### Transnet SCO Ltd

#### Supply Chain Policy

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<thead>
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<th>Policy Reference Number</th>
<th>TG/iSCM 15/1P</th>
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<td>Version Number</td>
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<td>Effective Date</td>
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<td>Compiled by</td>
<td>Group Chief Supply Chain Officer</td>
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<td>Policy Sponsor</td>
<td>Group Chief Financial Officer</td>
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<td>Transnet Board of Directors</td>
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<td>Date Approved</td>
<td>29 February 2016</td>
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</tbody>
</table>
### TABLE OF CONTENTS

<table>
<thead>
<tr>
<th></th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Preamble</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>Background</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>Purpose</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>Definitions</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>Scope</td>
<td>8</td>
</tr>
<tr>
<td>6</td>
<td>Procurement Principles</td>
<td>8</td>
</tr>
<tr>
<td>7</td>
<td>Policy Statements</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Policy Implementation</td>
<td>18</td>
</tr>
<tr>
<td>9</td>
<td>Roles and Responsibilities</td>
<td>20</td>
</tr>
<tr>
<td>10</td>
<td>Related Information and Reference</td>
<td>21</td>
</tr>
<tr>
<td>11</td>
<td>Policy Review, Compliance Monitoring and Evaluation</td>
<td>23</td>
</tr>
<tr>
<td>12</td>
<td>Financial Implications</td>
<td>24</td>
</tr>
<tr>
<td>13</td>
<td>Exclusions</td>
<td>24</td>
</tr>
<tr>
<td>14</td>
<td>Request to Deviate from policy</td>
<td>25</td>
</tr>
<tr>
<td>15</td>
<td>Non-compliance</td>
<td>25</td>
</tr>
<tr>
<td>16</td>
<td>Appendix A: Evaluation Methodology</td>
<td>26</td>
</tr>
</tbody>
</table>
PREAMBLE

1. This document ("The Policy") establishes the policy framework within which the acquisition of all goods, services and works are to be procured within Transnet. Care has been taken to ensure that it is consistent with Transnet's vision, corporate strategy, other Transnet policies and pertinent national legislation.

BACKGROUND

2. According to Section 217 of the South African Constitution Act No 108 of 1996, as amended (the Constitution),

   (1) When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

   (2) Subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for;

       (a) categories of preference in the allocation of contracts; and

       (b) the protection or advancement of persons, or categories of persons disadvantaged by unfair discrimination;

   (3) National legislation must prescribe a framework within which the policy referred to in subsection (2) must be implemented.

Transnet shall apply section 217 of the Constitution by contracting for goods and services in accordance with a system which is fair, equitable, transparent, competitive and cost effective.

Transnet shall align all its procurement activities in an integrated manner with national developmental goals, relevant legislation that enforces those goals and relevant governmental supply chain management approaches that are cost-effective. Transnet shall also implement a preferential procurement system in line with the Constitution and the Preferential Procurement Policy Framework Act No. 5 of 2000 ("PPPFA").

PURPOSE

3. The aim of this Policy is to ensure that Transnet fulfils its mandate and obtains value for money in the procurement of goods and services while redressing the economic imbalances that have been caused by unfair discrimination in the past. Additionally, Transnet must enhance the overall effectiveness of the procurement system and thus carry out its procurement processes as competitively and cost-effectively as possible while meeting its commercial, regulatory and socio-economic goals.
Implementation of the policy must therefore result in the following outcomes:

- a reliable supply of goods and services of the right quality and price that Transnet requires to fulfil its mandate, and
- transformation, empowerment and economic development in South Africa.

DEFINITIONS

4. For ease of reference, the following words used in the policy are defined below:

4.1. "Acquisition Council" (AC) The Main Acquisition Council of an Operating Division, Specialist Unit or Business. Unless specifically stated otherwise "AC" also includes Secondary Acquisition Councils operating under the auspices of the ACs and which caters for transactions falling below the minimum threshold of the main AC.

4.2. "BBEE" Broad-Based Black Economic Empowerment.

4.3. "Bid" A written offer in a prescribed form in response to an invitation by Transnet for the provision of Services, works or Goods, through price quotations, advertised open bids, approved lists, confinements or proposals.

4.4. "Bidder" Any person/Enterprise which has submitted a Bid to Transnet.

4.5. "EME" Exempted Micro Enterprise as defined in the B-BBEE Codes of Good Practice issued in terms of the B-BBEE Act No. 53 of 2003, as amended.

4.6. "Front End Loading" (FEL) This terminology is commonly used in the context of the Project Lifecycle Process where a capital project is still in the conceptual or planning phase prior to execution and construction of the project.

4.7. "Large Enterprise" Large Enterprise as defined in the B-BBEE Codes of Good Practice issued in terms of the B-BBEE Act No. 53 of 2003, as amended.

4.8. "Local Content" (LC) The portion of the Bid price or quotation which is not included in the Imported Content, provided that local manufacture does take place.

4.9. "Project Lifecycle Process" (PLP) An industry developed methodology for the development of large capital projects.

4.10. "QSE" Qualifying Small Enterprise as defined in the B-BBEE Codes of Good Practice issued in terms of the B-BBEE Act No. 53 of 2003, as amended.

4.11. "Supplier Development" The Supplier Development (SD) Programme is an initiative of the Department of Public Enterprises (DPE) supported by Transnet. The aim of SD is to increase the competitiveness, capability and capacity of the South African supply base where there are comparative advantages and potential for local or regional supply. This can be achieved through skills transfer, as well as building new capability and capacity in the South African supply base. In addition, SD has
its roots grounded firmly around the transformation of South Africa and the empowerment of previously disadvantaged individuals and enterprises.

SCOPE

5. The Policy is applicable to all procurement activities at Transnet. The Policy will apply to Transnet and all its Operating Divisions and Specialist Units. The Policy is intended to cover all Transnet subsidiaries, affiliates or joint ventures where Transnet has a controlling interest. The principles outlined in the Policy are applicable to all procurement transactions, regardless of their nature or value.

PROCUREMENT PRINCIPLES

6. All Transnet’s procurement activities shall be implemented in line with the following best practice principles:

- Fairness and Transparency:
  - equal treatment of bidders
  - openness and accountability
  - ethical conduct

- Social Equity:
  - Broad-Based Black Economic Empowerment (“B-BBEE”) and preferential procurement
  - localisation

- Value for money:
  - competitiveness
  - cost effectiveness

POLICY STATEMENTS

Capital Procurement / Infrastructure

7. Transnet’s planned capital expenditure forms the bulk of Transnet’s procurement spend. As a result, Transnet shall ensure that its capital expenditure results in the creation of enterprise development opportunities as well as long term and sustainable job opportunities.

7.1. Expansion, operation and maintenance of Transnet’s ports, rail and pipelines infrastructure presents a major opportunity for job creation. The provision of infrastructure also serves to enhance efficiency across the economy, laying the basis for stepped-up growth and employment creation in every industry. It can also significantly advance social equity goals and address inequalities in the society.

7.2. Transnet has adopted the Project Lifecycle Process (“PLP”) as the standard methodology for the development and execution / implementation of all its capital projects. The various phases of the PLP are detailed below:
<table>
<thead>
<tr>
<th>Stage</th>
<th>Purpose</th>
<th>Main Activities</th>
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</thead>
<tbody>
<tr>
<td>Concept (FEL-1)</td>
<td>Define project options</td>
<td>Identification of commercial need and options</td>
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<td></td>
<td></td>
<td>Supply chain alignment: demand management and planning, risk management and define governance processes</td>
</tr>
<tr>
<td>Pre-feasibility (FEL-2)</td>
<td>Select most viable option</td>
<td>Selection of best option - determine optimum project solution &amp; evaluate viability</td>
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<tr>
<td></td>
<td></td>
<td>Supply chain alignment: define best strategic sourcing plan to be followed and secure budgets</td>
</tr>
<tr>
<td>Feasibility (FEL-3)</td>
<td>Develop project definition</td>
<td>Develop best option &amp; execution planning - prepare a rigorous and comprehensive plan for project implementation</td>
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<tr>
<td></td>
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<td>Supply chain alignment: Acquisition and Logistics management and risk management, in anticipation of effecting a procurement event</td>
</tr>
<tr>
<td>Execution (FEL-4)</td>
<td>Implement project</td>
<td>Design &amp; Specifications; Procurement &amp; Construction, Commissioning</td>
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<tr>
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<td>Supply chain alignment: Tender management, if applicable for service providers responsible for e.g. construction or delivering of systems to implement and execute and, for goods to utilised in the implementation/execution of projects. Contract management and continuous risk management</td>
</tr>
<tr>
<td>Finalise (Close-out)</td>
<td>Close Project</td>
<td>Handover, ramping down of resources &amp; Project Close</td>
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<td>Supply chain alignment: Finalise/close = contract management (ensure contractual obligations have been met and enhance procurement processes from lessons learnt)</td>
</tr>
</tbody>
</table>

**Policy Statement**

7.3. Where necessary an Engineering, Procurement and Construction Management ("EPCM") service provider will be appointed at FEL-1. It is not always required that the same EPCM service provider be utilised over the entire lifecycle of the PLP. However, the same service provider is generally utilised for FEL-2 to FEL-4 in order...
to minimise the risk to Transnet. Management must determine whether the same EPCM service provider is required for all FEL phases e.g where there is a need for an integrated approach or whether different service providers may be utilised for each phase and must demonstrate the reason for the chosen approach. The selection of an EPCM service provider must follow an open, competitive process. Furthermore, there must be a strong emphasis on creating opportunities for EMEs and QSEs through the creation of Joint Ventures (JVs) and/or sub-contracting to accelerate transformation and empowerment.

7.4. Transnet shall ensure that procurement of construction related works, goods or services for expansion of its ports, rail and pipelines infrastructure happens in a manner that creates sustainable jobs for South Africans. Procurement of operation and maintenance services of the infrastructure shall be done in a manner that supports sustainable job creation particularly among the previously disadvantaged members of the South African society.

**Transnet as a Public Entity**

8. South Africa is a unique type of mixed economy given its history of apartheid where the majority of citizens were deliberately excluded from meaningful economic participation. As a result, Government has adopted the concept of a “developmental state”, which means that it can implement mechanisms in the economy to influence economic activity in a direction that ensures sustainable transformation, empowerment and supplier development.

As a State Owned Company (“SOC”), Transnet is required to carry out the statutory duties, responsibilities and liabilities imposed on its Board of Directors by the Companies Act, 71 of 2008 (as amended). This legislative obligation is further augmented by those obligations contained in the Public Finance Management Act, 1 of 1999, as amended by Act 29 of 1999 (“PFMA”). Transnet is also guided by the principles of the King Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2009 (King III Report).

**Policy Statement**

8.1. As a major public entity, Transnet has a key role to play in the Government’s development agenda. Transnet commits itself to the prescripts of Section 217 of the Constitution and shall undertake all its procurement activities in a manner that protects and advances persons, or categories of persons disadvantaged by unfair discrimination, whilst at the same time undertaking procurement in a manner that is fair, equitable, transparent, competitive and cost-effective.

**Value for Money**

9. Value for money is the cornerstone of an effective public procurement system. It is therefore imperative that Transnet ensures that the goods, works and services that it procures are fit for purpose and are competitively priced, based on Total Cost of Ownership.
Policy Statement

9.1. Transnet shall promote open competitive bidding as its default procurement mechanism as this is the best means of obtaining value for money. All Transnet procurement shall be done in a way that ensures that Transnet obtains quality goods, works and services at competitive prices. Where possible, Transnet will look for opportunities to leverage economies of scale in its procurement activities e.g. by concluding transversal contracts for the entire Transnet Group.

Transformation and Empowerment

10. In order to achieve transformation and empowerment, Government developed the B-BBEE Policy and the Black Economic Empowerment Strategy.

10.1. The Black Economic Empowerment Strategy is underpinned by four key principles:

- it is broad-based;
- it is an inclusive process;
- it is associated with good governance; and
- it is part of the country’s growth strategy.

10.2. Government uses a number of instruments to achieve Black Economic Empowerment, including a ‘balanced scorecard’ to measure progress made in achieving B-BBEE objectives by enterprises and sectors with the objective of enhancing long-term economic sustainability. The scorecard allows government departments, state-owned enterprises, and other public agencies, to align their own procurement practices.

Policy Statement

10.3. Transnet recognises the importance of using procurement as a tool to promote transformation particularly with regard to the promotion of Black-Owned companies, Black Women-Owned companies, etc.

10.4. In evaluating and awarding bids for procurement of goods and services, Transnet shall award preference points to all EMEs based on either a sworn affidavit or a certificate issued by CIPC and to those QSEs that are greater than 51% black owned based on a sworn affidavit. Transnet shall award preference points based on the B-BBEE scorecard for QSEs that are less than 50% black owned and Large Enterprises which measures performance in the following areas:

<table>
<thead>
<tr>
<th>2007 Codes of Good Practice</th>
<th>2013 Amended Codes of Good Practice</th>
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<tbody>
<tr>
<td>Ownership</td>
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<tr>
<td>Management Control</td>
<td>Management Control</td>
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<tr>
<td>Skills Development</td>
<td>Skills Development</td>
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<tr>
<td>Employment Equity</td>
<td>Enterprise &amp; Supplier Development</td>
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</tbody>
</table>
Preferential Procurement | Socio-economic Development

Enterprise Development

Socio-economic Development

10.5. In bidding for Transnet bids, all suppliers shall be required to submit sufficient proof of B-BBEE compliance as prescribed by the B-BBEE Act and applicable Codes of Good Practice as well as the regulations issued in terms of the PPPFA.

10.6. Furthermore, Transnet will encourage bidding entities to form Joint Ventures (JVs) with black-owned/black women-owned or to sub-contract a minimum percentage of a contract to black-owned/black women-companies.

10.7. Transnet shall also set B-BBEE targets in consultation with its shareholder in order to monitor and evaluate its performance towards achievement of B-BBEE objectives. The targets will be based on the applicable/relevant Sector Charter Codes. Transnet will endeavour to do business with Empowering Suppliers as defined in the revised Codes of Good Practice.

10.8. Transnet will request preferred bidders to submit a B-BBEE improvement plan as part of their bid submission as to how they will improve their B-BBEE status over the contract period. Transnet shall ensure that empowerment targets are monitored and evaluated throughout the contract and failure to meet these contractual obligations will lead to termination of the contract at Transnet’s sole discretion.

10.9. Enterprise and Supplier development is a key strategic enabler to unlocking opportunities for small enterprises through support contributing to their operational, financial stability and growth. Transnet shall conduct market analysis in order to identify opportunities for Enterprise and Supplier Development that will transform business and enable Black Owned Companies to participate in the main stream economy.

10.10. On a case by case basis, Transnet will set minimum B-BBEE thresholds as pre-qualification criteria to participation in its bidding process in instances where it is considered that the application of the normal preference point system will not bring about the required transformation.

10.11. Where deemed appropriate, Transnet may also include pre-qualifying criteria that stipulate that bidders are required to provide a commitment to increase their B-BBEE score over the duration of the contract.

**Policy Framework for Socio-Economic Development**

11. The Government developed a number of economic developmental policies that form the basis for addressing unemployment, poverty, inequality as well as stimulation of economic growth. The implementation of the following policies (amongst others) will enable the
Restructuring of the South African economy to achieve sustainable economic growth and transformation:

11.1. Despite significant development strides made in the past 20 years in many areas of the South African economy, South Africa still remains one of the most unequal economies in the world. Deep inequalities are associated with joblessness, social inequalities and the legacy of apartheid geography. In sum, the economy has not yet yielded sufficient benefit for many South Africans. The National Development Plan ("NDP") is a policy framework geared towards the improvement of South Africa's economic growth and prospects. It aims to fulfil its objectives of reducing poverty and inequality in South Africa by 2030. The main economic objectives of the NDP are: job creation, a more equitable distribution of wealth and improving education. The NDP also recognises the importance of improving the economy for the purposes of both sustainability and inclusiveness. The NDP objectives are being incorporated into the existing activities of organs of state to ensure consistency and coherence in its implementation.

11.2. The National Industrial Policy Framework ("NIPF") articulates South Africa's overarching approach to industrial development. The NIPF highlights the need to promote a broader-based industrialisation path characterised by deeper levels of participation in the mainstream industrial economy by historically disadvantaged economic citizens.

11.3. The Industrial Policy Action Plan ("IPAP") is the mechanism used to implement the NIPF. The re-industrialisation trajectory is implemented through successive IPAP iterations that respond to changes in global and domestic economic opportunities and dynamics. The IPAP guides South Africa's industrial development path towards sectors and capabilities, which will provide sustained inclusive growth and increase participation of marginalised citizens and regions.

11.4. The New Growth Path ("NGP") sets out the government's plan to foster growth, create employment and equity by reducing the dependencies of South African industries on imports, and promoting the development of skills and capabilities that are in short supply within the country. It identifies strategies that will enable South Africa to grow in a more equitable and inclusive manner and promotes the development of new industry to attain South Africa's developmental agenda. The NGP knits together the IPAP as well as policies and programmes in rural development, agriculture, science and technology, education and skills development, labour, mining and beneficiation, tourism, social development and other areas. The NGP identifies six priority areas for job creation: infrastructure development, agriculture, mining, manufacturing, the "green" economy and tourism. It proposes both sector interventions and a package of macro-economic and microeconomic policies designed to ensure that the economy becomes more competitive and more employment friendly. Government has set a target of creating 5 million jobs by 2020 through the NGP.

11.5. The Black Industrialists Policy ("BIP") is a key part of Government's broad industrialisation initiatives to expand the industrial base and encourage entrepreneurship in the economy. It calls for bolder policy interventions on the part
of the state to expand the industrial base of the country and grow the economy through dedicated support to black industrialists, as highlighted in the latest iteration of the IPAP. This policy proposes focused efforts to facilitate the inclusion and participation of Black Industrialists in manufacturing activities. State-Owned Companies such as Transnet provide the means of Government delivery across strategic sectors of the economy and can be anchors of the Black Industrialists Policy through procurement and supplier development mechanisms.

11.6. The Competitive Supplier Development Programme ("CSDP") is an initiative of the Department of Public Enterprises ("DPE"), the aims of which are indicated below:

<table>
<thead>
<tr>
<th>Aims</th>
<th>Increase competitiveness, capability and capacity of the local supply base</th>
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<tbody>
<tr>
<td>Outputs</td>
<td>Growth in local industry</td>
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<td>Procurement savings</td>
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<td>Increased security of supply</td>
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<td>Local cluster advantages</td>
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<td>Outcomes</td>
<td>Employment creation</td>
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<td>Poverty reduction</td>
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<td>Improved SOE performance</td>
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11.7. The CSDP contributes toward competitiveness by leveraging SOC procurement spend to develop a local supplier base indirectly by placing influence on the supplying company or OEM (International and/or national) to develop downstream South African suppliers. The CSDP focuses on long term supply network development and win-win partnerships with suppliers to achieve best value for money over the product life-cycle rather than lowest initial cost. The primary measures of the CSDP are:

- the development by SOCs of supplier development plans which identify items for which local supply could be expanded or developed or improved;
- the use of planning, specification and sourcing by SOCs as instruments to achieve the objectives in the supplier development plans and to create a conducive environment for the development of local supply networks; and
- mobilising and providing support to the supplier industries targeted in the supplier development plans to assist them to develop the capacity and capability to respond competitively to the SOC demand.

11.8. The Preferential Procurement Regulations, 2011 issued in terms of the PPPFA require that an organ of state must, in the case of designated sectors, advertise such bids with a specific bidding condition that only locally produced goods, services or works or locally manufactured goods, with a stipulated minimum threshold for local production and content be considered. In the case of non-designated sectors,
organs of state have the discretion to include minimum local content as a bid condition. As a result, public procurement can be leveraged to target specific manufacturing sectors for targeted development.

11.9. Procurement within SOCs needs to address the following considerations:
- Long term and sustainable procurement planning is critical in achieving developmental objectives and optimal procurement size as well as opportunities for domestic localisation and competitive supplier development. This will create the potential to stimulate markets for sustainability in economies of scale.
- Alignment with key objectives such as industrial policy imperatives and B-BBEE.
- Alignment between industrial financing and public procurement.

Policy Statement

11.10. Transnet commits to developing its procurement procedures and mechanisms within the framework of the law in order to promote Governmental policy objectives.

11.11. Unemployment, poverty and inequality: Transnet is fully committed to the objectives of improving growth and employment conditions in South Africa and must be a major contributor to job creation. Transnet's procurement shall focus consistently on areas that have the potential for creating employment on a large scale in order to contribute substantially to the national employment creation effort.

11.12. Rural/Regional Development: Part of Transnet's infrastructural network passes through rural areas of the country. This presents an opportunity for Transnet to procure goods and services in those areas. Procuring from rural suppliers will stimulate this relatively undeveloped sector of our economy, resulting in further employment creation. Furthermore, there are also opportunities to procure goods and services required in a particular region from suppliers of that particular region. Organs of state are required to support and promote local to site purchases by looking beyond the conventional criteria methods for the selection of suppliers. Transnet shall look for opportunities to procure goods, works and services in rural/regional areas with the aim of creating employment. Where applicable, Transnet will ensure that if the goods, works or services cannot be procured directly from suppliers in a particular region, these suppliers will still benefit from subcontracting requirements or downstream supply to the main suppliers.

11.13. Localisation, Industrialisation & Economic Growth: Based on the guidance from the relevant policy framework and in line with the PPPFA, Transnet shall specify bidding conditions that will ensure that the objectives of localisation and industrialisation are achieved. In terms of the Preferential Procurement Regulations, 2011, issued in terms of the PPPFA, Transnet shall also apply a stipulated minimum threshold for local production and content in designated and non-designated sectors to eliminate the practice of "import fronting". In such instances, only suppliers providing domestically produced goods and services will be considered.
Transnet’s procurement shall be conducted in a manner that is inclusive (through increased participation of EMEs as well as QSEs and black-owned firms in general) and builds industry capacity around its build programmes. Transnet shall identify programmatic/strategic procurement and develop long-term procurement and local content plans. Bid requirements shall include local procurement and supplier development which will also address the transformation agenda and aim to achieve industrialisation and localisation objectives.

11.14. Supplier Development: In line with the supplier development requirements placed on SOCs by the DPE, Transnet has developed and will implement a supplier development plan in order to ensure local supply of goods and services.

The supplier development plan will aim to:

- increase procurement from black-owned firms;
- contribute to economic growth through employment creation, rural development and skills development (preferential procurement);
- provide achievable SD targets backed by an analysis of commodities with potential SD opportunities;
- develop technologies locally and create sustainability;
- develop local small and medium industries in order to enable them to supply Transnet with high-quality, globally-competitive goods and services (enterprise development);
- improve the quality, efficiency and cost-effectiveness of services provided by Transnet, as a result of it obtaining more competitive goods and services from local suppliers;
- improve the competitiveness of Transnet as a result of procurement savings from engaging innovative, responsive and more competitive suppliers;
- establish collaborative relationships with public and private entities to ensure sustainable supplier development/domestic procurement opportunities;
- utilise the SD strategic approach to focus on OEM/Multinational suppliers in order to influence them to engage lower tier black suppliers; and
- ensure that an effective monitoring, evaluation and reporting system is in place to maximise SD value.

11.15. Transnet shall put in place a pre-bid process in relation to strategic procurements with the following elements:

- A detailed breakdown of demand, identifying, inter alia, areas of repeat procurement and opportunities for standardisation.
- A detailed supply analysis which identifies existing domestic supply capacity and transformation/empowerment opportunities.
- A gap analysis which identifies areas for domestic procurement based on both existing capacity and capacity that can be built through active supplier development.
- Inclusion up-front in the bid of domestic procurement requirements and transformation/empowerment.
Sustainable Procurement

12. Sustainable Procurement is about:
- Improving environmental performance building a green industrial base in South Africa by increasing investment in the green economy, enhancing renewable energy procurement, the development of bio-fuels, clean coal initiatives, promoting energy efficiency across the economy, waste recycling, reducing carbon emissions through improved public transport and a shift in moving freight from road to rail;
- Cost savings including recognition of non-tangible benefits and costs;
- Promoting respect for human rights;
- Social economy considerations including job creation, empowerment, poverty reduction and transfer of skills;
- Robust action against corruption;
- Sustainable ‘green’ procurement in enabling organizations to maintain profitability while taking on the responsibility for the environment and looking after its consumers while complying with government regulations;
- Value Chain Integration as an essential element for a best-in-class procurement organization as it embraces sustainable ‘green’ practices; and
- Transparent formalized measurement and metrics of sustainability across the entire supply chain that focuses on product and process innovation emphasizing reduction of the overall total cost of ownership (TCO) in order to have sustainability leadership focus on maintaining strong supplier partnerships.

Elements of Sustainable Procurement:

<table>
<thead>
<tr>
<th>Environmental Considerations/ Green Economy</th>
<th>Social Considerations</th>
<th>Economic Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Recycle;</td>
<td>• Human rights protection;</td>
<td></td>
</tr>
<tr>
<td>• Reuse;</td>
<td>• Zero tolerance of corruption;</td>
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<tr>
<td>• Refurbishment;</td>
<td>• Anti-child labour;</td>
<td></td>
</tr>
<tr>
<td>• Efficient energy consumption;</td>
<td>• Empowerment; and</td>
<td></td>
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<tr>
<td>• Reduced noise levels; and</td>
<td>• Good governance, accountability and transparency.</td>
<td></td>
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<tr>
<td>• Water conservation.</td>
<td>• Cost effective (savings);</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Job creation; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Local supplier development;</td>
<td></td>
</tr>
</tbody>
</table>

Policy Statement

12.1. Transnet will source goods/works/services in a manner that promotes environmental, social and economic sustainability. Where applicable, these environmental, social and economic considerations will be included in the bid requirements of a particular procurement process.

12.2. Where feasible, Transnet shall, in bid documents, promote subcontracting and Joint Ventures with EMEs and/or QSEs and with B-BBEE enterprises where the B-BBEE or EMEs/QSEs will be unable to fulfil all bid requirements itself due to the size or nature of the requirement.

12.3. Transnet’s contribution to environmental considerations/green economy objectives shall be achieved through the concept of green procurement which is the purchase
of environmentally friendly products and services. By setting environmental requirements in its bid document and contract templates, Transnet will ensure that it achieves this policy objective.

POLICY IMPLEMENTATION

Implementation Strategy

Transnet’s Supply Chain Management Unit shall develop a strategy for the implementation of the policy using a holistic approach in the organization to address the economic, social, and environmental elements of every procurement decision and results in outcomes that positively benefits the rest of the company and creates the framework for sustainability.

Systems

13. Transnet’s supply chain system for procurement of goods and services and the disposal of assets must be fair, equitable, transparent, competitive and cost-effective. The system must have the minimum of the supply chain management system aspects reflected below prescribed by government customised to Transnet’s procurement environment:

![Supply Chain Management Diagram](source: Supply Chain Management: A guide for Accounting Officers and Accounting Authorities, Treasury)

Transnet’s framework/system includes the following aspects:

- Demand management and Planning;
- Acquisition management;
- Logistics management;
- Disposal management;
- Risk management;
- Regular assessment of supply chain performance; and
- Contract management.

In addition, Transnet will introduce e-procurement tools in line with national and international best practice and make use of best of breed systems to ensure efficient and
effective supply chain processes are in place. Transnet has already implemented National Treasury’s eTender Publication Portal which automates the advertising and publishing of bids. Transnet’s desired end state in this regard is end to end automation of the procurement process.

13.1. **Demand Management and Planning**
Business must have a clear understanding of the possible sourcing and supplier development initiatives that a transaction could offer by understanding at the onset what is required. ISCM must integrate with business users early to fully understand the potential opportunities that may exist. The identification of sourcing and SD opportunities occurs too late during the sourcing process and needs to be addressed from the outset of the planning phase. SD needs to be incorporated into the “business as usual activities” as opposed to being viewed in isolation as this decreases the value that can be derived from the available opportunities.

13.2. **Acquisition Management**
The system in place must provide for:

- Bidding procedures;
- The establishment, composition and functioning of bid specification, bid evaluation and bid adjudication committees;
- Selection of bid committee members;
- Adjudication of bids through a bid adjudication committee; and
- Approval of bid evaluation and/or bid adjudication committee recommendations.

13.3. **Logistics management**
Transnet will ensure that Inventory is re-ordered promptly, at an appropriate level, to ensure availability when required. Material items will be appropriately defined and set-up with correct specifications. Transnet will implement appropriate controls to ensure that inventory is appropriately safeguarded and secured.

13.4. **Disposal management**
Transnet will ensure fairness and diligence in the conduct and accounting of all scrap disposal business practices that are adopted and will ensure that all processes are supported by duly documented, approved and accessible policies and procedures.

13.5. **Risk management**
Transnet has adopted the Enterprise Risk Management (ERM) methodology in managing risk within ISCM. ISCM will ensure continuous identification, assessment, mitigation and management of risks on a regular basis in order to deliver on its mandate.

13.6. **Regular assessment of supply chain performance**
Refer to paragraphs 23, 24 and 25 below on Compliance Monitoring and Evaluation.

13.7. **Contract Management**
Contract Management principles are dealt with comprehensively in the Contract Management Policy.

Policy Implementation Procedures

14. The Transnet Procurement Procedures Manual shall be regularly reviewed in order to ensure alignment with this policy.

Evaluation methodology

15. The standard evaluation methodology that is followed within Transnet is depicted in Appendix A.

Skill Capacity of the Supply Chain Management Team

16. Transnet shall ensure that the current staff and newly recruited staff are well qualified and trained to ensure successful implementation of the Policy.

ROLES AND RESPONSIBILITIES

17. The roles and responsibilities for this policy is as follows:

<table>
<thead>
<tr>
<th>Role</th>
<th>Accountability</th>
<th>Responsible</th>
<th>Informed</th>
<th>Supports</th>
<th>Monitors &amp; maintains</th>
<th>Policy Owner</th>
<th>Policy Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountable</td>
<td>Group Executives and Chief Executive Officers</td>
<td>General Managers and Senior Managers</td>
<td>All Employees involved in Supply Chain activities</td>
<td>All departments involved/interacting with Supply Chain</td>
<td>Group Integrated Supply Chain Management</td>
<td>Group Chief Supply Chain Officer</td>
<td>Group Chief Financial Officer</td>
</tr>
</tbody>
</table>

18. The roles and responsibilities of all the structures hereunder are defined only from the perspective of Supply Chain Management.

18.1. Acquisitions and Disposals Committee (ADC)

The Transnet Board comprises of Board members appointed from time to time by the Minister of Public Enterprises. For the acquisition and disposal of Transnet assets, the Board has delegated powers to the ADC. The Committee must have and maintain:

(i) An appropriate Supply Chain Management system, which is fair, equitable, transparent, competitive and cost-effective; and
(ii) Effective, efficient and transparent systems of financial and risk management and internal control.

The ADC may delegate powers and duties or instruct specific officials in Transnet to perform any of the duties assigned to it.

18.2. Group Chief Financial Officer (GCFO), Group Chief Supply Chain Officer (GCSCO) and Chief Procurement Officer (CPO)
The GCFO/OD CFO, GCSCO and OD CPO shall ensure that an effective internal monitoring system is in place and implemented in order to determine that the outlined processes are being adhered to and the expected deliverables are being achieved.

The GCFO and GCSCO must report to the ADC at prescribed reporting times on the following aspects among others:

- Total procurement spend as well as procurement strategies;
- Performance relating to B-BBEE targets;
- Performance in relation to the SD Programme including the NGP;
- Process disputes and information regarding deviation of processes followed; and
- Any other pertinent information required on bids, procurement policies and procedures.

18.3. **ISC M Council**

ISC M Council members shall ensure that the Policy is implemented uniformly across all Transnet Divisions.

18.4. **Acquisition Councils**

Acquisition Council members shall ensure that procurement processes are aligned to the Policy across the various Transnet Divisions.

18.5. **Specific Officers' Roles and Responsibilities**

Specific officers’ roles and responsibilities shall be aligned with Transnet’s effective Delegation of Authority Framework.

**RELATED INFORMATION AND REFERENCE**

19. This policy should be read in conjunction with the following supporting guidelines:

19.1. **Internal Documents:**

- Code of Ethics
- Declaration of Interest and Related Party Disclosures Policy
- Declaration of Interest and Related Party Disclosures Policy for Directors
- Gifts and Hospitality Policy
- Delegation of Authority Framework
- Broad Based Black Economic Empowerment Policy
- Group Compliance Policy
- Counterparty Risk Management Policy
- Procurement Procedures Manual
- The Public Finance Management Act Policy
- Contract Management Policy
19.2. **External Documents**

Applicable government policies including:
- The New Growth Path
- The National Development Plan
- Local Procurement Accord
- Industrial Policy Action Plan
- The Black Industrialists Policy

19.3. **Regulatory Requirements:**

Transnet recognises the importance of complying with all applicable regulatory requirements as reflected in the Transnet regulatory universe. Transnet's procurement activities are guided by various pieces of legislation and regulations. Transnet shall ensure full compliance with all legislation that is pertinent to its functions, in particular relevant procurement legislation. Specific reference is made to:

- The Companies Act, 71 of 2008;
- The Preferential Procurement Policy Framework Act No. 5 of 2000;
- The Public Finance Management Act No. 1 of 1999;
- The Promotion of Administrative Justice Act No. 3 of 2000;
- The Broad-Based Black Economic Empowerment Act No. 53 of 2003 and
  the applicable Code of Good Practice; and

**Ethics & Transnet's Culture Charter**

20. Transnet's Code of Ethics sets ethical standards for business practice and individual business conduct. It assists all Transnet stakeholders with their ethical deliberations and decisions. The objective of the Code of Ethics as it relates specifically to the Supply Chain environment is to set the standard by which all employees (including employees employed on fixed term contracts and temporary employees) and non-executive directors are expected to act when engaging in any supply chain related activities. This will earn Transnet the reputation of being:

a) transparent and fair in all dealings and disclosures;
b) politically unbiased;
c) committed to providing quality products and services;
d) proud of its integrity and credibility;
e) consistent in honouring its social, legal and moral obligations;
f) responsible and accountable; and
g) reliable and aware of the need to foster loyalty and long enduring relationships with all its stakeholders.
21. All Transnet employees should uphold the following key values:

a) treat people with respect and dignity;
b) act with integrity and professionalism at all times;
c) be fair and honest;
d) be committed and dedicated to high quality performance;
e) be customer orientated;
f) respect and maintain the confidentiality of sensitive information gained through association with Transnet;
g) maintain accurate, honest and complete records in appropriate detail;
h) protect Transnet’s assets;
i) trust each other and be professional in conduct both within and outside the work environment such that the conduct will not reflect negatively upon Transnet’s image and reputation;
j) refrain from using a position of authority and / or facilities provided by Transnet to further their own interests or that of friends and relatives;
k) desist from allowing personal interests to influence business decisions or tasks and disclose any actual or potential conflict of interest;
l) honour the content and spirit of all business transactions and do not abuse or harm Transnet’s reputation or assets or interests;
m) be honest and transparent in all actions and promote a corporate image of integrity, honesty and stringent business ethics;
n) maintain an attitude of zero tolerance toward any form of bribery, corruption and inducements;
o) utilise Transnet’s assets for work purposes and not for personal benefit; and
p) not expose Transnet’s assets to loss, damage, misuse or theft.

22. All Supply Chain activities are also to be conducted in a manner that gives effect to the principles in Transnet’s Culture Charter:

a) Having a safety mindset;
b) Being business focussed;
c) Delivering on promises;
d) Treating each other with dignity and respect;
e) Having good communication;
f) Recognition and reward for good work; and

g) Empowerment of people to perform in their jobs.
POLICY REVIEW, COMPLIANCE MONITORING AND EVALUATION

23. Policy Review: This Policy will be reviewed every five (5) years or as circumstances warrant it and a report submitted to the relevant governance structure.

24. Monitoring involves the systematic, regular collection and analysis of information to identify and possibly measure changes over a period of time. Monitoring is a management function that guides behaviour in the intended direction and to check performance against pre-determined plans. Monitoring involves watching the progress of a project against time, resources and performance schedules during the execution of the project and identifying lagging areas requiring timely attention and action. Monitoring involves the collection of data about what is happening.

25. Evaluation involves the analysis of the effectiveness and direction of an activity and involves making a judgement about progress and impact. Evaluation is about why things are happening. It looks at the long term effects of a project.

25.1. There are five criteria for evaluation:

(i) **Relevance** (Did the project solve the problem that was identified?)
(ii) **Efficiency** (Do the benefits of the project outweigh its costs?)
(iii) **Effectiveness** (Did the project achieve its intended objectives and outcomes?)
(iv) **Impact** (Has the project made any difference in the lives of intended beneficiaries?)
(v) **Sustainability** (Will the project continue to give benefits long after the initial investment without having to invest more money into it?)

25.2. Monitoring and evaluation are done in order to:

- Assess results to find out if and how objectives are being met and resulting in desired changes;
- Improve management and process planning;
- Promote learning;
- Ensure accountability; and
- Inform policy analysis and development.

**Policy Statement**

26. Treasury Regulation 29.2.2 directs that:

"The shareholder’s compact must document the mandated key procedures for quarterly reporting to the Executive Authority in order to facilitate effective performance monitoring, evaluation and corrective action."

26.1. To this end, Transnet shall establish a monitoring and evaluation system in order to ensure overall performance monitoring and evaluation of the use of procurement as an economic transformation and developmental tool.

26.2. Development of the monitoring and evaluation system shall involve undertaking of a situational analysis of the supplier landscape in order to establish a baseline,
development of performance indicators, identification of data sources and setting of performance targets on the basis of the baseline.

FINANCIAL IMPLICATIONS

27. Continuous training will be implemented in line with procurement planning and budgeting processes in order to ensure proper implementation of the Supply Chain Policy and Procedures. Sufficient budget will be made available for this purpose.

EXCLUSIONS

28. There are no exclusions to this policy.

REQUEST TO DEVIATE FROM THE POLICY

29. In cases where material and compelling circumstances merit deviation(s) from particular provision(s) of this policy, written submissions shall be sent to Group Chief Executive, who shall have full authority to grant such request, in whole or in part, or to refuse same.

NON-COMPLIANCE

30. Breaches of this Policy will be seen in a very serious light. Employees who do not conform to the Policy or Principles and Standards may be subject to disciplinary action in terms of the applicable Transnet disciplinary processes and procedures.
**PREQUALIFICATION**

- Administrative responsiveness
- Substantive responsiveness
- Retractable documents/schedules

**STAGE 1**

- Local content
- SD**
- Functionality/technical

**STAGE 2**

- Weighted scoring / 100***

- Price (80/90)
- B-BBEE scorecard (20/10)

- Post tender negotiation requesting preferred bidders to provide their BAFOs

- Final evaluation 80/90 or 90/10

- Selection of the preferred bidder & negotiation of various aspects including final SD commitments and the B-BBEE improvement plan. The B-BBEE Improvement plan may have been requested as a retractable document in the RFX document

**APPENDIX: EVALUATION METHODOLOGY**

- Conclusion of contract incorporating SD & B-BBEE Improvement Plan commitments

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* SD prequalification criteria:
  - Minimum % of contract value for overall SD commitment depending on size of entities.
  - Minimum commitment in relation to specific SD criteria depending on size of entities e.g. job creation.

* Other prequalification options:
  - Minimum B-BBEE level; &/or
  - Commitment to increase B-BBEE score over the duration of the contract.

**SD threshold must be based on market analysis - different thresholds will be set for Large Enterprises, QSEs & EMEs**

**WEIGHTED SCORE**

- Technical/Functional criteria & weightings must be stipulated in the tender documents

**Penalties for failure to achieve SD commitments - different penalties will be set for Large Enterprises, QSEs & EMEs**

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* Indicative stipulated minimum threshold as prescribed by National Treasury (if applicable). If the sector is not designated localisation must be incorporated into SD

** Indicative threshold, not prescribed (if applicable)