and his alternate attend the same proceeding, both votes may be taken into consideration to form a quorum as members and their alternates are appointed on the DAC by virtue of their own specific expertise. The stipulation contained in paragraph 8.1.8.2 below should however be observed.

8.1.8 Voting and deliberation

8.1.8.1 Where a member of the DAC or his alternate has a direct or indirect personal interest in a tender or has been or can be deemed to have been personally involved in the business decision which gave rise to a recommendation to the DAC, he/she shall declare that by means of a standard Declaration of Interest Affidavit before the meeting commences and also when the DAC deliberates the specific matter. The Chairman shall decide whether or not such member shall be recused or not. This shall be minuted and kept on the appropriate file as part of the record.

8.1.8.2 The Chairman shall submit any matter to the vote of the members of the DAC in the event of a difference of opinion or when requested to do so by a member of the DAC.

8.1.8.3 In the event of an equality of votes, the Chairman shall have a casting vote in addition to his deliberative vote.

8.1.9 Record of votes by circulation

8.1.9.1 In urgent cases where the Division would be substantially prejudiced if a tender/quotation, contract or contract amendment must be held over until the next scheduled meeting of the DAC, and at the discretion of the Chairman, but subject to the right of any member to demand a meeting, the papers which relate to any matter may be circulated to the members of the DAC. The members who respond by the deadline must record their votes in writing in connection with the matter presented for decision in such papers. A **unanimous** approval by a quorum of members so made by the stipulated deadline shall be deemed to be a resolution of the DAC.

8.1.9.2 A resolution taken in such manner shall be officially recorded in the minutes of the next DAC meeting.

8.1.9.3 In exceptional circumstances due to the non-availability of members, the votes of a member and/or alternate may be taken into account in order to obtain a quorum. The stipulation contained in paragraph 8.1.8.2 above should however be observed.

8.1.10 Duties of Secretary

8.1.10.1 An employee of the Division is appointed as Secretary to the DAC who will undertake tasks as imposed upon him by the Transnet Procurement Policy and Procedures and other directives, or by the Chairman of the DAC, or SSM Function or the CEO.

8.1.10.2 The Secretary shall:-

- plan and arrange meetings of the DAC, formulate and distribute proper agenda packs (submissions to the required format) for the meetings of the DAC;
- ensure that all members attending a meeting of the DAC are provided the means of declaring any interest in matters serving before the DAC;
- ensure that a proper register of such declarations of interest be kept with the Minutes of that particular meeting.
- keep proper minutes of the proceedings and resolutions of the DAC, keep copies thereof for auditing purposes and communicate such resolutions to the relevant internal role-players.
- ensure that, by means of a proper certificate, duly signed by the Secretary and the Chairman of the DAC, that no business is awarded to companies or persons appearing on Transnet's List of Excluded Tenderers. Such certificate should be kept and filed with the Minutes of each scheduled meeting of the DAC.
- be responsible for the receipt, opening and stamping of tenders where this duty has been assigned to the DAC Secretary.

8.1.11 Disagreement with a decision of the DAC

8.1.11.1 In the event of a matter being referred back by the DAC for reconsideration of the recommendation made by the division, the manager shall -

(i) make a revised submission to the DAC; or
(ii) if he does not agree with the reasoning of the DAC he shall, with the concurrence of his executive officer, re-motivate his original submission to the DAC, whereafter the DAC shall reconsider the matter; or
(iii) if the DAC still does not agree with the recommendation, the CEO shall make a ruling on the matter.

8.1.11.2 **NB: As the DACs are governance instruments appointed by the CEO, only the CEO (if he/she is not the Chairman of the DAC), may "overrule" a DAC decision. In the event of a Manager seriously disagreeing with a decision made by the CEO, he/she may refer such matter to the GM: SSM who will make a recommendation to the Transnet GCFO, whose decision shall be final and binding on all the parties. Also refer to paragraph 5.5.2 above.**

8.1.12 Application of Government Policy

8.1.12.1 In cases where Government policy is involved and, in terms of directives, a decision must be obtained regarding its application, the DAC shall submit a recommendation to the GM: SSM.

8.1.13 Format of Submissions (Précis)

8.1.13.1 All submissions to the DAC shall be in the required format and in English. The Secretariat may provide assistance to draw up a précis. Refer to Annexure B for examples of generic templates.

8.1.13.2 All submissions to the DAC must be accompanied by the relevant documentation, e.g. Tender documents, authority to communicate or negotiate etc.

8.1.13.3 All submissions should be handed in by at the latest 12h00, the preceding weekday, for inclusion in the agenda for the meeting a week later.

8.1.14 Project Approval Process

8.1.14.1 All major new projects, in terms of the CEO's Delegated Authority, has to be subject to an approval process to determine the economic viability (Return on Investment-ROI) of the project itself, before tenders may be invited (depending on the estimated total cost thereof, may include the Divisional Exco, OPCO, CAPIC, Transnet EXCO, or even the Transnet Board of Directors). However, the actual award of the resultant contract, falls within the domain of these procedures and is governed by the Delegated Powers. Refer to paragraph 5.4.4 of the delegated Powers framework Matrix - available on the Transnet Intranet, as well as paragraph 5.1.3 of the framework matrix which governs the increase in estimated total cost (ETC) of existing, already approved projects in excess of R100 million. This procedure is supplementary to the DAC approval as stipulated in paragraph 7.3 above.

Therefore in cases where the R-value of the contact to be concluded, exceeds that of the CEO of the Division, the abovementioned structures which were involved in the ROI approval in principle of the project, will not again be involved in the entering into of the resultant contract as the Delegated Powers to Contract lies either with the CEO, the GM: SSM, the Transnet GCFO or the GCE, depending on the R-value of the resultant contract to be entered into.

8.2 TRANSNET ACQUISITION COUNCIL (TAC)

8.2 Role and Functions of the TAC

Similar to the roles, functions and responsibilities of the DAC covered in Paragraph 8.1 above, the TAC will cater for the **Group Corporate Head Office requirements.**

The TAC will therefore have no higher status than the DACs, and therefore any matters handled by the DAC, which exceed the jurisdiction of the DAC (i.e. the Delegated Powers of the CEO of the particular operating division), will not be referred to or via the TAC, but directly to the person with the necessary Delegated Powers for the relevant R-value of that particular transaction.

8.2.1 Composition of the TAC

8.2.1.1 The TAC shall consist of senior management members within Group Corporate Head Office who shall be appointed by the GCFO for a specific term:

(i) A Chairman, who will either be the GCFO or an executive or senior management member appointed by the GCFO;

(ii) A Deputy Chairman, who shall be one of the members mentioned in paragraph (iii) hereof;

(iii) Members with alternates with a designation of at least a General Manager, all of whom are Transnet employees in the Group Corporate Head Office, selected by virtue of their specific expertise or business focus. They must be capable of exercising sound, unbiased judgement and offer constructive comment. It is a minimum requirement for members to complete Level 2 of the Certificate in Purchasing and Supply. The General Manager: SSM should also be a member.

8.2.1.2 Members, by virtue of their expertise, are required to attend all meetings if at all possible. For this reason, TAC meetings should be scheduled well in advance. Should a member not be able to attend a specific meeting, his/her alternate should then attend so that that particular expertise will not be lost at that particular meeting. Ideally, attendance and participation by members and alternates should be one of their KPIs measured by the Chairman of the TAC.

8.2.2 Meetings

8.2.2.1 The TAC shall meet at such intervals and on such special occasions as may be determined by it, provided that the GCFO may instruct that a meeting of the TAC be called at any time.

Refer to paragraphs 8.1.3 – 8.1.14 regarding the DAC as these are also applicable to the TAC. Any powers assigned to a CEO with regard to the DAC will apply to the GCFO (or his delegate) as far as the TAC is concerned.

8.3 SUPPLY MANAGEMENT GOVERNANCE COMMITTEE (SMGC)

8.3 Role and Functions of the SMGC

As detailed in its specific Terms of Reference, the SMGC with similar roles and responsibilities to that of the DAC, will consider the strategic principles relating to the sourcing of commodities engaged in by the Transnet Transversal Strategic Sourcing Programme run by the Manager, Strategic Sourcing, SSM. This does not include "mega capital projects" handled on behalf of Divisions by, or in conjunction with Transnet Capital Projects, which falls under the Transnet GCFO. (Refer to paragraph 5.4.4 of the of the Transnet Group Delegation of Authority (Group Limits of Authority)

NB: It is imperative that the SMGC (specifically the Secretary) be pro-active and clarifies uncertainties before the meeting, so that matters are not referred back unnecessarily, inevitably causing delays. Under no circumstances should matters be referred back by the SMGC for trivialities.

8.3.1 Composition of SMGC

8.3.1.1 The SMGC shall consist of senior management members from Policy and Governance, SSM headed by the Manager of Policy and Governance. The Secretariat shall also be from the ranks of Policy and Governance, SSM.
All members and alternates are selected by virtue of their specific expertise or business focus. They must be capable of exercising sound, unbiased judgement and offer constructive

comment. It is a minimum requirement for members to complete Level 2 of the Certificate in Purchasing and Supply.

8.3.1.2 Members, by virtue of their expertise, are required to attend all meetings if at all possible.

8.3.2 Meetings

8.3.2.1 The SMGC shall meet at such intervals and on such special occasions as may be determined by it, provided that the GCFO may instruct that a meeting of the SMGC may be called at any time.

8.3.3 Functions of the SMGC: Expenditure contracts

8.3.3.1 The functions of the SMGC are similar to those of the DACs as outlined in Paragraph 8.1 and as outlined in more detail in its Terms of Reference.

Refer to paragraphs 8.1.4 – 8.1.14 above regarding the DAC as these are also applicable to the SMGC. Any powers assigned to a CEO with regard to the DAC will apply to the GCFO (or his delegate) as far as the SMGC is concerned.

As Strategic Sourcing Commodities are limited to the Top 60% Value Spend Commodities, said contracts will be signed off by the Transnet GCFO, or higher depending on the contract value.

8.4 CAPITAL INVESTMENT COMMITTEE (CAPIC)

8.4.1 Purpose

The CAPIC shall ensure that the resources that Transnet Limited ("the Group") invests for the development of capital projects are strategically managed and shall to this end-

- Ensure that decisions relating to capital expenditure are consistent with the strategic focus of the Group; and
- Ensure that capital expenditure complies with the budget and business plans approved by the Board.

8.4.2 Composition

CAPIC is constituted as a committee of the Transnet Limited Group Executive Committee.

The Chairman will be the Group Chief Financial Officer.
The Secretary shall be the Group Company Secretary

The following shall be members of CAPIC:-

The Group Chief Financial Officer (Chairman);
The Group Chief Executive (ex officio);
The Group Chief Operating Officer;
The Group Executive: Transnet Projects;
The Chief Executive Officers: TNPA, TPT, TFR, TRE and Pipelines;
The Chief Information Officer.
The Group Treasurer;
The General Manager: Group Financial Planning; and
The General Manager: Group Strategic Supply Management.

The GCE may at any time change the composition of this Committee or determine that a person other than the GCFO chair meetings of CAPIC.

The Committee may invite such other officers of the Group as it deems fit to be in attendance at CAPIC meetings.

8.4.3 Quorum

The quorum will be six members.

8.4.4 Term

The GCE shall have the power, at all times, to remove any member from the Committee and to fill any vacancies created by such removal.

8.4.5 Reporting responsibilities

CAPIC shall report to the Group EXCO through its Chairman.

8.4.6 Terms of reference

CAPIC shall-

8.4.6.1 Ensure that investment in respect of capital projects is consistent with the strategic focus of the Group and deals with the business of the Group in an integrated manner;

8.4.6.2 Ensure that capital expenditure is in accordance with the budget and business plans approved by the Board;

8.4.6.3 Determine the factors that shall inform the prioritization of any capital expenditure project over another;

8.4.6.4 Monitor the implementation of project plans to ensure that approved capital expenditure projects are carried out with minimum delays;

8.4.6.5 Review and amend, subject to the limitations of the Board approved budget, expenditure plans in respect of any project should, as a result of any unforeseen and unavoidable circumstances, it be necessary to effect such amendment;

8.4.6.6 Ensure that in respect of each capital investment project proposed for consideration by CAPIC, certification is given that there was proper compliance with applicable processes relating to amongst others, risk management and that such projects reflect value-for-money; and

8.4.6.7 Conduct post-implementation reviews through, amongst others, external auditors, to determine, amongst other things, whether value has indeed been derived by the Group as a result of the relevant capital investment.

8.4.7 Meetings

8.4.7.1 A minimum of 12 scheduled meetings a year subject to review from time to time.

8.4.7.2 Informal or *ad hoc* meetings may be convened as and when required by the Group Company Secretary.

8.4.7.3 Papers for consideration by the Committee will be submitted in the normal course at least 5 days before the meeting to enable members to study the documentation and allow adequate opportunity for formal and informal discussions.

8.5 **Strategic Supply Management,** being the author and custodian of the PPM is responsible for the correct and uniform application and interpretation of the Transnet Procurement Policy and the PPM in conjunction with Internal Audit. Listed below are some of the most important functions of SSM:-

(a) Issue and maintain Transnet's Procurement Policy, as well as the Transnet Procurement Procedures (PPM) (including standard tender forms and contract documents

(b) Monitor correct interpretation/adherence to policies in collaboration with audit;
(c) Research and development (especially BBBEE focus);
(d) BBBEE Reporting;
(e) Reporting to the GCFO on all Transnet's purchasing expenditure and tendencies;
(f) Maintenance of the Transnet internal Intranet as well as the updating of the external internet website as far as procurement policies and procedures are concerned;
(g) Continuous capacity building at Divisional level;
(h) Administer Transnet's List of Excluded Tenderers;
(i) Provide assistance and expertise through Sourcing Teams on the transversal and other projects/commodities identified; and
(j) CSDP.

8.5.1 Strategic Supply Management (SSM) Strategic Objectives

SSM's vision is to become an integrated, value added professional partner to its stakeholders, providing a reliable, cost-effective and customer-focused service. SSM aims to provide this by ensuring that all transactions are fair and transparent and that employees in all fields of the supply chain are motivated and empowered to deliver an effective supply management service to their stakeholders. The objective of procurement professionals within SSM is therefore to contribute positively to achieve optimal value for Transnet through the creation of effective deals and implementation of International procurement best practices, whilst at the same time maintaining the fine balance between Transnet's business objectives (optimal profit realisation) whilst making its contribution to the national programme of BBBEE.

8.5.2 To achieve the above, the procurement function has to add value to the processes by:

8.5.2.1 Drafting a user-friendly and all-encompassing procurement policy and procedures which make provision for the uniqueness of all Transnet Entities and allows them to conduct their activities in a fair, equitable, transparent, competitive and cost-effective fashion as required by the Constitution of the Republic of South Africa whilst adhering to Transnet's and its shareholder's requirements;

8.5.2.2 Creating an enabling environment for the development of Transnet's SSM operators, its governance structures and the tendering fraternity at large on how to conduct business with Transnet.

PART 9: BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

9.1 Legal requirements

9.1.1 The Constitution provides that in order to promote the achievement of equality, measures designed to protect or advance persons/categories of persons disadvantaged by unfair discrimination may be taken. In terms of the Constitution, Transnet may implement a policy/policies and implementation procedures providing for categories of preference in the allocation of contracts; and the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.

9.1.4 The BBBEE Act was then enacted in 2004 with one of its objectives being to establish a legislative framework for the promotion of BEE.

9.1.5 Section 11 of the BBBEE Act requires that:

a. The Minister (*of Trade and Industry*) must issue a BEE Strategy. The Minister is further empowered to change or replace this strategy.
b. The strategy should provide for an integrated, uniform approach to BEE by ***all organs of state*** and other stakeholders.

c. The strategy should also provide a system for organs of state, public entities and other enterprises, to prepare broad-based black economic empowerment plans and to report on compliance with those plans.

9.2. Statement of Intent

9.2.1 It is Transnet's intent to:-

- Promote its role as a responsible corporate citizen in the context of BBBEE and Preferential Procurement.
- Facilitate the development of BEE enterprises by making opportunities available throughout Transnet.
- Assist in the development of EME's and QSE's.

9.2.2 The purpose of this BBBEE Document

9.2.2.1 The purpose of this document is to set forth Transnet's approach with respect to BBBEE. It forms the basis for implementation procedures for the preferential procurement from BBBEE enterprises (as defined in the definitions section of this document).

9.2.2.2 This BBBEE document presents the minimum standard which Transnet staff and suppliers are expected to achieve in their implementation of a BBBEE and preferential procurement process. It will be reviewed and updated in order to continuously achieve the objectives of Transnet.

9.2.3 Scope and applicability

9.2.3.1. This BBBEE document applies to all purchases of goods and services and will apply to all QSE's and EME's, as well as large suppliers with sophisticated financial, technical and managerial capacity.

9.2.3.2 It shall apply to and impact on all levels (R-value) and types of tenders. It will also apply to any disposal, letting or leasing of assets, the acquisition or granting of any right for and on behalf of Transnet. The objective is to design innovative ways to employ preferential procurement.

9.2.3.3 Tender documents must specifically state that BBBEE preference in terms of the DTI Codes of Good Practice will apply. A supplier's BBBEE status in terms of the DTI's Generic Scorecard will determine the degree of preference which will be acknowledged and in terms of the PPPFA's 90/10 system for all contracts in excess of R30 000. Contracts below R30 000 will as far as possible be earmarked for EMEs. See BBBEE Circular and RFX Clause available on the Transnet Intranet.

9.2.4 Objectives

9.2.4.1 The successful implementation of the Transnet BBBEE approach will be evaluated against the achievement of spend targets as outlined by the DTI and as set by the GM: SSM.

9.2.4.2 All sourcing documentation must emphasise preferential procurement and local supplier development as key differentiators (i.e. selection criteria).

9.2.4.3 The underlying objective of the BBBEE methodology is to create an enabling environment for BBBEE enterprises (as defined) to access available procurement opportunities within Transnet. BEE enterprises will therefore be engaged as:

- principal contractors,
- joint venture partners,
- professional service providers,
- sub-contractors, suppliers and or manufacturers.

Their engagement should add real value to the supply chain.

9.2.5 Strategic Intent

9.2.5.1 Transnet encourages and will recognise all improvement in current and future supplier ratings.

9.2.5.2 In appropriate circumstances Transnet will set BEE participation pre-tender conditions. This may include but is not limited to specifying to potential suppliers:

- The rand value or percentage of the tender that should be fulfilled by the participation of Broad-Based black enterprises, QSE's and EME's.
- The minimum black equity ownership that should be fulfilled as a precondition to participating in the tender process, as per the sector charters.
- Management and operational involvement by black professionals and managers as prescribed in the different sector charters.
- Skills transfer and training.
- Employment creation and employment equity.

9.2.5.3 Transnet will encourage "value-adding" joint ventures between non-contributors to empowerment and local suppliers (preferably empowered QSE's and EME's).

Bidders may develop joint ventures in order to comply with Transnet BEE requirements. The following documents shall form part of their submission:

- Ownership documents showing the status of the partners to the joint venture;
- Joint Venture Agreement;
- Joint Venture Declaration Form; and
- Any other documents as may be required by Transnet.

9.2.6 Preferential procurement targets and Reporting

9.2.6.1 To promote BBBEE in the procurement of goods and services, targets will be set and agreed to by all the ODs and approved by Transnet's GCFO.
Targets will be reviewed on an annual basis with the approval of GM: SSM, however monthly progress reports against the set targets will be compiled for submission to the GM: SSM.
The overriding principle in the setting of such targets is that:

- A sectoral approach will be adopted and for sectors where there is a high probability of finding BEE enterprises, (as defined) the target may be set higher.
- Each Division's contribution towards the set target will be proportionate to that Division's budget allocation.

9.2.7 Enterprise Development Model

9.2.7.1 Enterprise Development, being one of the DTI's BBBEE pillars of empowerment, places an obligation on Transnet as a State Owned Enterprise ("SOE"), to also contribute in a significant way towards the growth and development of emerging black entrepreneurs, who would ultimately be the beneficiaries of this support initiative. Transnet has a further responsibility as a major spender in the sector to ensure that opportunities and growth in the industry include emerging black entrepreneurs through policy, procedures and "spend trends" and do not exclude them.

9.2.7.2 Enterprise Development can comprise one or a combination of the following interventions:-

- Facilitation of training, mentoring, counselling and professional support for selected companies.
- Access to "short-term" flexible payment methods, e.g. for selected / deserving EME's say payment within 14 days, at the Division's own discretion.
- Facilitating access to finance either by a mere referral, or by any other innovative ways that will assist the enterprise.
- Any other support that is deemed necessary to strengthen and grow the selected company such as on-the-job supervision / skills transfer, etc.
- Enterprise Development will be addressed in a coordinated manner through the CSDP initiative - refer to paragraph 4.3 above.

9.2.7.3 The Main objectives of Enterprise Development are:-

- To develop a globally competitive supply base for Transnet and other SOEs.
- To support and strengthen the participation of black emerging entrepreneurs in the Transport and related sectors.
- To ensure that adequate investment in local small business is maintained in a meaningful way thus supporting a definite shift away from importing, towards localization of product sourcing.
- To be a leader amongst SOEs in the commitment to BEE as "not merely a social responsibility" but also a business strategy to ensure that BEE is economically beneficial as it reaches the majority of South Africans and is committed to making a difference and growing the economy.

9.2.7.4 Transnet recognises that QSEs and EMEs have an economic role to fulfil in the future of South Africa. They contribute to job creation and the country's national productivity through the provision of goods and services to consumers and/or other enterprises etc. As a major role player in the SA economy, Transnet will strive to heavily involve QSEs and EMEs in its procurement activities. In pursuit of creating opportunities for QSEs and EMEs, Transnet may:

- Consider where appropriate, splitting large non-strategic contracts into small components, for instance per province/item to enable QSEs and EMEs to participate. The total value of the business to be awarded and not the individual contracts will determine whether the tender falls within the DAC's jurisdiction or not. (Also refer to paragraphs 6.11 and 6.12).
- Where appropriate, Transnet will identify some tenders in part or in whole for the exclusive participation of QSEs and EMEs.
- Encourage value-adding Joint Ventures between large established suppliers and QSEs and EMEs giving the latter access to latest technologies and skills.
- With appropriate institutions and government agencies, co-ordinate capacity building programmes for QSEs and EMEs.
- Provide tender advice to QSEs and EMEs.

9.2.8 Supplier Compliance to BEE

9.2.8.1 Transnet encourages its suppliers to promote BEE in their own companies. Suppliers will be expected to comply with all Transnet's BEE requirements when submitting tenders. As a pre-condition to selection, tenderers shall submit a signed BBBEE certificate and any other documents that may be required by Transnet. These shall form one of the critical criteria in the evaluation of BEE requirements. In addition, in instances where Transnet has set other BEE pre-conditions, these shall form part of the tender evaluation and be incorporated into the contract.

9.3 Interim Implementation

9.3.1 Suppliers must be measured in accordance with the DTI Generic Scorecard provided for in the Codes of Good Practice.

9.3.2 Existing suppliers must be made aware of Transnet's policy and efforts made to encourage these suppliers to embark on BBBEE initiatives. All suppliers shall be informed that Transnet fully endorses and supports Government's BBBEE Programme.

9.3.3 Transnet would therefore prefer doing business with enterprises that share the same values with it and are prepared to contribute to meaningful BBBEE initiatives (e.g. subcontracting, JV's etc.) as part of their tender responses. Transnet will accordingly allow a preference in accordance with the 90/10 preference system, as per the PPPFA, to companies who provide a BBBEE Accreditation Certificate. Transnet requires prospective tenderers to have themselves accredited by any of the SANAS Accreditation Agencies that do their BBBEE ratings in accordance with the latest Codes i.e. those promulgated on 9 February 2007. Verifications are only valid for one year. Also refer to the BBBEE Circular and RFX Clause available on the Transnet Intranet.

Enterprises will be rated by such agencies based on the following:-

Type of Enterprise	Annual Turnover	Number of Elements Scored on of the BBBEE Generic Scorecard
Large	In excess of R35 million	All 7 elements
Qualifying Small Enterprise (QSE)	Between R5 million and R35 million	Any 4 elements (equal weighting of 25% each)
Exempted Micro Enterprise (EME)	R5 million or less	Deemed to be 100% compliant. Automatic Level 4 rating irrespective of race of ownership.

NB. EMEs with Black ownership >50% or Black Women ownership >30% automatically qualify as Level 3 BBBEE, i.e. 110% BBBEE recognition.

EME's need only provide documentary proof of annual turnover (i.e. audited financials) plus proof of Black ownership if Black ownership >50% or Black Women ownership >30%.

In addition to the above, tenderers who wish to enter into a Joint Venture or sub-contract portions of the contract to BBBEE companies, must state in their tenders the percentage of the total contract value that will be allocated to such BBBEE companies should they be successful in being awarded any business. A rating certificate in respect of such BBBEE JV-partners and / or sub-contractor/s, as well as a breakdown of the distribution of the aforementioned percentage must also be furnished.

Refer to the new BBBEE clause to be included in all Tender documents, which is available on the Transnet Intranet and which is already included in the various RFX templates.

9.4 BBBEE evaluation process

Following the enactment of the BBBEE Act and Codes of Good Practice, it is now incumbent upon Transnet to align its internal policies to ensure alignment to the national framework. The PPPFA is not applicable to Transnet as a Schedule 2 company in terms of the PFMA.

The attainment of BEE objectives through preferential procurement is not a simple process, even when a well developed implementation methodology guides the implementation thereof. The endorsement and support of all stakeholders within the organization is essential. This section of the document aims to provide guidance for interim implementation of the process.

Although the BBBEE Act has been promulgated on 19 March 2003, the Regulations to govern the implementation of the Act have only been promulgated in their final form on 9 February 2007. Transnet has decided to implement the BBBEE principles with effect from 28 November 2006 as an interim BBBEE implementation methodology, despite the fact that the Codes provided for a transition period until 31 August 2008.
Contrary to the PPPFA, which primarily focused on black shareholding as the only empowerment tool, the BBBEE approach will have a much wider focus. It will not only assist black entrepreneurs who already own and run their own successful businesses, but will also accommodate those in need of skills training, employment or development opportunities.

9.4.1 Tender Evaluation

The following guidelines are to be followed with regard to the evaluation of tenders:-
Accreditation agencies (See paragraph 9.3.3 above) will use Table 1 to accredit all suppliers and will issue the prospective tenderer with a BBBEE Rating certificate which will indicate its Level of Contribution (Table 2), a certified copy of which must be included in its tender response as a "returnable document".

Table 1:

Scorecard element	Generic weighting
Ownership	20%
Management	10%

Employment Equity	15%
Skills Development	15%
Preferential Procurement	20%
Enterprise Development.	15%
Social Investment / Other	5%
TOTAL SCORE measured out of:	100%

Table 2:

BEE Status	Qualification	Recognition Level (Multiplier)
Level One Contributor	≥100 points on the Generic Scorecard	135%
Level Two Contributor	≥85 but <100 points on the Generic Scorecard	125%
Level Three Contributor	≥75 but <85 on the Generic Scorecard	110%
Level Four Contributor	≥65 but <75 on the Generic Scorecard, or any micro enterprise	100%
Level Five Contributor	≥55 but <65 on the Generic Scorecard	80%
Level Six Contributor	≥45 but <55 on the Generic Scorecard	60%
Level Seven Contributor	≥40 but <45 on the Generic Scorecard	50%
Level Eight Contributor	≥30 but <40 on the Generic Scorecard	10%
Non-Compliant Contributor	<30 on the Generic Scorecard	0%

The BBBEE rating certificate included in the tender response will therefore merely indicate the contender's **level of contribution.**

After technical compliance has been determined, all technically compliant bids are merely ranked from highest score to lowest score, using the following method:

SAMPLE 1:

Where technical compliance is either a "yes" or a "no" – (or all equal)

By using the "Excel Spreadsheet BBBEE-calculator", which is available on the Transnet Intranet, the spreadsheet will automatically calculate a point out of 90 for price, by merely entering the **comparative*** tender prices from lowest to highest on the spread sheet. The lowest technically acceptable price will score the full 90 points. Upon entering the BBBEE status as determined in Table 3 i.e. the point out of 10, the "BBBEE calculator" will calculate a point out of 100. This total out of 100 will then determine the preferred bidder which will be recommended for acceptance to the relevant DAC.

It should be noted that this system is used during the evaluation process to determine a fair and transparent BBBEE preference (i.e. to determine the preferred bidder), and not to justify the paying of automatic premiums. Post-tender negotiations (strictly in terms of paragraph 2.7 above) should be conducted once DAC approval of the preferred bidder has been obtained. Unethical practices such as horse-trading and price-matching are however not allowed.

NB. On sales tenders (e.g. the disposal of scrapped assets), the tendered prices are entered on the relevant Excel spreadsheet from highest to lowest, and the highest tendered price will score the full 90 points for price.

* Refer to Paragraphs 4.1 and 4.2 above for the procedure to be followed to adjust tender prices to a common comparative basis. Note that this comparative price does not include BBBEE preferences at this stage. After entering the comparative price in the relevant column of the BBBEE calculator, and the BBBEE status and preference in terms of Table 3, the BBBEE Calculator will calculate the relevant score out of 100 for price and BBBEE.

Table 3:

BEE STATUS	BEE PREFERENCE 90/10 Max 10%
Level One Contributor	10%
Level Two Contributor	9%
Level Three Contributor	8%
Level Four Contributor	7%
Level Five Contributor	6%
Level Six Contributor	5%
Level Seven Contributor	4%
Level Eight Contributor	2%
Non-Contributor	0%

Table 4:

Tenderer & ranking on price	Tender Price	Point out of 90 for price	BBBEE contribution level	BBBEE Point out of 10	Total out of 100 (BBBEE 10 & price 90)	Final Ranking (Price and BBBEE)
X - N/A	R965 000	Tech. non-compliant	N/A	N/A	N/A	N/A
A - 1	R2 300 000	90	Level 8	2	92	2
B - 2	R2 400 000	86.09	Level 3	8	94.09	1
C - 3	R2 500 000	82.17	Level 7	4	86.17	4
D - 4	R2 550 000	80.22	Level 1	10	90.22	3

From Table 4 above, Tenderer B becomes the preferred bidder as he has attained the highest score out of 100. The recommendation to the DAC will therefore be in favour of B (and not Tenderer D although D has the highest BBBEE contribution level). In terms of the guidelines on Post-tender negotiation, the DAC will when approving the preferred bidder also grant the necessary authority to conduct further price negotiation with him/her. If one succeeds in driving his price down, to say R 2 350 000, the price premium of R50 000 will be minimal (2.18%) = R2,35m as compared to the lowest tender of R2,3m. For the purposes of reporting BBBEE spend, one would again refer to Table 2. Tenderer B, being a level 3 contributor, would entitle Transnet to report 110% of the contract value as BBBEE procurement spend, i.e. R2 350 000 X 1.10% = R2 585 000.

SAMPLE 2:

Evaluation where "Technical Compliance" or "quality" also needs to be factored into the scoring matrix

The scoring system for Price and BBBEE as explained in Sample 1 above, is based on the 90/10 Price / BBBEE principle. Where appropriate to also include technical or quality in the weighting out of 100, this inevitably means that the weighting of 90 for price will be diluted.

For example:	Price	50
	Quality/Technical	40
	BBBEE	10
	Total	100

There is however a real risk in including "technical" in the equation (e.g. 50/40/10) and in so doing diluting the weighting of price, as will be noted from the following two Tables:

Table 5:

BASIS FOR COMPARATIVE OFFER :
PRICE AND BBBEE (90 / 10)

Name of Tenderer : Ranked highest to lowest	Financial Offer (P)	Comparative Offer (Pm)	Points for Financial Offer	BBBEE Level of Contribution (Level 1 to 9)	BBBEE Point out of 10 (90/10)	Total point out of 100: Price 90 & BBBEE 10	Ranked Tech-nical, price and BBBEE	% Premium payable	Premium payable in Rands
TENDERER F	NON RESPONSIVE								
TENDERER G	NON RESPONSIVE								
TENDERER H	NON RESPONSIVE								
Tenderer A	3,700,000	3,700,000	90.00	Level 9	0	90.00	1	0	R 0
Tenderer B	4,535,000	3,700,000	69.69	Level 7	4	73.69	2	23	835,000
Tenderer C	5,500,000	3,700,000	46.22	Level 1	10	56.22	3	49	1,800,000
Tenderer D	6,400,000	3,700,000	24.32	Level 4	7	31.32	4	73	2,700,000
Tenderer E	7,100,000	3,700,000	7.30	Level 1	10	17.30	5	92	3,400,000

Table 6:

BASIS FOR COMPARATIVE OFFER :
PRICE, TECHNICAL AND BBBEE (50 / 40 / 10)

Name of Tenderer : Ranked highest to lowest	Financial Offer (P)	Comparative Offer (Pm)	Tech-nical Score Max 40	Points for Financial Offer	BBBEE Level of Contribution (Level 1 to 9)	BBBEE Point out of 10 (90/10)	Total point out of 100: Price 90 & BBBEE 10	Ranked Tech-nical, price and BBBEE	% Premium payable	Premium payable in Rands
TENDERER F	NON RESPONSIVE									
TENDERER G	NON RESPONSIVE									
TENDERER H	NON RESPONSIVE									
Tenderer A	3,700,000	3,700,000	20	50.00	Level 9	0	70.00	2	0	R 0
Tenderer B	4,535,000	3,700,000	25	38.72	Level 7	4	67.71	3	23	R085m
Tenderer C	5,500,000	3,700,000	35	25.68	Level 1	10	70.67	1	49	R1,8m
Tenderer D	6,400,000	3,700,000	40	13.51	Level 4	7	60.51	4	73	R2,7m
Tenderer E	7,100,000	3,700,000	30	4.05	Level 1	10	44.05	5	92	R3,4m

Note that whilst using the same tender prices and BBBEE levels/scores in both Tables 5 and 6, in Table 5 Tenderer A wins the business whereas in Table 6 Tenderer C wins the business at 49% i.e. R1,8 more. The use of Table 6 as part of the tender evaluation criteria should therefore be made with great circumspection.

This however does not mean that the latter method (Table 6) should never be used. Where the best quality is crucial (e.g. a consultancy service or the development of a sophisticated system), this method may be selected and indicated upfront in the Tender Document.

To be open, fair and transparent to all prospective tenderers, and to prevent the possibility of manipulation of the technical weighting during the evaluation phase, the weightings of the three main evaluation criteria (Price, BBBEE and Technical/Quality) **must** be disclosed in the tender documents i.e. before the tender is issued. As stated in paragraph 5.3.1.11 above the actual individual weightings of the different components of "Technical" should not be disclosed. It need only be listed, not necessarily in

order of importance, to ensure that tenderers submit their best offers on all the technical criteria and not only those which carry a relatively high weighting.

It must also be stressed that quality need not be sacrificed by not choosing the Table 6 approach and instead electing the Table 6. An alternative method that can be used where technical compliance is important, but not at all cost, is the following method :-

Step I: As a first step, determine whether there are any disqualifying criteria, for example:-

- Does the company's name appear on Transnet's List of Excluded Tenderers? (or on the CIDB's List of Excluded tenderers if a CIDB Construction related tender)
- Has the company produced a valid Tax Clearance Certificate?
- On CIDB-tenders – Does the company's name appear on the CIDB's Register of Contractors for the required category?
- Is the company VAT registered, and has it produced a valid VAT Registration Certificate? (if its annual turnover qualifies it for VAT Registration i.e.>R300 000 p.a.)

Step 2: Evaluate all qualifying tenders in terms of the technical evaluation criteria, after having determined a minimum threshold for technical compliance. All tenderers who exceed the minimum threshold then proceed to the next round i.e. Price and BBBEE evaluation in terms of Table 5 above. It is important to note that all tenderers who exceed the minimum cut-off point are then regarded as equally compliant, irrespective of the margin by which they exceed the minimum threshold (e.g. A BMW pool-car scoring 99 on technical and a VW Polo scoring 77 points will be equally compliant since they both exceed the minimum threshold of 70). To, at this stage, factor their technical scores into a Table 6 scenario where a score is again allocated to technical against a diluted weighting for price will result in a higher overall score for the more expensive BMW as compared to the VW Polo.

Step 3: The tenderer with the highest total score as per Table 5 (Price and BBBEE only) will become the preferred bidder and will be recommended to the DAC for award of the business.
In terms of the post-tender negotiations procedure (paragraph 2.7 above), the DAC may be approached for authority to undertake post-tender negotiations with more than one preferred bidder if the scores attained by the various contenders as per Tables 5 or 6 above are very close.

PART 10: DEFINITIONS

10. Definitions

10.1 In these Procurement Procedures:-

10.1.1 **"Board of Directors"** means the Board of Directors of Transnet Limited;

10.1.2 **"Chairman"** means the person who is appointed as Chairman of one of the Acquisition Councils or his alternate.

10.1.3 **"CEO"** means the Chief Executive Officer at the head of a Transnet Division (core or non-core), with appropriate delegated authorities which are in line with the Transnet Group Delegation of Authority (Group Limits of Authority) - Annexure H1. With regard to Corporate Head Office, roles and responsibilities assigned to the "CEO" in terms of this document (PPM), will likewise also apply to Heads of the relevant Group Functions, who in terms of their individual Special Delegation of Authority have been delegated similar powers.

10.1.4 **"CFO"** means a Chief Financial Officer in an Operating Division of Transnet, whilst **Transnet GCFO** means the Group Chief Financial Officer in the Group Corporate Head Office, who reports directly to the Group Chief Executive (GCE).

10.1.5 **"CPO"** means the Chief Procurement Officer of a Division of Transnet, or Specialist Unit, or core or non-core businesses). In smaller Transnet Divisions which do not have a designated CPO, powers assigned to the CPO in terms of this document will be vested in the CEO of that Division

personally. With regards to the Corporate Head Office, the GM, Strategic Supply Management will be regarded as the "CPO" for the purposes of this document (PPM)

10.1.6 **"contender"** means any person who has submitted a **quotation**, as opposed to "tenderer"

10.1.7 **"BBBEE enterprise"** means any supplier or contractor who has been rated anything from a Level 8 (10 % recognition level) to a Level 1 (135% recognition level), as defined in the BBBEE Act and Codes of Good Practice issued by the DTI.

10.1.8 **"CIDB-tender"** means any construction related contract, as defined in, and regulated by the Construction Industry Development Board, by virtue of the CIDB Act. This includes new construction activities as well as the maintenance of existing civil, mechanical or electrical structures.

10.1.9 **"DAC"** means the Divisional Acquisition Council of an Operating Division, Specialist Unit or Business. Unless specifically stated otherwise "DAC" also includes sub-acquisition councils operating under the auspices of the DACs and which caters for transactions falling below the minimum threshold of the DAC, e.g. Acquisition Councils operating on a local or regional basis, as well as the TAC and SMGC catering for Corporate Head Office and transversal procurement respectively.

10.1.10 **"delegated powers"** means the extent of authorities required in order to implement certain actions by or on behalf of the company, including any sub-delegation of authority where permitted. This includes the power to retrospectively authorise, condone or rescind a decision already taken by a sub-delegate.

10.1.11 **"Division"** means any Transnet Operating Division, Specialist Unit, as well as Group Functions and Transnet Businesses within the entire Transnet Group.

10.1.12 **"Group"** means all Transnet Divisions where Transnet still holds the majority share. This include Operating Divisions, Specialist Units, Businesses as well as the different Group Functions comprising the Corporate Head Office

10.1.13 **"enterprise"** means amongst others a company, close corporation, partnership or any other form of business;

10.1.14 **"fairness"** means being objective, reasonable and even-handed. Being fair does not mean satisfying everyone. It can be unfortunate, but not unfair, that people may be adversely affected by procurement decisions;

10.1.15 **"fronting"** means the deliberate circumvention or attempted circumvention of the BBBEE Act and the Codes. This could, for example, be in the form of the misrepresentation of shareholding/ownership status in order to achieve an advantageous BEE recognition level, or the deliberate non-honouring of BBBEE commitments made at tender stage with regards to subcontracting or JV initiatives, for the purposes of securing business. Unless such non-honouring has been duly reported to Transnet and considered to be beyond the control of the main contractor / JV partner, such actions will also be regarded as deliberate misrepresentation and fronting.

10.1.16 **"fruitless and wasteful expenditure"** means expenditure that was made in vain and could have been avoided had reasonable care been taken;

10.1.17 **"goods"** means any physical object or objects whether raw or processed material, movable or immovable, which has value;

10.1.18 **"Group Chief Executive"** means the person in the Corporate Centre appointed as the Transnet Group Chief Executive, duly appointed by the Minister of Public Enterprises, or the person acting in his/her stead, at any given time, in terms of a proper Mandate;

10.1.19 **"GM: Strategic Supply Management"** means the General Manager who heads up the Strategic Supply Management Function (GM: SSM) in the Corporate Head Office, or the person acting in his/her stead, at any given time, in terms of a proper Mandate;

10.1.20 **"Imported content"** means that portion of the tender price or quotation which represents the landed cost at factory (as defined herein) in the Republic of South Africa of components, parts or materials which are to be used in the manufacture, production or assembly of supplies tendered for and which have been or are still to be imported whether by the tenderer or his supplier or sub-contractors;

10.1.21 **"incoterms"** being the collective term for any of the following types of import / export payment cost structures (in the case of Transnet mostly the importer):-

"EXW" – Ex Works – the seller has delivered the cargo, the cost, and the risks, when they place the cargo at the disposal of the buyer at seller's premises, not loaded onto any collecting vehicle and not cleared through Customs. If at another local named place then not unloaded.

"FCA" – Free Carrier – the seller has delivered the cargo, the cost and the risks, when they have done EXW plus they have loaded onto any collecting vehicle and have cleared cargo through Customs.

"FAS" – Free Alongside Ship – The seller has delivered the cargo, the cost and the risks, when they have done FCA plus they have taken the cargo to the port and placed it alongside the vessel and have paid any port taxes.

"FOB" – Free on Board – The seller has delivered the cargo, the cost and the risks, when they have done FAS plus they have taken the cargo passed the ship's rail.

"CFR" – Cost & Freight – The seller has delivered the cargo and the cost, when they have done FOB plus they have paid for the freight to the port of destination. Risk still delivered at FOB.

"CIF" – Cost, Insurance and Freight – The seller has delivered the cargo and the cost, when they have done CFR plus they have paid for the insurance to the port of destination. Risk still delivered at FOB.

"DES" – Delivered Ex Ship – The seller has delivered the cargo, the cost and the risk, when they have done CIF plus they have to keep the risk of CIF to DES.

"DEQ" – Delivered Ex Quay – The seller has delivered the cargo, the cost and the risk when they have done DES plus off load the cargo at the destination port.

"DDU" – Delivered Duty Unpaid – The seller has delivered the cargo, the cost and the risk when they have done DEQ plus taken the cargo to the final destination but not pay any import customs charges.

"DDP" – Delivered Duty Paid – The seller has delivered the cargo, the cost and the risk when they have done DDU plus paid any import customs charges.

"CPT" – Carriage Paid To – The seller has delivered the cargo and the cost, when they have done FCA plus handed over cargo and only pay the freight to a carrier that will take the cargo to the final destination. Risk is delivered when the cargo is handed over to the carrier.

"CIP" – Carriage and Insurance Paid To – The seller has delivered the cargo, the cost and the risk when they have done CPT plus paid for Insurance to the final destination. Risk is delivered the same as CPT.

"DAF" – Delivered at Frontier – The seller has delivered the cargo, the cost and the risk when they have done FCA plus deliver the cargo to a place at any frontier (border) but not at the buyers frontier and not unloaded.

10.1.22 **"Indent"** means a purchase direct from an overseas supplier or manufacturer without the involvement of a local agent or representative.

10.1.23 **"Irregular expenditure"** means expenditure incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation, including the PFMA;

10.1.24 **"landed cost at factory"** means the overseas cost plus direct importation costs such as freight, all landing charges, dock dues, import duties and the like, at the South African port of entry, as well as inward transportation and handling costs to the factory in the Republic of South Africa where the goods tendered or quoted for, will be manufactured or assembled;

10.1.25 **"local content"** means that portion of the tender price or quotation which is not included in the "imported content" as defined above;

10.1.26 **"manager"** means, with regard to Transnet, a person who is a chief executive of a Division of Transnet, by whatever designation he is known and whether or not he is a director of Transnet, or his delegatee or any subsequent delegatee in terms of a proper Special Delegation of Authority;

10.1.27 **"material provisions"** means amongst others a provision which has a bearing on the parties to the contract, the particular performance (eg. sale/purchase, service and hire/lease), price (including alleged pricing errors), time for performance, cession and/or assignment, new provisions, waiving of penalties, extension of time, exercising of options, quantities, place/manner of delivery, impossibility of performance, appointment of a new contractor for the uncompleted portion of a contract and refund of retention money before the completion date, etc., **and which may entail additional costs or risks;**

10.1.28 **"non-material provisions"** means amongst others a provision which has a bearing on the place/manner of delivery, place/time/manner of payment, name of the manufacturer, or any other amendment/change **and which does not entail additional costs or affect the creditworthiness of the contractor;**

10.1.29 **"notice"** means in respect of tenders, the usual brief press notice and regarding quotations, a letter with similar purport;

10.1.30 **"offer"** means a unilateral request from a person or enterprise to do business with Transnet without tenders or quotations having been invited by Transnet.

10.1.31 **"parcelling"** means the practice of deliberately splitting business into smaller portions to keep the transaction value within one's own Delegation of Authority, or to keep it below the threshold of an Acquisition Council.

10.1.32 **"project"** means a proposal which in its entirety has been approved by the Board of Directors, for the provision of an asset or group of assets with a common purpose for Transnet, normally having an asset life of longer than twelve months.

10.1.33 **"quotation"** means a request to do business which is restricted to certain tenderers who alone can submit a price, or such price which is submitted;

10.1.34 **"QSE and EME"** means Qualifying Small Enterprise and Exempted Micro Enterprise as defined in the DTI's BBBEE Act;

10.1.35 **"rental"** or **"lease"** means the use of goods for a period and for consideration (compensation);

10.1.36 **"Republic of South Africa"** means the territory of the Republic of South Africa unless the

contrary appears from the context and the word "South African" refers to the same territory, unless the contrary appears from the context;

10.1.37 **"RFX"** is the collective noun for anyone of the following:-

RFI – Request for Information (mostly used as the 1st phase of the Two-stage tender system - normally prices are not tendered at RFI stage **therefore no business may be concluded against a RFI).**

RFQ – Request for Quotation (mostly used for transactions <R2m. See paragraph 2.4. above. However CEO's may at their discretion lower the "3 quote limit" see paragraph 8.1.3. (iv) above - Since prices are tendered on a RFQ, **business may be awarded on a RFQ)**

RFP – Request for Proposal (mostly used on the open tender process i.e. for transactions > R2million, However, CEO's may at their discretion lower the minimum threshold for open tenders see paragraph.8.1.3. (iv) above. RFPs will also be used on phase 2 of the 2-stage tender, where the value of the business is >R2m. Since prices are tendered on a RFP, **business may be awarded on a RFP).**

EOI – Expression of Interest: Very similar to a **RFI** and used merely to gauge what is available in the market, if the market is unknown. An EOI can be used in phase 1 of the 2-stage tender as well. A firm price commitment will not be called for in an EOI, hence no business can be awarded against an EOI.

10.1.38 **"service"** means a work in respect of which the tenderer undertakes inter alia to -

(a) provide employees for a period and for consideration (compensation) in such a manner that Transnet has full power and control over the tendered employees; or
(b) carry out one or more assignments independent of Transnet's supervision for a period and for consideration (compensation); by
  (i) making his and/or his employees' expertise available; or
  (ii) providing and using the tenderer's employees, and exercising supervision over the work;
  (iii) making available and using the tenderer's employees as well as any equipment, machinery or goods that may be required, and exercising supervision over the work;

according to the kind and magnitude of the work which is defined in the specification;

10.1.39 **"subsidiary"** means any subsidiary of Transnet, where Transnet holds a majority shareholding or where Transnet has the majority vote on the Board of Directors of such subsidiary.

10.1.40 **"tender"** means a public request to do business which has been properly published and to which any member of the public can submit a price, or such price which is submitted;

10.1.41 **"tenderer"** means any person/enterprise which has submitted a tender (as opposed to contender);

10.1.42 **"Transnet"** means Transnet Limited, Registration No. 1990/000900/06 incorporated in terms of the Companies Act, 1973 (Act 61 of 1973), as amended;

10.1.43 **"year"** means any defined period of twelve consecutive months.

REPORT 3(A) – EXHIBIT 17

Feziwe Phungula

From: alton@csrzelc.com
Sent: 19 December 2011 03:43
To: Garry.Pita@transnet.net
Subject: Re: 95 electric locomotives for South Africa

Dear Mr. Pita,

Thank you for your e-mail.

We were very pleased to have the chance to meet with your Group CEO, Mr Brian Molefe at the beginning of December. We expressed our interest in your tender for 95 electric locomotives and the South Africa market as well.

Regarding the tender document, we are contacting with Mr. Lindiwe Mdletshe and transferring the money to your account for getting the document. Due to only the SA Rand is acceptable, the money transferring process is a little bit complicated. But we believe that we could get the tender document with in this week.

You are very kind to facilitate us your support on the tender document if we need and inform you.

Thank you again for your concern.

Best regards

Sincerely yours,

Wang Pan (Alton)

Deputy Director
Overseas Business Division
CSR Zhuzhou Electric Locomotive Co., Ltd.
Tianxin, Zhuhou, Hunan, China 412001
Tel: +86-(0)731-28446465
Fax: +86-(0)731-28446446
Mobile: +86-13873369604
E-mail: alton@csrzelc.com
Web: www.csrzelc.com

----------Original Message----------

>From : <Garry.Pita@transnet.net>
>To : <alton@csrzelc.com>
>Subject: 95 electric locomotives for South Africa
>Date : 2011-12-16 17:05:35

>Dear Mr Wang Pan
>
>My CEO, Mr Brian Molefe advised me that you met in early December. He also stated that CSR Zhuzhou Electric Locomotive showed interest in participating in our next tender for 95 electric locomotives. I wish to advise you that this tender has been released and is available from Transnet Freight Rail. I am not sure whether CSR is aware of this and has already bought the tender documents.

>
>Regards
>Garry Pita
>Group Chief Supply Chain Officer
>Mobile : +27834471209
>
>

REPORT 3(A) – EXHIBIT 18

Nonkululeko Sibambato

From:	alton@csrzelc.com
Sent:	Thursday, 19 January 2012 17:05
To:	brian.molefe@transnet.net
Cc:	zhangminyu54642@qq.com
Subject:	Visist in SA for 95 New Electric Locomotives
Attachments:	Fax_to_Transnet_2012-1-19.pdf

Dear Mr. Molefe,

Please be kind to check attached letter, which has already been sent by fax to you.

Your attention and support is highly appreciated.

Best regards

Sincerely yours,

Wang Pan (Alton)

Deputy Director
Overseas Business Division
CSR Zhuzhou Electric Locomotive Co., Ltd.
Tianxin, Zhuhou, Hunan, China 412001
Tel: +86-(0)731-28446465
Fax: +86-(0)731-28446446
Mobile: +86-13873369604
E-mail: alton@csrzelc.com
Web: www.csrzelc.com

南车株洲电力机车有限公司
CSR ZHUZHOU ELECTRIC LOCOMOTIVE CO., LTD.
Tianxin, Zhuzhou, Hunan, 412001, P. R. China
Tel: +86-731-28446465 Fax: +86-731-82446446

TRANSNET	Name	Wang Pan
	Telephone	+86 731 28446465
	Fax	+86 731 28446446
Attn: Mr. Brian Molefe	E-mail	alton@csrzelc.com
Group Chief Executive	Our reference	SA12-0119
	Date	January 19th 2011

Subject: Visit in SA for 95 New Electric Locomotives

Dear Mr. Molefe,

Thank you very much for giving us the opportunity to take part in your tender for the supply of 95 new electric locomotives for general freight business. Now we are preparing for the tender documents.

We would like to state that we are reputed world's largest locomotive manucaturer in volume, who also have credentials to have largest locomotives commissioning facility and can commission 34 locomtoives simultaneously. We are serious to bid and cooperate with Transnet with our quality and competitive products.

For your reference, we would like to participate in the briefing session held on 31 January 2012. Our Vice General Manager, Mr. Fu Chenjun will lead a delegation consists of

- Deputy Director of R&D Center, Mr. Fan Yunxin;
- Design Manager of R&D Center, Mr. Chen Anjun; and
- Deputy Director of Overseas Business Division, Mr. Wang Pan

to visit South Africa from 30 January to 3 February 2012.

We really hope that you could give us chance and support us to arrange

- the meeting with you for the discussion of cooperation;
- the meeting with your technical group to discuss and optimize the technical specifications;
- the site visit on some locomotive depot or engineering factory to study existing electric locomotives and investigate the operational conditions, and
- the visit and discussion with some potential or preferred companies, who are capable of cooperate with us for the localization work.;

Thank you very much for your support and look forward to your positive reply.

Best regards,

王磐

Wang Pan
Deputy Director of Overseas Business Division
CSR Zhuzhou Electric Locomotive Co., Ltd.

REPORT 3(A) – EXHIBIT 19

Nonkululeko Sibambato

From: Brian Molefe Transnet Corp <Brian.Molefe@transnet.net>
Sent: Thursday, 19 January 2012 18:26
To: alton@csrzelc.com
Cc: zhangminyu54642@qq.com; Gama Siyabonga
Subject: Re: Visist in SA for 95 New Electric Locomotives

Dear Mr Wang Pan

Thank you for your letter.

I have forwarded it to our Mr Siyabonga Gama who will process and respond to your request. Thank you for the interest shown in the tender.

Regards

Brian MOLEFE
Group Chief Executive
Transnet SOC

Tel: +27 11 308 2313

Sent from my iPad

On 19 Jan 2012, at 5:15 PM, "alton@csrzelc.com" <alton@csrzelc.com> wrote:

Dear Mr. Molefe,

Please be kind to check attached letter, which has already been sent by fax to you.

Your attention and support is highly appreciated.

Best regards

Sincerely yours,

Wang Pan (Alton)

Deputy Director
Overseas Business Division
CSR Zhuzhou Electric Locomotive Co., Ltd.
Tianxin, Zhuhou, Hunan, China 412001
Tel: +86-(0)731-28446465
Fax: +86-(0)731-28446446
Mobile: +86-13873369604
E-mail: alton@csrzelc.com
Web: www.csrzelc.com

<Fax_to_Transnet_2012-1-19.pdf>

REPORT 3(A) – EXHIBIT 20

Transnet SOC Ltd
Registration Number
1990/000900/30

Carlton Centre
150 Commissioner Str.
Johannesburg
2001

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

TRANSNET

MEMORANDUM

www.transnet.net

To: Mr. Brian Molefe, Group Chief Executive

From: Mr. Siyabonga Gama, Chief Executive, Transnet Freight Rail

Date: 06 June 2012

SUBJECT: REQUEST TO APPROVE THE SHORT LISTING OF THE TENDERERS THAT HAVE MET THE SUPPLIER DEVELOPMET (SD) TRESHOLD OF 60% AND TO ISSUE LETTERS TO UNSUCCESSFUL TENDERERS THAT DID NOT MEET THE SD THRESHOLD FOR STAGE 1 OF THE EVALUATION PROCESS

PURPOSE:

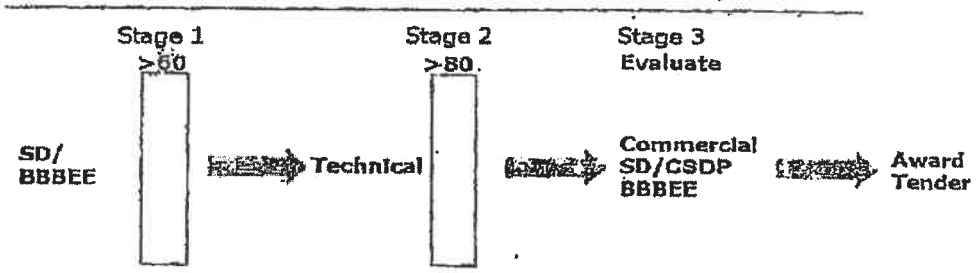
1. The purpose of this memo is to;

- Provide an update to the Transnet Group Chief Executive (GCE) on the progress on the tender evaluation process as indicated in the memo to the GCE dated 20 April 2012.
- Request for the GCE to approve the short listing of the tenderers that have met the SD threshold of 60% and to approve the issuing of letters to unsuccessful tenderers that did not meet the SD threshold for stage1 of the evaluation process.

BACKGROUND:

2. RFP No HOAC-HO-7601 for the supply of 95 new Electric Locomotives for the General Freight Business (GFB) closed on the 17 April 2012. Nine (9) proposals were received from tenderers. The evaluation process was based on a 3 stage methodology as indicated below;

Three stage methodology (SD/BBBEE & Technical thresholds)



- Prior to the stage 1 evaluations, the Cross Functional Evaluation Team (CFET) completed a 'responsiveness test' on all bids received.
- The stage 1 evaluation started with a B-BBEE process and was followed with the SD evaluation.
- A pre-determined threshold of 60% was set for SD/B-BBEE which also included Further Recognition Criteria (FRC) evaluation. Tenderers SD/B-BBEE submissions needed to equal or exceed the 60% threshold for the submission to qualify for next stage of the evaluation process.

3. Tenderers were required to furnish proof of their B-BBEE status to Transnet SOC Ltd; failure to do so would result in a score of zero being allocated for B-BBEE. Furthermore, B-BBEE

Accreditation Certificates have be issued by verification agencies which are either accredited by the South African National Accreditation System (SANAS) or registered auditors approved by the Independent Regulatory Board of Auditors (IRBA), in accordance with the approval granted by the Department of Trade and Industry.

4. B-BBEE rating certificates in respect of JV-partners and / or subcontractor(s), as well as a breakdown of the distribution of the B-BBEE status were to be furnished with the tenderers submissions to enable fair evaluation of all submissions received. Incorporated Joint Ventures also had to provide a consolidated B-BBEE certificate for the legal entity. Unincorporated Joint Ventures were required to submit B-BBEE certificates for all of the consortium partners. As such the foreign companies would not have provided a B-BBEE certificate and therefore would not score any B-BBEE points.

DISCUSSION:

5. Whilst conducting the administrative responsiveness test, the SD Cross Functional Evaluation Team (CFET) noted that some tenderers did not submit annexures as required in the RFP and that some tenderers appeared not to understand the requirements of the annexures. Approval to communicate was sought from the Secretariat and all tenderers were provided with the opportunity to clarify the issues raised.

6. The Transnet SD CFET then commenced with B-BBEE evaluations; based on the criteria included in the RFP and the BADC submission, tenderers were to be evaluated on SD criteria in stage 1; SD specifics accounted for 80% whilst B-BBEE and FRC accounting for 10% each. SD information was extracted from the tenderers as well as the relevant annexures and whilst evaluating the SD/B-BBEE based on the criteria it emerged that there was a local supplier with an invalid B-BBEE certificate (not rated by a SANAS accredited verification agent or an IRBA-registered auditor) and a foreign supplier who did not have a local office, it then followed that this methodology (if it included the B-BBEE certificate and FRC) would have been unfair to both the local supplier and foreign suppliers.

7. In light of the above, the SD CFET proposed two options for stage 1 of the evaluation process;

a) Option 1 - As part of stage 1 of the SD evaluation and as per the RFP and the BADC submission, the SD evaluation includes B-BBEE and FRC. The effect of this is that foreign tenderers that do not have local representation are prejudiced and will score zero on B-BBEE. This option does not support the B-BBEE Codes of Good Practice clause which allows for such foreign companies, if registered locally (as start-up enterprises) to be deemed to have a B-BBBEE status of "Level 4 contributor" in the 1st year of operation only. Based on option 1, the following three (3) tenderers met the minimum SD threshold of 60%.

   1. Siemens
   2. Bombardier
   3. SSMM Consortium

b) Option 2 - As part of stage 1 of the SD evaluation evaluate only SD specifics (exclude B-BBEE and FRC) in stage 1 and evaluate B-BBEE and FRC in stage 3. Given the nature of the RFP which attracted foreign companies, such companies could not be fairly evaluated on their B-BBEE status and FRC in stage 1. As per the RFP, stage 3 caters for the evaluation of B-BBEE and FRC. Based on option 2, the following five (5) tenderers met the minimum SD specific threshold of 60%.

   1. Siemens
   2. Bombardier
   3. CSR Zhuzhou
   4. Nelesco 85
   5. SSMM Consortium

8. It must be noted that the intention of SD is to address the NGP objectives which is explicitly stated in the RFP as "Transnet's expectation was that a minimum SD target of 60% (sixty per

cent) of the respondent's bid value be offered as part of the Supplier Development (SD) Bid Document to be submitted" i.e. excluding B-BBEE and FRC. The RFP, in stage 1 also refers to B-BBEE and FRC which is in conflict with the initial spirit of SD. As indicated in the RFP, FRC is 'forward looking' and would be based on the current information as reflected in the current BBBEE certificate. As such, foreign companies and South African companies not providing SANAS/IRBA accredited B-BBEE certificates will be prejudiced. The SD CFET supported by the Transnet Internal Audit high tender review representatives opted to use option 2 based on the unfairness of discounting foreign companies with no SA representation that will score zero on B-BBEE in option 1.

8.1 The above recommendation entails the following risks:

a) If any of the tenderers challenge the process and request for a review of the evaluation, Transnet may be perceived to have deviated from the evaluation in the RFP thereby allowing two (2) more tenderers to stage 2.
b) If TFR exercises option 1, the other tenderers could claim that a literal interpretation of the RFP criteria is contrary to the stated spirit of SD.

8.2 The SD CFET is of the opinion that this risk is mitigated by the fact that;
a) all the tenderers were subjected to the evaluation criteria,
b) the criteria were applied consistently and,
c) no tenderer is prejudiced based on their (foreign) location as all the tenderers are evaluated based on what they can deliver in line with the SD evaluation.

RECOMMENDATION

9) It is recommended that the GCE:

- Approves the short listing of the five (5) tenderers that have met the minimum SD evaluation threshold of 60% as evaluated in option 2 above.
- Approves the issuing of letters to unsuccessful tenderers due to their bids not meeting the minimum SD evaluation threshold for stage1 which is based on option 2 above

Recommended by:

Mr. Thamsanqa Jiyane
Chief Procurement Officer: Transnet Freight Rail

08 JUNE 2012
Date

Recommended by:

Mr. Siyabonga Gama
Chief Executive: Transnet Freight Rail

2012.06.08
Date

Approved by:

Mr. Brian Molefe
Group Chief Executive: Transnet SOC Limited

8.6.12.
Date

REPORT 3(A) – EXHIBIT 21

Report of the Cross Functional Evaluation Team (Finance)

Locomotive tender evaluation for the supply of 95 new electric locomotives for the general freight business by March 2014

8th August 2012

Mr Thamsanqa Jiyane

General Manager (CPO – TFR)

Locomotive tender evaluation for the supply of 95 new electric locomotives for the general freight business by March 2014

Report of the Cross Functional Evaluation Team (Finance)

Executive Summary

The CFET (Finance) were appointed by the TFR CEO to perform the financial evaluation of the short listed bidders for the above tender. We have reviewed the relevant documentation as submitted by the short listed bidders. Our review was limited to the documentation made available to the team, this being information that pertained only to the financial elements of the bid documents.

The evaluation criteria utilised were those that were pre-determined and forwarded to the CFET (Finance). These evaluation criteria were as approved by the Board Acquisition and Disposal Committee (BADC).

Where necessary, clarity sessions were conducted with all short listed bidders. The detailed responses of these are on hand with Supply Chain Services (TFR).

The CFET (Finance) prepared two separate evaluation summaries as a result of certain aspects that were deemed to have been subjective in the evaluation. The detailed schedule of the scoring and results for both scenarios are included in Annexures A and B. These summaries are outlined in the presentation included as "Annexure E".

The detailed assumptions and risks have been included in this report.

M.M

Background

Transnet issued an RFP for the acquisition of 95 electric locomotives as estimates show that TFR has a shortage of both heavy haul and General Freight type locomotives. In addition to this shortage, TFR intends to increase volumes within the next 7 years. TFR also has a need to modernise and upgrade its current fleet of electric locomotives as part of the fleet is in need of replacement. As a result of the above, TFR has a requirement to procure new locomotives in the short, medium and long term.

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

A Cross Functional Evaluation Team (Finance) "(the team)" was requested to assist in the evaluation of the financial and related elements of the tender submissions. Predetermined criteria, scoring and associated weightings was provided to the members of the team as the basis for the financial evaluation – these evaluation criteria were approved by the BADC.

Composition of the CFET (Finance)

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

Mohammed Mahomedy – Executive Manager, Finance
Yousuf Laher – Executive Manager, Finance
Zunaid Vally – Executive Manager, Finance
Janse Marais – Senior Manager, Finance
Mohammed Moola – Senior Manager, Finance

Yousuf Laher departed to the US on 18 July 2012 for training, however, the team kept in contact with him as and when it was deemed necessary.

M. M

Briefing session

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

- The technical team required the base price to be normalised based on various options that were requested to be included as part of the locomotive technical specification. These items were commonly referred to in the evaluation sessions as the '13 technical options'. The detailed schedule is included as "Annexure C" of this report.

- Three bidders were selected as short-listed bidders. They were Siemens, CSR and Bombardier.

The finance team were not provided with any information relating to other bidders that were not short-listed for this tender.

Bidder files and CD's available

SCS ensured that all relevant bidder files were made available to the CFET (Finance) each day and then removed at day-end every day. Only certain commercial and financial files that were deemed relevant were made available to the CFET (Finance).

These files remained in the control of SCS for the duration of the tender evaluation. At no point during the evaluation period were any files, documents or notes removed from the relevant offices or boardrooms where the evaluations were being performed. However, it must be noted the finance team copied certain documents available from CD's returned by the bidders onto their laptops in order to conduct certain aspects of the evaluation, specifically as it relates to price and TCO. All notes or documents generated by the CFET (Finance) during evaluation sessions were taken away by SCS at the end of each day.

Certain technical files which contained financial information relative to the Total Cost of Ownership ("TCO") model were reviewed for further information and clarity on the TCO model and certain components thereof. The reason for reviewing the technical files was

M.M

bidders had provided the detailed explanations and submissions for certain aspects of the TCO model in the technical files Eg. Maintenance plans and capital spares schedules. These files were again only reviewed in the presence of the SCS and TIA personnel.

Declarations of interest /conflicts

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

M-M

Technical team involvement

At certain stages during the evaluation, the CFET (Finance) requested through SCS clarity from the technical team around aspects of the request to "normalise" the base price. This request was submitted to the CFET (Finance) on commencement of the evaluation. A schedule was provided to the CFET (Finance) of items that the CFET (Technical) advised were required. In these instances, the CFET (Finance) were advised

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

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

- Adjust the price of the relevant bidders where proper quotes were included in the bid submissions
- Obtain pricing, for those "items" included in the schedule, from bidders who had not submitted quotes
- Effectively the CFET (Finance) were required to "normalise" the base price submissions for appropriate comparison

One member of the technical team (Devendran Govender) was made available to discuss and clarify the base price "normalisation" issues where necessary. These discussions took place in the presence of SCS and TIA personnel.

Subsequent to the initial phase of the evaluation, clarity questions were submitted to the bidders regarding the requirements of the schedule from the CFET (Technical). Certain replies received had to be further assessed by the technical team. For this reason certain additional clarity sessions were held with the same member of the CFET (Technical).

Transnet Internal Audit involvement

TIA was present at evaluations sessions as requested by SCS to ensure good corporate governance. Ernest and Young (SA) is the outsourced service provider of the Internal Audit function for Transnet.

We noted during the evaluation process that Ernst & Young (EY) were the auditors of all three shortlisted bidders. We also noted that EY through the Johannesburg office had issued a "factual findings report" to Siemens, a short-listed bidder, relating to this tender itself.

This matter was reported to the SCS and TIA representatives present as well as the TFR CPO. The team was advised that the process of evaluation must continue with TIA continuing to perform the oversight role for good governance and that the matter will be taken up and resolved with the relevant authorities.

Methodology of scoring

Scoring of points was completed using the set predetermined criteria and weightings for each section of the financial evaluation as forwarded to the CFET (Finance) on commencement of the financial evaluation process.

The process for scoring and evaluating the short-listed bidders was done jointly by all members of the CFET (Finance) in the presence of SCS and TIA. All results submitted were based on consensus agreement amongst all the CFET (Finance).

Yousuf Laher was a key person in the development of the evaluation model and RFP requirements, in conjunction with SCS. He outlined to all the members of the CFET (Finance) the processes, procedures and methodology of scoring. He also outlined certain of the key objectives

M. M

Meetings held

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

- A member of the CFET (Technical) to clarify issues that pertained to the technical options that required normalisation of the base price

- Clarification session with all short-listed bidders (20 July 2012)

    - The purpose of this session was to clarify, amongst others, aspects of the TCO model, particularly around maintenance, interventions, energy and set up costs. The written responses received from the bidders are available from SCS.

- Meetings with CPO. The purpose of these meetings was mainly to provide the CPO with an update on the progress of the financial evaluation process at various stages of the financial evaluation process.

Scenario One

Overall assumptions

Pricing

- The bidders were requested to submit a price including hedging and a price excluding hedging. The financial evaluation was done based on the price quoted **excluding hedging**.
    - Bombardier provided detailed prices for both including and excluding hedging costs in their bid submission
    - Siemens providing the price including hedging costs during the clarification session
    - CSR provided only an estimate of possible hedging costs that may be incurred
- For the purposes of the financial evaluation the lowest acceptable base price as referred to in the evaluation model was interpreted to be the capital acquisition cost excluding set up costs (this was confirmed with Yousuf Laher).
- Bonus points were allocated for set up costs in the defined scoring methodology
- The base price, as submitted by all bidders in the TCO model was normalised for the 13 "technical option" items as requested by the technical evaluation team. Annexure C.
- The Bonus points for Value Added services were not assessed. The key factor for this assumption is that these items are not clearly defined in RFP and the technical team had no view of the requirement of "value add" aspects. Therefore the team did not have the relevant expertise to assess value added services.

M.M

TCO Model

- The TCO model (un-hedged) as submitted by all bidders was used as the basis for the evaluation with the exception of the following items:
  - Escalation in the TCO model calculations was normalised for all bidders for purposes of appropriate comparison
    - Short-listed bidders included escalation percentage at different rates
      - Bombardier had a zero rate
      - CSR utilised 6,1%
      - Siemens included escalations at 5%
    - The CFET (Finance) decided to utilise a uniform rate for all short-listed bidders to facilitate comparison of the submissions
    - The rate of 5% was utilised for all evaluations
- The capital acquisition cost, as submitted by all bidders in the TCO model was normalised for the 13 "technical option" items as requested by the technical evaluation team. The base price is included in the capital acquisition cost.
- The energy costs included in the TCO model submissions of the bidders varied significantly. The varied assumptions related to the following:
  - Some bidders included re-generation, whereas others did not.
  - Bidders used different routes to prepare their calculations for energy,
  - Some bidders used a combination of AC and DC while others only used AC or DC.

M.M

- The assumptions between the bidders in respect of failure rates, maintenance models and interventions varied significantly, however, as a finance team for this scenario we assumed that these assumptions are relative to their locomotive/product type as well as their maintenance regime and strategies. Accordingly we used the maintenance and intervention costs as submitted by all bidders in the TCO model submissions.

- The varying results of the submissions with regards maintenance costs are summarised and outlined in the table below:

TABLE A
NOMINAL VALUE of TOTAL MAINTENANCE COSTS AS SUBMITTED BY BIDDERS

	Siemens	Bombardier	CSR
Maintenance	12,107,136	5,781,127	16,817,475
Interventions	13,972,900	15,347,919	52,043,557
Total	**26,080,036**	**21,129,046**	**68,861,032**
Normalised Acquisition Cost	35,401,074	30,552,213	28,839,551
Maintenance as a percentage of Acquisition Cost	73.67%	69.16%	238.77%

M-M

Delivery schedule

- The effective date of contract was normalised to 1 August 2012 for all bidders in order to ensure consistent scoring

- CSR provided an alternative delivery schedule to the one represented in Table B below. The alternative allowed for the delivery of the 95 locomotives by the 31 March 2014, however, they advised that the "local content" requirements will not be met. This option was not considered in any of the team's evaluations.

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

TABLE B
CUMULATIVE DELIVERY QUANTITIES SUBMITTED BY BIDDERS
Effective Date of August 2012 Utilised

Number of Locomotives to be delivered by 31 March 2014	Siemens	Bombardier	CSR
October 2014	Nil	Nil	35
March 2015	Nil	10	95
September 2015	1	47	
March 2016	12	95	
September 2016	26		
March 2017	59		
	95		

M.M

Payment terms

- Discounting of cash flows for payment term was based on the total capital acquisition cost. We therefore normalised the cash flows for all bidders to reflect it at the total capital acquisition cost.
  - Bombardier and CSR used total capital acquisition cost to determine cash flows. whereas Siemens used the base price. Therefore we adjusted cash flows for Siemens to reflect the total capital acquisition cost to be consistent with the other bidders.
  - Bombardier did not provide cash flows, therefore the cash flows were based on the percentage payment terms provided, multiplied by the un-hedged value for 95 locos.
  - Siemens did not provide payment terms. The cash flows provided were used to deduce the payment terms. The payment terms was then applied to the normalised capital acquisition cost to normalise the cash flows (payment terms multiplied by normalised price)
- The weighted average cost of debt used for the purposes of discounting cash flow was 9.54% per annum. This has been obtained from group finance. (Annexure F)

RFP & Contractual compliance

- For items 5.23 to 5.43 we scored points to bidders on a basis of acceptance of original contract. We have not assessed the adequacy and consequence of these changes from a legal and/or contractual perspective.
- References were provided by all bidders and we therefore assumed these to be adequate and scored full marks for all bidders.

M.M

Warrantees & guarantees

- Item 6.3 was scored based on the assumption that no changes was made to clause 10.9 In the Locomotive Supply Agreement.

- All bidders submitted a 24 month warranty term as related to locomotives.

Financial Stability

- The financial stability of the bidders was assessed based on the Parent Company's financial statements for the last completed financial year.

Scenario One Overall Evaluation Results

FINANCIAL EVALUATION - FINANCIAL SUMMARY (Scenario 1)

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	TENDERER		
				Siemens	Bombardier	CSR
	FINANCIAL	60.00%				
1	Price	30.00%	18.00%	7.20%	7.20%	18.00%
2	Total Cost Of Ownership (TCO)	30.00%	18.00%	3.60%	18.00%	7.20%
3	Delivery Schedule (DS)	10.00%	6.00%	0.00%	0.00%	3.60%
4	Payment Terms (PT)	10.00%	6.00%	3.60%	4.80%	6.00%
5	RFP & Contractual Compliance (CC)	10.00%	6.00%	2.40%	3.60%	6.00%
6	Warrantees & Guarantees (W&G)	5.00%	3.00%	2.20%	2.20%	2.20%
7	Financial Stability (FS)	5.00%	3.00%	1.80%	1.58%	1.80%
8	Other	0.00%	0.00%			
	TOTAL SCORE	100.00%	60.00%	20.80%	37.38%	44.80%

M.M

Scenario 2

All assumptions as per scenario one were utilised for this scenario with the exception of the TCO model which was equalised for all bidders as per legal advice from TFR general counsel (Annexure E). The short-listed bidders all received scores of 50% of the weighting attributable to the TCO model.

The reason for preparing this scenario is based on the factors detailed below.

- Maintenance and intervention costs
  - The submissions of maintenance and intervention costs are, in our opinion, based on the bidders' interpretations of requirements. These assumptions varied between bidders
    - Bombardier assumed a minimal failure rate within their standards of operations. The risk of breakdown maintenance is likely to be passed on to TFR in future.
    - Siemens included in their calculations the probability of failure of certain parts. They informed the CFET in the clarity session this was based on historical information available to them.
    - CSR included in their submission a 6 year maintenance regime and a 9 year intervention regime. The percentage of the combination of costs is significantly higher than other bidders.
- The significant variation in cost estimates submitted is tabulated in Table A above

M.M

- Energy costs
  - Significant variations in assumptions of bidders as regards the energy calculations and costs
  - Certain bidders included regeneration capability in their calculations whilst one bidder did not

We have included this scenario to provide the adjudication committee with a view to reducing the impacts of any potential subjectivity that may exist.

Scenario Two Overall Results

FINANCIAL EVALUATION - FINANCIAL SUMMARY (Scenario 2)

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	TENDERER		
				Siemens	Bombardier	CSR
	FINANCIAL	60.00%				
1	Price	30.00%	18.00%	7.20%	7.20%	18.00%
2	Total Cost Of Ownership (TCO)	30.00%	18.00%	9.00%	9.00%	9.00%
3	Delivery Schedule (DS)	10.00%	6.00%	0.00%	0.00%	3.80%
4	Payment Terms (PT)	10.00%	6.00%	3.60%	4.80%	6.00%
5	RFP & Contractual Compliance (CC)	10.00%	6.00%	2.40%	3.60%	6.00%
6	Warrantees & Guarantees (W&G)	5.00%	3.00%	2.20%	2.20%	2.20%
7	Financial Stability (FS)	5.00%	3.00%	1.80%	1.58%	1.80%
8	Other	0.00%	0.00%			
	TOTAL SCORE	100.00%	60.00%	26.20%	28.38%	48.80%

M.M

OVERALL RISKS

Pricing

- Set up costs submitted by Siemens appears very low in comparison to the other bidders. We have included the set up costs as per their submission.

- Siemens has submitted detailed escalation clauses that will be applicable to the total acquisition cost and has made reference to foreign exchange rates in the formula provided.

- Siemens have not included any capital spares cost into their total acquisition cost. They have only included the financing cost for capital spares in their submissions

- The energy management system as provided by CSR as part of the capital acquisition cost is of a higher technical specification compared to what was included as options for the other two bidders. Siemens could only provide a price for the basic system. We were unable to normalise the cost for the energy management system, however based on the price quoted by Bombardier in their options we are of the opinion that the impact would not be material.

- CSR did not provide an accurate estimate of possible hedging costs. At the clarity session they indicated their estimate of hedging costs to be approximately 2% of the contract value. This is significantly lower than the estimates provided by other short listed bidders

M.M

TCO Model

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

Delivery schedule

The delivery schedule submitted by short listed bidders varies significantly and the impact of this is not necessarily catered for adequately in the weighting of the scores. A 6% effective weighting is attached to the delivery schedule, however the impact of late delivery would be significant to TFR in the context of the volume requirements of the Market Demand Strategy (MDS).

RFP & Contractual compliance

The finance team has not assessed the acceptability of the references provided by the bidders. SCS need to contact references provided to ensure acceptability.

CSR has accepted the Draft Locomotive Supply Agreement as it was included in the RFP with no amendments, comments or suggestions.

M.M

Clarifications required

- Technical evaluation team to confirm that no value added services were noted that require scoring

- Item 6.3 under warranties and guarantees was scored based on the assumption that no changes was proposed to clause 10.9 (Supply of Data) in the Locomotive Supply Agreement. Technical and/or legal team to advice on the appropriateness of this assumption

- Technical team has provided SCS with an issue relating to around 260 technical items that required clarity. We have not received any further information from the technical team relating to these. Accordingly we have not assessed any impact of this in our evaluation and will await further clarity from Supply Chain Services on how to move forward on this matter

- We have requested during our evaluation for legal clarity on RFP & Contractual Compliance section, items 5.23 and 5.25 to 5.42 where certain bidders made amendments to paragraphs in the contract. The finance team is unable to assess the consequences of these amendments from a contractual compliance perspective.

M.M

Conclusion

The CFET (Finance) recommends that the key risks identified during the financial evaluation process, and outlined earlier in this report, be mitigated during the next phases of this process.

Based on the evaluation and scoring by the finance team using the assumptions mentioned above, the following is a summary of the results of our evaluation for both scenarios.

Scenario One Summary of Evaluation Results

FINANCIAL EVALUATION - FINANCIAL SUMMARY (Scenario 1)

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	TENDERER		
				Siemens	Bombardier	CSR
	FINANCIAL	60.00%				
	TOTAL SCORE	100.00%	60.00%	20.80%	37.38%	44.80%

Scenario Two Summary of Evaluation Results

FINANCIAL EVALUATION - FINANCIAL SUMMARY (Scenario 2)

	WHAT IS BEING MEASURED	WEIGHT	EFFECTIVE WEIGHT	TENDERER		
				Siemens	Bombardier	CSR
	FINANCIAL	60.00%				
	TOTAL SCORE	100.00%	60.00%	26.20%	28.38%	46.80%

M.M

Signature Page

08/08/12

Mohammed Mahomedy
Executive Manager, Finance

8/8/12

Zunaid Vally
Executive Manager, Finance

15/8/12

Yousuf Laher
Executive Manager, Finance

8/8/2012

Mohammed Moola
Senior Manager, Finance

13/8/2012

Janse Marais
Senior Manager, Finance

REPORT 3(A) – EXHIBIT 22

Mncedisi Ndlovu

From: Bongiwe Gqeba
Subject: FW: TRANSNET 95 LOCOMOTIVES INVESTIGATION: REQUEST FROM THE TFR LEGAL COUNSEL

From: Jose Rodrigues Transnet Freight Rail JHB <Jose.Rodrigues@transnet.net>
Sent: Monday, 14 January 2019 2:24 PM
To: Ziyanda Nyanda <Ziyanda@ndlovu-sedumedi.co.za>
Cc: Mohammed Moola Transnet Freight Rail JHB <Mohammed.Moola@transnet.net>; Lazarus Mabunda Transnet Freight Rail JHB <Lazarus.Mabunda@transnet.net>; Tshiamo Sedumedi <Tshiamo@ndlovu-sedumedi.co.za>; Gert Boshoff Transnet Freight Rail JHB <Gert.Boshoff@transnet.net>
Subject: RE: TRANSNET 95 LOCOMOTIVES INVESTIGATION: REQUEST FROM THE TFR LEGAL COUNSEL

Hi Ziyanda

The penalty calculation that was sent to you in respect of the CSR 95 locomotive contract on the 30th November 2018 still remains unchanged. Please note the assumptions on that calculation once again;

"Please note that we have calculated using some assumptions, namely we do not have detailed delivery schedule with actual dates but a month delivery schedule. Therefore as a result we used the monthly schedule and made the assumption that the locomotive would be delivered on the last day of that specific month and in sequence."

The information that you provided me today, is actual delivery dates and as stated above due to the lack of a detailed delivery schedule with expected delivery dates, the calculation remains assumption based.

Lastly we in finance are not aware of why penalties were not levied.

Regards

Jose

REPORT 3(A) – EXHIBIT 23

Acceptance Certificate Recieved from TFR

Delayed and Early Delivery Penalties

Purpose The purpose of the document is to show the delayed or early delivery penalties per locomotive of the 95 X 20E programme calculated in terms of Locomotive Supply Agreement Contract, dated 22 Oct 2012

No.	Delivery Batch	Loco Id number	Scheduled Acceptance Date	Date of Acceptance Certificate	Delay/ Advance days	TFR --> CSR Delay Penalty or Advance Credit - Against Original Schedule (R)
1	20E	20001	30-Apr-14	30-May-14	23	R 108 414,33
2	20E	20002	30-Apr-14	16-Apr-14	-11	R -51 850,33
3	20E	20003	30-Apr-14	16-Apr-14	-11	R -51 850,33
4	20E	20004	31-May-14	16-Apr-14	-33	R -155 551,00
5	20E	20005	31-May-14	16-Apr-14	-33	R -155 551,00
6	20E	20006	31-May-14	16-Apr-14	-33	R -155 551,00
7	20E	20007	31-May-14	30-May-14	-1	R -4 713,67
8	20E	20008	31-May-14	30-May-14	-1	R -4 713,67
9	20E	20009	31-May-14	30-May-14	-1	R -4 713,67
10	20E	20010	30-Jun-14	27-Jun-14	-2	R -9 427,33
11	20E	20011	30-Jun-14	25-Jul-14	20	R 94 273,33
12	20E	20012	30-Jun-14	25-Jul-14	20	R 94 273,33
13	20E	20013	30-Jun-14	25-Jul-14	20	R 94 273,33
14	20E	20014	30-Jun-14	15-Aug-14	35	R 164 978,33
15	20E	20015	30-Jun-14	15-Aug-14	35	R 164 978,33
16	20E	20016	31-Jul-14	05-Sep-14	27	R 127 269,00
17	20E	20017	31-Jul-14	05-Sep-14	27	R 127 269,00
18	20E	20018	31-Jul-14	05-Sep-14	27	R 127 269,00
19	20E	20019	31-Jul-14	22-Sep-14	38	R 179 119,33
20	20E	20020	31-Jul-14	22-Sep-14	38	R 179 119,33
21	20E	20021	31-Jul-14	22-Sep-14	38	R 179 119,33
22	20E	20022	31-Aug-14	29-Sep-14	21	R 98 987,00
23	20E	20023	31-Aug-14	29-Sep-14	21	R 98 987,00
24	20E	20024	31-Aug-14	29-Sep-14	21	R 98 987,00
25	20E	20025	31-Aug-14	29-Sep-14	21	R 98 987,00
26	20E	20026	31-Aug-14	28-Nov-14	65	R 306 388,33
27	20E	20027	31-Aug-14	28-Nov-14	65	R 306 388,33
28	20E	20028	31-Aug-14	24-Dec-14	83	R 391 234,33
29	20E	20029	31-Aug-14	24-Dec-14	83	R 391 234,33
30	20E	20030	30-Sep-14	24-Dec-14	62	R 292 247,33
31	20E	20031	30-Sep-14	27-Mar-15	128	R 565 640,00
32	20E	20032	30-Sep-14	27-Mar-15	128	R 565 640,00
33	20E	20033	30-Sep-14	29-Dec-14	65	R 306 388,33
34	20E	20034	30-Sep-14	29-Dec-14	65	R 306 388,33
35	20E	20035	30-Sep-14	29-Dec-14	65	R 306 388,33
36	20E	20036	30-Sep-14	29-Dec-14	65	R 306 388,33
37	20E	20037	30-Sep-14	30-Dec-14	66	R 311 102,00
38	20E	20038	31-Oct-14	30-Dec-14	43	R 202 687,67
39	20E	20039	31-Oct-14	30-Dec-14	43	R 202 687,67
40	20E	20040	31-Oct-14	30-Dec-14	43	R 202 687,67
41	20E	20041	31-Oct-14	30-Dec-14	43	R 202 687,67
42	20E	20042	31-Oct-14	30-Dec-14	43	R 202 687,67
43	20E	20043	31-Oct-14	30-Dec-14	43	R 202 687,67
44	20E	20044	31-Oct-14	30-Dec-14	43	R 202 687,67
45	20E	20045	31-Oct-14	30-Dec-14	43	R 202 687,67
46	20E	20046	31-Oct-14	30-Dec-14	43	R 202 687,67
47	20E	20047	31-Oct-14	30-Dec-14	43	R 202 687,67

48	20E	20048	31-Oct-14	30-Dec-14	43	R 202 687,67
49	20E	20049	31-Oct-14	26-Jan-15	61	R 287 533,67
50	20E	20050	30-Nov-14	27-Jan-15	41	R 193 260,33
51	20E	20051	30-Nov-14	26-Jan-15	40	R 188 546,67
52	20E	20052	30-Nov-14	27-Jan-15	41	R 193 260,33
53	20E	20053	30-Nov-14	26-Jan-15	40	R 188 546,67
54	20E	20054	30-Nov-14	26-Jan-15	40	R 188 546,67
55	20E	20055	30-Nov-14	27-Jan-15	41	R 193 260,33
56	20E	20056	30-Nov-14	27-Feb-15	64	R 301 674,67
57	20E	20057	30-Nov-14	27-Jan-15	41	R 193 260,33
58	20E	20058	30-Nov-14	27-Jan-15	41	R 193 260,33
59	20E	20059	30-Nov-14	27-Jan-15	41	R 193 260,33
60	20E	20060	30-Nov-14	17-Feb-15	56	R 263 965,33
61	20E	20061	30-Nov-14	17-Feb-15	56	R 263 965,33
62	20E	20062	31-Dec-14	17-Feb-15	34	R 160 264,67
63	20E	20063	31-Dec-14	17-Feb-15	34	R 160 264,67
64	20E	20064	31-Dec-14	17-Feb-15	34	R 160 264,67
65	20E	20065	31-Dec-14	17-Feb-15	34	R 160 264,67
66	20E	20066	31-Dec-14	17-Feb-15	34	R 160 264,67
67	20E	20067	31-Dec-14	13-Mar-15	52	R 245 110,67
68	20E	20068	31-Dec-14	13-Mar-15	52	R 245 110,67
69	20E	20069	31-Dec-14	13-Mar-15	52	R 245 110,67
70	20E	20070	31-Dec-14	13-Mar-15	52	R 245 110,67
71	20E	20071	31-Dec-14	13-Mar-15	52	R 245 110,67
72	20E	20072	31-Dec-14	13-Mar-15	52	R 245 110,67
73	20E	20073	31-Dec-14	13-Mar-15	52	R 245 110,67
74	20E	20074	31-Jan-15	08-May-15	63	R 296 961,00
75	20E	20075	31-Jan-15	13-Mar-15	30	R 141 410,00
76	20E	20076	31-Jan-15	13-Mar-15	30	R 141 410,00
77	20E	20077	31-Jan-15	17-Mar-15	32	R 150 837,33
	20E	20078	31-Jan-15	17-Mar-15	32	R 150 837,33
	20E	20079	31-Jan-15	17-Mar-15	32	R 150 837,33
	20E	20080	31-Jan-15	17-Mar-15	32	R 150 837,33
	20E	20081	31-Jan-15	22-Mar-15	35	R 164 978,33
	20E	20082	31-Jan-15	08-Apr-15	46	R 216 828,67
	20E	20083	31-Jan-15	22-Mar-15	35	R 164 978,33
	20E	20084	31-Jan-15	23-Mar-15	36	R 169 692,00
	20E	20085	31-Jan-15	24-Mar-15	37	R 174 405,67
	20E	20086	28-Feb-15	08-Apr-15	26	R 122 555,33
	20E	20087	28-Feb-15	24-Mar-15	17	R 80 132,33
	20E	20088	28-Feb-15	24-Mar-15	17	R 80 132,33
	20E	20089	28-Feb-15	08-Apr-15	26	R 122 555,33
	20E	20090	28-Feb-15	08-Apr-15	26	R 122 555,33
	20E	20091	28-Feb-15	08-Apr-15	26	R 122 555,33
	20E	20092	28-Feb-15	17-Jun-15	70	R 329 956,67
	20E	20093	28-Feb-15	28-Apr-15	37	R 174 405,67
	20E	20094	28-Feb-15	28-Apr-15	37	R 174 405,67
	20E	20095	28-Feb-15	28-Apr-15	37	R 174 405,67
TOTAL 2018 (Quarter 1)						
TOTAL QUANTUM OF PENALTIES PAYABLE BY CSR (excluding accruing penalties)						R 16 964 486,33

REPORT 3(A) – EXHIBIT 24

Ziyanda Nyanda

From: Sekgalo Tsaagane Transnet Freight Rail JHB <Sekgalo.Tsaagane@transnet.net>
Sent: Thursday, 17 January 2019 2:32 PM
To: Ziyanda Nyanda
Cc: Gert Boshoff Transnet Freight Rail JHB
Subject: RE: 95 Locomotives: Class 20E: Penalties [our ref: TFR 246-18(GB)]

Dear Ziyanda

Thank you for send me the e-mails. As I mentioned during our telephonic discussion, we are still searching correspondence that would shed light on why penalties were not levied against CSR.

Regards,

TRANSNET

Sekgalo Tsaagane (FP)SA, CFE
Senior Manager: Investigations & Detection
Fraud Risk Management
Transnet Freight Rail

011 584 9329 071 866 4364

Sekgalo.Tsaagane@transnet.net

www.transnet.net

From: Ziyanda Nyanda [mailto:Ziyanda@ndlovu-sedumedi.co.za]
Sent: 17 January 2019 11:28 AM
To: Sekgalo Tsaagane Transnet Freight Rail JHB <Sekgalo.Tsaagane@transnet.net>
Subject: FW: 95 Locomotives: Class 20E: Penalties [our ref: TFR 246-18(GB)]

Dear Mr Segalo

As discussed, kindly find string of emails attached which refer to a letter sent to TFR.

Regards,

MNS
MNCEDISI NDLOVU & SEDUMEDI
ATTORNEYS

Ziyanda Nyanda
Associate

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Website	**www.mnsattorneys.co.za**

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17 YEARS
EST 2002

From: Ziyanda Nyanda
Sent: Tuesday, 15 January 2019 10:59 AM