



APPENDIX A: Sub Sector Details

Capital Equipment ▶ Focus Areas + tiers ▼			Straddle Carriers	Ship to shore cranes	Rubber Tyre Gantry Cranes	Mobile Harbour Cranes	Dredgers	Locomotives (D, E, D-E, MC)	Tugboats	Wagons	Opportunity for CSDP	Subsectors on tier one and 2	Subsectors Identified for CSDP Discussions
tier one	tier two	tier three											
Engines	Alternator		x	-	x	x	x	x	x	-		38	Electricity distribution and control apparatus
Engines	Battery System	Main battery, backup system, regeneration	x	-	x	x	x	x	x	-		40	Accumulators, primary cells and primary batteries
Engines	Engine Block	Steel, casting	x	-	x	x	x	x	x	-		29	Basic iron and steel products
Engines	Fuel Injection	injector valves	x	-	x	x	x	x	x	-		49	Parts and accessories
Engines	Exhaust	steel, welding	x	-	x	x	x	x	x	-		49	Parts and accessories
Engines	Auxilliary diesel alternator		x	-	x	x	x	x	x	-		38	Electricity distribution and control apparatus
Engines	Block Valves		x	-	x	x	x	x	x	-		29	Basic iron and steel products
Engines	Cooling system		x	-	x	x	x	x	x	-		32	Other fabricated metal products
Steering Mechanism	Steering Axle		x	-	x	x	x	x	x	-		32	Other fabricated metal products
Steering Mechanism	Steering wheel		x	-	x	x	x	x	x	-		29	Basic iron and steel products
Braking System	Air brakes		-	-	-	-	-	x	-	x		49	Parts and accessories
Braking System	vacuum brakes		-	-	-	-	-	x	-	x		49	Parts and accessories
Braking System	Parking brake		x	x	x	x	x	x	x	x		49	Parts and accessories
Braking System	Disk Brake		x	-	x	-	-	-	-	x		49	Parts and accessories
Braking System	Brake Blocks		x	-	x	-	-	x	-	x		32	Other fabricated metal products
Braking System	Brake shoes and drums		x	x	x	x	-	-	-	-		32	Other fabricated metal products
Braking System	Hoist brake		x	x	x	x	x	-	x	-		49	Parts and accessories

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Appendix A (cont.)

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tier one	tier two	tier three											
Electrical System	Cable		X	X	X	X	X	X	X	-		39	Insulated wire and cables
Electrical System	Alternator		X	X	X	X	X	X	X	-		38	Electricity distribution and control apparatus
Electrical System	Lighting	Bulbs	X	X	X	X	X	X	X	-		41	Electric lamps and lighting equipment
Electrical System	Lighting	Switches	X	X	X	X	X	X	X	-		41	Electric lamps and lighting equipment
Electrical System	Lighting	Conductor	X	X	X	X	X	X	X	-		41	Electric lamps and lighting equipment
Electrical System	Auxilliary generator		X	X	X	X	X	X	X	-		37	Electric motors, generators, transformers
Electrical System	Power Units		X	X	X	X	X	X	X	-		38	Electricity distribution and control apparatus
Electrical System	Electrical boxes		X	X	X	X	X	X	X	-		42	Other electrical equipment
Electrical System	Auxilliary Switchboard		X	X	X	X	X	X	X	-		42	Other electrical equipment
Propulsion System	Brass Impellers		-	-	-	-	X	-	X	-		30	Non-ferrous metal products
Lifting Mechanisms	Cable Chain		X	X	X	X	X	-	X	-		29	Basic iron and steel products
Lifting Mechanisms	Load sensor cells		X	X	X	X	X	-	X	-		38	Electricity distribution and control apparatus
Lifting Mechanisms	Lifting boom	Frame	X	X	X	X	-	-	-	-		31	Structural metal products
Lifting Mechanisms	Lifting boom	Suspension	X	X	X	X	-	-	-	-		31	Structural metal products
Lifting Mechanisms	Lifting boom	Hydraulics	X	X	X	X	-	-	-	-		34	Special purpose machinery
Lifting Mechanisms	Rope sheaves		X	X	X	X	X	-	X	-		29	Basic iron and steel products
Lifting Mechanisms	Cranes		X	X	X	X	X	-	X	-		33	General purpose machinery
Lifting Mechanisms	Skew Transfer		X	X	X	X	X	-	X	-		50	Other transport equipment
Lifting Mechanisms	Yoke		X	X	X	X	X	-	X	-		29	Basic iron and steel products

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tier one	tier two	tier three											
Transmission System	Draw gear		x	x	x	x	x	x	x	-		49	Parts and accessories
Transmission System	Gearbox	gears, plates	x	x	x	x	x	x	x	-		49	Parts and accessories
Transmission System	Clutch		x	x	x	x	x	x	x	-		49	Parts and accessories
Transmission System	Levers		x	x	x	x	x	x	x	-		49	Parts and accessories
Mechanical fluid transfer	Valves		x	x	x	x	x	x	x	x		32	Other fabricated metal products
Mechanical fluid transfer	Pumps		x	x	x	x	x	x	x			33	General purpose machinery
Mechanical fluid transfer	Compressors		x	x	x	x	x	x	x	-		33	General purpose machinery
Mechanical fluid transfer	Cylinder		x	x	x	x	x	x	x	x		29	Basic iron and steel products
Mechanical fluid transfer	Miscellaneous Marine equipment		-	-	-	-	x	-	x	-		34	Special purpose machinery
Mechanical fluid transfer	Piping		x	x	x	x	x	x	x	x		31	Structural metal products
Bogies	Axles		-	x	-	-	-	x	-	x		31	Structural metal products
Bogies	Wheels		-	x	-	-	-	x	-	x		31	Structural metal products
Bogies	U-tube		-	x	-	-	-	x	-	-		29	Basic iron and steel products
Bogies	Canonbox		-	x	-	-	-	x	-	-		29	Basic iron and steel products
Bogies	Bearing		-	x	-	-	-	x	-	x		32	Other fabricated metal products
Bogies	Traction Motor		-	x	-	-	-	x	-	-		37	Electric motors, generators, transformers
Bogies	Pinion gear		-	x	-	-	-	x	-	-		49	Parts and accessories
Bogies	Sideframe		-	x	-	-	-	x	-	x		31	Structural metal products
Bogies	Springs		-	x	-	-	-	x	-	x		32	Other fabricated metal products

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tier one	tier two	tier three											
Locking Mechanism	Twist Locks		x	x	x	x	-	-	-	x		34	Special purpose machinery
Hydraulic System	Hydraulic hoses		x	x	x	x	x	x	x	-		25	Petroleum, chemical products, rubber and plastic products
Hydraulic System	Hydraulic Pumps		x	x	x	x	x	x	x	-		33	General purpose machinery
Structure	Body Frame		x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Chassis	Beams, frames, steel welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Steps and Ladders	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Underframe	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Windscreen		x	x	x	x	x	x	x			26	Glass and glass products
Structure	Suspension system	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Platforms	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Guard Rails	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Columns	steel, welding	x	x	x	x	-	-	-	-		31	Structural metal products
Structure	Sill Beams	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Side Beams	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products

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tier one	tier two	tier three											
Control + Instrumentation System	Micro computers		x	x	x	x	x	x	x	-		45	Professional equipment
Control + Instrumentation System	PLC Systems		x	x	x	x	x	x	x	-		45	Professional equipment
Control + Instrumentation System	Field Instruments		x	x	x	x	x	x	x	-		45	Professional equipment
Control + Instrumentation System	Levers		x	x	x	x	x	x	x	-		29	Basic iron and steel products
Control + Instrumentation System	Hydraulic control		x	x	x	x	x	x	x	-		38	Electricity distribution and control apparatus
Facilities	Toilets		-	-	-	-	x	x	x	-		27	Non-metallic mineral products
Facilities	Mess rooms		-	-	-	-	x	x	x	-		35	Household appliances
Facilities	Heating system		-	-	-	-	x	x	x	-		33	General purpose machinery
Filtration System			x	x	x	x	x	x	x	-		33	General purpose machinery
Ventilation System			x	x	x	x	x	x	x	-		33	General purpose machinery
Airconditioning System			x	x	x	x	x	x	x	-		35	Household appliances
Ignition Appliance			x	x	x	x	x	x	x	-		334	Total Manufacturing
Communications System			x	x	x	x	x	x	x	-		44	Radio, television and communication apparatus

APPENDIX B: Programme Comparison

The following table outlines the key differences in the two programmes.

Dynamic	NIPP	CSDP
Supplier Obligation	<ul style="list-style-type: none"> • Financial and credit based • 30% of the import value of a deal • Develop an agreed plan together with DTI and implement within seven years 	<ul style="list-style-type: none"> • OEMs are contracted by participating SOEs. • SOEs use the tender process to optimally localise its supply chain. • Contracts include actions which OEMs need to take to improve selected industry sector National Value Add (NVA)
Industry Focus	<p>The Industrial Sector Plan focuses on the following sectors:</p> <ul style="list-style-type: none"> • Agriculture • Cultural industries (crafts) • Export sectors (Clothing and Textiles; chemicals) • Tourism • Knowledge Intensive Industries (ICTs) <p><i>Primarily – knowledge-intensive, value-adding growth with equity¹</i></p>	<ul style="list-style-type: none"> • Manufacturing / repair of parts and assemblies used in capital equipment • Maintenance skills and specialised testing • Diagnostic skills
Transnet's Infrastructure	Supplier investment in unrelated industries, as overseen by DTI	<p>Focused on the localisation of the SOEs' supply base by agreement, i.e.</p> <ul style="list-style-type: none"> - short term – assembly; - long term – OEM part manufacture / maintenance -
Management	DTI and the OEM Supplier	Transnet & the OEM Supplier

at 2006²

¹ The DTI, Accelerating Growth and Development: The Contribution of an Integrated Manufacturing Strategy; 2002

² Note: The development of the CSDP programme and this SDP began before the introduction of the DTI's "NIPP Direct" programme. As such no comparison was made to this programme.

APPENDIX C: Transnet (AS IS – TO BE)

The largest challenge Transnet as an organisation faces in implementing effective Supplier Development initiatives, is the lack of capability and capacity of SM staff, and the lack of trust this fosters among Transnet senior management.

This means that over and above developing this Plan and the procedures and governance needed to implement CSDP opportunities, the upliftment of SM staff’s skills will remain a primary focus.

AS IS	TO BE
<p>Fragmented Supply Chain: Our current operations are predominately fragmented and business unit oriented. There is no over arching approach to the delivery of the supply chain function and there is duplication across every activity and geography.</p>	<p>We have created a Supply Management critical path approach that addresses the steps required to achieve an integrated supply chain. Each step on the critical path is defined, the changes required have been identified and the delivery is prioritised.</p> <p>This will enable us to have better visibility of our consolidated spend, supply base, potential development opportunities and our performance.</p> <p>Better visibility of all spend across the organisation is the key to supplier participation and the development of CSDP deals.</p>
<p>Level of Supplier Management Skills The majority of our staff have minimal formal skills in this area and have had limited ability to apply the skills that they have acquired.</p>	<p>Numerous interventions have been initiated to assist in educating our staff:</p> <ul style="list-style-type: none"> • Yearly workshops: the majority of staff is gathered to review current status, strategy, trends and to discuss issues • Bootcamps: intensive interventions focused around topics that are relevant to targeted staff • eLearning: on line professional development training program • Specialised interventions: delivery of specialized training programs (the first will be supplier development) aimed at immediate but professional staff skills upliftment. <p>The staff will eventually be benchmarked and assessed against global and South African standards.</p>

Supplier Development Plan

AS IS	TO BE
<p>Lack of understanding of regulations – inconsistent application</p> <p>While the processes are governed by extensive policy (Detailed Procurement Policy – DPP), it is not consistently applied. Often, when it is applied it is taken far too literally to be effective.</p>	<p>We have started a process of DPP training across the country. However, we have not followed up with enforcement. We will continue to ensure the business is informed of any changes and proper / expected performance.</p> <p>The next version of the DPP is due to be released this calendar year.</p> <p>In addition, we will continually monitor performance against the Control Framework.</p>
<p>Lack of market research</p> <p>As a function we spend far less than 1% of our time analyzing the market.</p>	<p>Upliftment of skills and re-structuring will enable us to improve this capability. In the short term, we will ensure that we use appropriate external skills to assist us in this process.</p>
<p>Little power or understanding of how to interpret and use power</p> <p>The tender process has steered us to conceding to supplier recommendations and the market perception of best price rather than targeted price, quality and service (TCO).</p>	<p>See above</p> <p>Only through market analysis capability and capacity will we be able to mitigate this concern.</p>
<p>Focus on doing it right rather than doing the right thing</p> <p>We are often more concerned with adherence to the rules rather than ensuring that the best supplier is chosen and the best possible deal is reached. Compliance often is the excuse for lack of change, focus on the transaction and ignorance of the market.</p>	<p>Skills upliftment and proper processes will assist us in changing this mentality.</p> <p>Professional procurement practitioners will focus on total cost of ownership and making the “best deal”.</p>
<p>Risk averse</p> <p>We are so risk averse that in almost every deal that we make we will take every effort to accept the risk rather than mitigate it appropriately.</p>	<p>Training will change the focus of staff from risk adverse to risk aware. This means, the most appropriate mitigation action will be employed at all times while creating a deal.</p>
<p>Transaction focused</p> <p>We often measure ourselves on the number of transactions completed rather than the accumulated value generated.</p>	<p>Training for key personnel, will enable them to focus on longer term objectives rather than “buying”.</p>

Supplier Development Plan

AS IS	TO BE
<p>Poor Time Management</p> <p>Our approval process and planning processes are inefficient. This means that we often take too long for some portions of the process and are often under severe time constraints to deliver a solution. This means we often are not taking the appropriate measures to secure the best deal.</p>	<p>Transnet must continue to focus on simplification and standardization of its processes. This will include determining the appropriate cycle times and minimum deliver standards across the Supply Chain.</p> <p>It will also involve cross-functional workshops to understand the changes needed in the approval process (implementing the OGC gateway) and planning (maintenance / operations improvements).</p>
<p>Adversarial Relationships</p> <p>Transnet often views all suppliers as hostile and “out to rip us off”. This leads buyers to:</p> <ul style="list-style-type: none"> • Take a stance of false “power” asking for unreasonable concessions during the tender process (enforced by one sided penalty clauses) and then not following through • Demand price and delivery cuts without understanding the market • Playing two or more suppliers against one another to try to drive down costs (rotating awards, etc.) <p>Often, the suppliers do know more about our operations and will take advantage of our lack of knowledge, fragmented supply chain and capability limitations to secure better deals for themselves.</p>	<p>Skills upliftment is required to improve our relationship with our suppliers.</p> <p>Transnet must learn more about the supplier market, to form better, less adversarial relationships.</p>
<p>Apathy</p> <p>Many of our staff have spent years in trying to make changes and improvements in their jobs and in the way that Transnet conducts business to no avail. Over time, they have resigned themselves to “the way it is” and they place little effort in doing more than the minimum required.</p>	<p>Transnet needs to invest time and effort in improving the morale of its staff. We have made plans to achieve this through our various interventions and improvement programmes.</p>

When we address these issues, Transnet will be enabled to address supplier issues.

Supplier (AS IS – TO BE)

The following table illustrates the changes that we must spearhead in our supplier base:

AS IS	TO BE
<p>Sole Source Suppliers:</p> <p>A large portion of our supply base has been the sole supply of our capex and opex³ requirements. This has been through:</p> <ul style="list-style-type: none"> • Historical purchase leads to further purchases • Lack of alternate supply • Single, local source of supply (usually through agencies) • Gold Plating (artificially making our requirements specific to a single supplier) • Internal stakeholder personal preferences <p>As well, brand orientation precludes us from standardization and substitution activities.</p>	<p>Transnet must focus on developing an effective source of supply (optimal total cost of ownership) by:</p> <ul style="list-style-type: none"> • Involving multiple suppliers, through market interventions, to ensure that we have an appropriate mix of supply; • Focusing on resolving service issues or building a reciprocal relationship with those suppliers who have no competition in the market; • Searching for alternate non-traditional sources if possible (reverse engineering possibilities; new industry solutions, etc), especially if the supplier is non-responsive or considers us a nuisance. • Improve our internal capability to deliver globally competitive goods and services (Rail Engineering) • Minimizing the negative affect of unnecessary internal testing cycles for new items.
<p>SMMEs only 35% of GDP:</p> <p>Currently, the government has not reached any of the targets for SMME (US contribution is over 70% of GDP).</p>	<p>CSDP will not address this issue (enterprise development).</p> <ul style="list-style-type: none"> • We must ensure that we segment our spend based on development opportunities appropriately and to insist that those suppliers entering into a CSDP arrangement with Transnet enter into appropriate tier2 and 3 relationships to rectify this issue.

³ Operational Expenditure: this is external purchases for goods and services on a day to day basis

Supplier Development Plan

AS IS	TO BE
<p>Lack of global competitiveness in the OEM space:</p> <p>A large portion of our equipment is provided by suppliers in limited competitive spaces.</p>	<p>Our approach is to negotiate localisation based on CSR principles and the OEM's balance sheet objectives (which is one of our last "resorts). First, tenders will be evaluated on proposed localisation solutions and then contractual agreements will be reached to achieve these objectives.</p> <p>We need to build an arena for trust and mutual respect (which is not the case currently)</p>
<p>Foreign dependency / hostage – victim mentality:</p> <p>While our capex expenditure is large, the foreign import portion that would be applicable to CSDP is confined predominately to capital equipment and specialised service support. Of these tenders, most suppliers will be confined due to standardisation requirements, current long term contracts in place or lack of time to investigate alternate sources of supply.</p> <p>Our current foreign suppliers are not interested in our purchase volume for spare parts and therefore supply on a sporadic basis (based on other priority customer demand, their cost, time, and cost of distribution). Our demand is inconsistent and fragmented which means we often send low value, large volume orders. This leads the supplier to "park" demand until a sufficient volume is accumulated for shipment.</p>	<p>Transnet needs to focus on relationship development and management with large OEM's. The more professional the relationship, the more opportunity for reasoned dialogue and dispute resolution.</p> <p>Improved demand management will improve our lead times. We need to align our demand with the suppliers' mechanisms for fulfillment.</p>

Supplier Development Plan

AS IS	TO BE
<p><i>Not deal oriented</i></p> <p>The tender process creates an attitude of “I win if I am best price” regardless of the market price.</p> <p>In addition, the tender process, by nature, requires that more than 80% of the solution is defined by Transnet – whether we know the current market or not. This “crowds out supplier innovation”.</p> <p>Because we follow a “three quote process” we don’t often research what is best overall.</p> <p>Once we enter into a deal – it’s over. We leave no mechanisms in place to manage or rectify issues.</p>	<p>We must adopt a commitment to change that allows our personnel to adopt the appropriate skills and developing effective deals without losing focus on the basic fundamentals of public procurement.</p> <p>Our staff will be updated with the Right Attitude / Commitment, then it will be expected of the suppliers. This will be comprised of:</p> <ul style="list-style-type: none"> • Mutual respect and benefit • Mutual Support during good and bad times • Minimum “red tape” and reduction in difficulty to deliver • Benchmarking will set the standard for current purchase standards / supplier capability and future improvement <p>With strategic purchases, we will have a Continuous Improvement focus, where we will look to solve demand and supply side issues.</p>
<p><i>Not used to strategic sourcing and negotiation:</i></p>	<p>Our staff are currently being trained on the Transnet strategic sourcing methodology (D-cubed), and more intensive training will occur. All of our key buyers, will be able to conduct sourcing events.</p> <p>We will need to educate the suppliers on the strategic sourcing process and how the suppliers that do not get the award can use the process as an improvement mechanism rather than a motivation to sue.</p>

Supplier Development Plan

AS IS	TO BE
<p>One sided deals</p> <p>Often, Transnet will unenthusiastically (believe that there is a better deal but take no action to determine what it is) enter into a deal. This is often due to:</p> <ul style="list-style-type: none"> • Literal adherence to the rules of three quotes, best price tendering • Lack of market awareness • Learned behavior • Lack of understanding of the power base (their own in relationship to the deal and in relationship to Transnet Management, the supplier's, the impact of the deal on the supplier's bottom-line, etc). • Lack of Proper training • Lack of time (poor planning) <p>Often, the supplier will "bully" the buyer into the deal through use of intimidation, superior expertise and knowledge, product availability, and other tactics.</p>	<p>All of the interventions that we have identified so far will help to reduce this tendency, but other requirements such as:</p> <ul style="list-style-type: none"> • Learning to build relationships based on sincerity and honesty • Making more buyers accountable for the quality and the nature of the deals • Encouraging the introduction of innovation and new technology within Transnet with a focus on TCO reduction and enhanced fit for purpose goods and services • Encouraging open book pricing with our strategic partners • Rewarding suppliers (where possible) with the appropriate attitude of cooperation and collaboration.

APPENDIX D: NIPP Obligations

Transnet related IP Obligations

Transnet Suppliers with NIPP obligations		Spend Commodity	DTI discharge date	Value of NIPP Obligation	
1	Jan de Nul	Dredging	2012	€9.4800 m	R 94.80 m
2	Kalmar	158 Straddle carriers	<i>not signed yet</i>	€27.2500 m	R 272.50 m
3	Liebherr	14 Cranes	2013	€24.7600 m	R 247.60 m
4	Mitsui (MARS) Venus (Mitsui subsidiary)	110 Locos	2013	\$50.4300 m	R 353.01 m
5		32 Locos	2014	\$27.7400 m	R 194.18 m
6	Van Oord	Berth 306 construction @ Richards Bay	2013	\$3.9850 m	R 27.90 m
7	Alstom SA	9E Locos	<i>discharged</i>		R 25.3800 m
TOTAL NIPP OBLIGATIONS OF 7 TRANSNET DEALS:					R 1,215.37 m
TRANSNET SUPPLIERS' UNDISCHARGED NIPP OBLIGATIONS					R 1,189.99 m

1.1 Jan de Nul

Jan De Nul (*Belgium*) was awarded a contract (Contract No. NPA 395) for the “Dredging Works for the proposed Port of Ngqura” by the National Ports Authority. The obligation value is €9,48 million. The company has until 2012 to discharge this obligation.

1.2 Kalmar

Kalmar Industries Oy Ab (*Finland*) was awarded a contract for the supply of 158 (one hundred and fifty eight) straddle carriers as per contract number HQH232C, from 2001 to 2006 by the South African Port Operations (SAPO). The obligation value is €27,25 million. There has been no positive co-operation from Kalmar regarding how this obligation will be discharged and no agreement has been signed yet.

1.3 Liebherr Container Cranes

Liebherr (*Ireland*) was awarded contract for the supply of 14 (fourteen) ship-to-shore container cranes in terms of the Tender Reference Number HQH 23/05, by South African Port Operations (SAPO). The obligation value is €24,76 million. The company has until 2013 to fulfill this obligation.

1.4 Mitsui African Railway Solutions (MARS)

MARS (*South Africa*), a subsidiary of Mitsui of Japan was awarded a contract by Spoornet for the development and supplying of 110 locomotives in terms of the Main Line Locomotives Investment Programme (MLLIP) tender number 102072105. The obligation value is US\$50,43 million and this obligation is supposed to be discharged by 2013.

1.5 Venus Railway Solutions

Venus (*South Africa*), a subsidiary of Mitsui of Japan was awarded a contract by Spoornet for the development and supplying of 32 locomotives in terms of the Main Line Locomotives Investment Programme (MLLIP) tender number 102072105. The obligation value is US\$27,73 million and this obligation is supposed to be discharged by 2014.

1.6 Van Oord

Van Oord (*The Netherlands*) was awarded a contract by National Port Authority for the construction of berth 306 at the Port of Richards Bay in terms of the contract RCB/ENG 00038/3/RBCT 306. The obligation value is US\$3,985 million and it is supposed to be discharged by 2013.

1.7 Alstom SA (*South Africa*)

Alstom was awarded a contract by Spoornet for the design and construction of the Spoornet's 9 E locomotive in terms of contract number 200068/S00AT7. The obligation value amounting to ZAR25,38 million has already been discharged.

**APPENDIX E : Guiding Principles followed developing
Transnet's CSDP Approach**

Design Requirement	Deliverable
<p>Flexible approach</p>	<ul style="list-style-type: none"> • <i>Stability:</i> Transnet will make every effort to ensure that they provide the market with a coherent view of our spend and our key focus areas • <i>Solution oriented:</i> As Transnet changes and matures, they will go to market more often looking for solutions from suppliers to work more closely in developing relationships and the market, not just making purchases • <i>Relationship:</i> any CSDP opportunity will be contractual and will focus on remedies and continuous improvement. • <i>Total cost of ownership model:</i> all CSDP opportunities must focus on all impacts to costs: purchase costs, internal costs and life cycle costs. Any CSDP deal will measure how the deal will improve Transnet's bottom line and the impact to the economy.
<p>Case by case evaluation</p>	<ul style="list-style-type: none"> • <i>Manage the plan:</i> While Transnet will have, as part of the process to develop and maintain a development plan, pre-determined some of the of potential opportunities, each subsequent proposal must be reviewed on first it's own merit and then on how it fits into the overall plan. • <i>Value for effort</i> will drive the decision as to whether to pursue a CSDP opportunity. Not all opportunities will generate NVA directly. Some deals will actually improve quality, reduce cycle times, improve the relationship with foreign OEM suppliers or improve our skill base. • <i>Contact:</i> Transnet will determine and communicate the method in which suppliers can approach us with unsolicited bids.

Design Requirement	Deliverable
<p><i>Procedures and policies</i></p>	<ul style="list-style-type: none"> • <i>The Plan:</i> the plan is a “living document” which is constantly validated, updated and changed when required. • <i>Prioritisation</i> of needs and spend will occur on a yearly basis to ensure that we have sufficient resources to implement. • <i>Processes:</i> must at a minimum provide the necessary guidelines for identification, evaluation, approval and measuring CSDP opportunities. • <i>The Detailed Procurement Procedure (DPP)</i> must be updated with the relevant policies to ensure good governance and ensure compliance to the PFMA and other legislation. • <i>Templates:</i> templates will be developed and distributed to Supplier Development Managers to assist in the creation of - opportunity identification, business case, measurement reports; contracts. This will ensure consistency and ability to compare the merits of each deal.
<p><i>Deliver in an effective, sustainable manner</i></p>	<ul style="list-style-type: none"> • <i>Implementable:</i> each deal must be measurable, add to the economy and provide Transnet with added value • <i>Over sight:</i> once a deal has been agreed and contracted, a resource must be available to review the progress to the implementation plan. • <i>KPI's / measurable:</i> Each deal must be supported by robust measures and supplier / market benchmarks. This will ensure successful impact to Transnet and the market. Benchmarking will ensure that the supplier is involved in improvement processes as well. • <i>Long-term commitment:</i> to be effective, the deal must be longer than the original purchase contract. This is to ensure that there is an adequate exchange of Intellectual Property (IP), skills and / or expertise. • <i>Commitment to change:</i> throughout the deal, change must be encouraged for both the supplier and Transnet. Where Transnet is impeding the deal, actions need to be taken to rectify the situation.

Design Requirement	Deliverable
Supplier code of ethics	<ul style="list-style-type: none"> • <i>Develop a Code:</i> Transnet, in conjunction with other key stakeholders, will attempt to create a Code of Ethics that will help to manage relationships and provide a path for change.
Stakeholder Management	<ul style="list-style-type: none"> • <i>Involvement:</i> Transnet will ensure that all stakeholders are informed and consulted on a regular basis. We anticipate the following interventions: <ul style="list-style-type: none"> - Ongoing discussions with industry associations through contact with Managing directors and public forums as required; - Bi-monthly discussions with the relevant contacts at the DTI regarding industry sector plans; - Regular meetings with DTI regarding NIPP obligations (as per supplier requirement); and - Meetings on Plans, opportunities and supplier benchmarking as planned by the DPE. • <i>Industry Information:</i> Transnet will participate in any government initiative such Power clusters / component hubs, etc. that focus on improving the performance of an industry sector or sub-sector.

APPENDIX F: Steps in Transnet's CSDP Approach

- 1) Align spend - identify the opportunities
- 2) Conduct the sourcing event
- 3) Categorise and record the opportunity
- 4) Approve the opportunity in principle
- 5) Negotiate with the supplier
- 6) Develop the business case and obtain approval
- 7) Create and finalise the contract
- 8) Measure the supplier

The following is a high level overview of the approach:

1) **Align spend - identify the opportunities**

Once our spend has been analysed for the upcoming year, we would determine if there are any CSDP (and other development opportunities), based on their potential value. We have identified four major types of opportunities (as shown below) that Transnet will focus on in its strategy. On the basis of the value of our spend commitment, one of the four types apply:

- Local Expansion;
- Increased Export Capacity;
- OEM Manufacturing; and
- Optimising NIPP Obligations.

For further details, refer to the next section (Determine the Opportunities).

2) **Conduct the sourcing event**

From a governance and control perspective, we have determined that it will be more appropriate to focus on opportunities that arise through the tender process:

- The process satisfies all of our regulatory and social obligations as a public entity. It ensures that we provide a consistent mechanism for evaluation and award. As such, we will reduce our exposure to litigation and claims of preferential treatment;
- This is the point at which Transnet can exert the most influence in the relationship and can help to ensure that an optimal deal will be reached;
- At this point, we can effectively reach more potential suppliers who may provide more suitable solutions than traditional suppliers;

Supplier Development Plan

Transnet will entertain unsolicited opportunities or joint development initiatives with current suppliers under the following conditions:

- If the opportunity will generate substantial benefits with minimum effort;
- The deal is unique and cannot easily be provided by the supplier's competitors;
- If the supplier is a long-term or sole supplier and the deal will provide mutual benefit; or
- If a supplier began with a Transnet Enterprise development initiative and is now in the position to expand globally.

A committee of supplier development managers and other senior management will adjudicate any other type of initiative.

3) **Categorise and record the opportunity**

Once the tenders have been evaluated or the initiative has been approved in principle, the opportunity will be categorised and loaded into the opportunity template. This template will provide the:

- Background of the deal;
- The details of the relationship and investment to be made;
- The expected benefits (both financial and secondary);
- The TCO model for the commodity;
- The risks that need to be mitigated;
- The National Value Add (NVA) and other measures; and
- The signed Memorandum of Understanding (MOU).

4) **Approve the opportunity in principle**

Once the details of the opportunity have been captured and initial discussions have occurred with the supplier, the opportunity will be reviewed by the supplier development managers and the CPO forum to provide guidance and approval.

If required, the opportunity will also be reviewed by the Acquisition Council to agree award, if the CSDP proposal was a determining factor in the award (i.e. technical capabilities, price and BBBEE status were all relatively equal and the supplier was awarded the tender based on their proposal).

5) **Negotiate with the supplier**

Once approval has been obtained, negotiations (over and above the contract) will begin with the preferred bidder(s), as approved by the Acquisition Council. These negotiations entail developing:

- The details of the relationship;
- The services / parts to be supplied;
- The investment agreement;
- The future pricing / delivery agreement; and
- Terms and conditions

6) **Develop the business case and obtain approval**

Once the main details of the deal have been agreed, the business case is created and approval is sought by the appropriate governance body (Transnet is currently looking at the feasibility of using the Investment Committee). The business case is a Transnet standard that is currently used for all capex purchases. The business case is not so much concerned with Return on Investment (ROI) but rather on the overall TCO Model for Transnet.

Once a business case is developed, it is circulated to the appropriate business unit Supplier Development Managers and CPOs for final comments. It is then sent for approval.

Currently, the primary policy is that Transnet, in principle, will not enter into an equity arrangement with a supplier. However, it may be a requirement that any monies invested will have to generate a return equal to the current Transnet hurdle rate.⁴ Most deals will not involve the exchange of money either in Transnet holding funds or investing funds on the suppliers' behalf or Transnet providing funds to the supplier.

Value will be placed on all aspects of the transaction, including but not limited to: intellectual property, skills transfer, off shore training, expansion, enterprise development, reduction of price, reduction of lead time, etc.

7) **Create and finalise the contract**

Once the business case is approved, Transnet will enter into a contractual agreement with the supplier. Most deals should have an life span greater than the initial purchase contract for it to be a truly effective CSDP opportunity.

⁴ Currently set at approximately 8.5% to 9%

8) **Measure the supplier**

The contract will include all of the processes and procedures for relationship management. It will include:

- The mechanism for measurement and the anticipated KPIs;
- The frequency of the measurement;
- The parties involved;
- The required continuous improvement activities; and
- The benchmark activities that will be entered into, the parties involved, and the frequency.

APPENDIX G: National Competitiveness Balance Sheet: South Africa

Global Competitiveness Index: South Africa: Country/Economy Analysis

	Rank (Out of 131 countries/economies)	Score (Out of 7)
Global Competitiveness Index 2007-2008	44	4.42
Global Competitiveness Index 2006-2007 (out of 122)	36	4.54
Subindex A: Basic requirements	61	4.45
1st pillar: Institutions	39	4.55
2nd pillar: Infrastructure	43	4.22
3rd pillar: Macroeconomic stability	50	5.08
4th pillar: Health and primary education	117	3.96
Subindex B: Efficiency enhancers	36	4.44
5th pillar: Higher education and training	56	4.12
6th pillar: Goods market efficiency	32	4.73
7th pillar: Labor market efficiency	78	4.16
8th pillar: Financial market sophistication	25	5.19
9th pillar: Technological readiness	46	3.57
10th pillar: Market size	21	4.89
Subindex C: Innovation and sophistication factors	33	4.16
11th pillar: Business sophistication	36	4.61
12th pillar: Innovation	32	3.71



National competitiveness balance sheet: SOUTH AFRICA

NOTABLE COMPETITIVE ADVANTAGES Rank/131

1st pillar: Institutions

01.17	Efficacy of corporate boards	4
01.16	Strength of auditing and reporting standards	6
01.18	Protection of minority shareholders' interests	13
01.09	Efficiency of legal framework	17
01.01	Property rights	22
01.05	Judicial independence	23
01.02	Intellectual property protection	24
01.07	Wastefulness of government spending	27
01.10	Transparency of government policymaking	30
01.15	Ethical behavior of firms	39
01.11	Business costs of terrorism	43

2nd pillar: Infrastructure

02.06	Available seat kilometers (hard data)	21
02.05	Quality of air transport infrastructure	22
02.02	Quality of roads	38
02.03	Quality of railroad infrastructure	41
02.01	Quality of overall infrastructure	43

3rd pillar: Macroeconomic stability

03.04	Interest rate spread (hard data)	43
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NOTABLE COMPETITIVE DISADVANTAGES Rank/131

1st pillar: Institutions

01.12	Business costs of crime and violence	126
01.13	Organized crime	112
01.14	Reliability of police services	104
01.08	Burden of government regulation	101
01.06	Favoritism in decisions of government officials	53
01.03	Diversion of public funds	49
01.04	Public trust of politicians	48

2nd pillar: Infrastructure

02.08	Telephone lines (hard data)	87
02.07	Quality of electricity supply	83
02.04	Quality of port infrastructure	48

3rd pillar: Macroeconomic stability

03.02	National savings rate (hard data)	103
03.03	Inflation (hard data)	70
03.05	Government debt (hard data)	49
03.01	Government surplus/deficit (hard data)	48

Supplier Development Plan

4th pillar: Health and primary education

04.11 Education expenditure (hard data) 32

4th pillar: Health and primary education

04.05 Business impact of HIV/AIDS 129
04.06 HIV prevalence (hard data) 126
04.04 Tuberculosis incidence (hard data) 125
04.03 Business impact of tuberculosis 124
04.08 Life expectancy (hard data) 120
04.01 Business impact of malaria 109
04.07 Infant mortality (hard data) 99
04.09 Quality of primary education 99
04.10 Primary enrollment (hard data) 93
04.02 Malaria incidence (hard data) 86

5th pillar: Higher education and training

05.08 Extent of staff training 21
05.05 Quality of management schools 22
05.07 Local availability of specialized research and training services 33

5th pillar: Higher education and training

05.04 Quality of math and science education 128
05.03 Quality of the educational system 104
05.02 Tertiary enrollment (hard data) 90
05.06 Internet access in schools 86
05.01 Secondary enrollment (hard data) 51

6th pillar: Goods market efficiency

06.08 Agricultural policy costs 14
06.03 Effectiveness of anti-monopoly policy 18
06.04 Extent and effect of taxation 26
06.15 Buyer sophistication 33
06.02 Extent of market dominance 36
06.09 Prevalence of trade barriers 38
06.05 Total tax rate (hard data) 39

6th pillar: Goods market efficiency

06.12 Business impact of rules on FDI 79
06.07 Time required to start a business (hard data) 70
06.13 Burden of customs procedures 68
06.10 Trade-weighted tariff rate (hard data) 65
06.14 Degree of customer orientation 64

Supplier Development Plan

7th pillar: Labor market efficiency		
07.03	Non-wage labor costs (hard data)	11
07.08	Reliance on professional management	15
07.06	Firing costs (hard data)	38

8th pillar: Financial market sophistication		
08.02	Financing through local equity market	4
08.08	Regulation of securities exchanges	5
08.06	Strength of investor protection (hard data)	9
08.01	Financial market sophistication	15
08.07	Soundness of banks	16
08.04	Venture capital availability	41

9th pillar: Technological readiness		
09.04	FDI and technology transfer	24
09.02	Firm-level technology absorption	30
09.03	Laws relating to ICT	32
09.01	Availability of latest technologies	40

06.11	Prevalence of foreign ownership	56
06.06	Number of procedures required to start a business (hard data)	52
06.01	Intensity of local competition	52

7th pillar: Labor market efficiency		
07.05	Hiring and firing practices	129
07.02	Flexibility of wage determination	121
07.01	Cooperation in labor-employer relations	120
07.10	Female participation in labor force (hard data)	102
07.07	Pay and productivity	92
07.04	Rigidity of employment (hard data)	70
07.09	Brain drain	69

8th pillar: Financial market sophistication		
08.05	Restriction on capital flows	111
08.09	Legal rights index (hard data)	47
08.03	Ease of access to loans	44

9th pillar: Technological readiness		
09.08	Broadband Internet subscribers (hard data)	74

Supplier Development Plan

10th pillar: Market size		
10.01	Domestic market size index (hard data)	19
10.02	Foreign market size index (hard data)	28

11th pillar: Business sophistication		
11.08	Extent of marketing	17
11.01	Local supplier quantity	26
11.02	Local supplier quality	29
11.09	Willingness to delegate authority	30
11.06	Control of international distribution	32

12th pillar: Innovation		
12.04	University-industry research collaboration	24
12.03	Company spending on R&D	26
12.02	Quality of scientific research institutions	27
12.07	Utility patents (hard data)	39
12.01	Capacity for innovation	43

09.06	Internet users (hard data)	73
09.07	Personal computers (hard data)	62
09.05	Mobile telephone subscribers (hard data)	47

11th pillar: Business sophistication		
11.05	Value chain breadth	79
11.04	Nature of competitive advantage	70
11.07	Production process sophistication	47
11.03	State of cluster development	45

12th pillar: Innovation		
12.06	Availability of scientists and engineers	104
12.05	Government procurement of advanced technology products	52

APPENDIX H: The Competitiveness Roadmap 2007 to 2050

