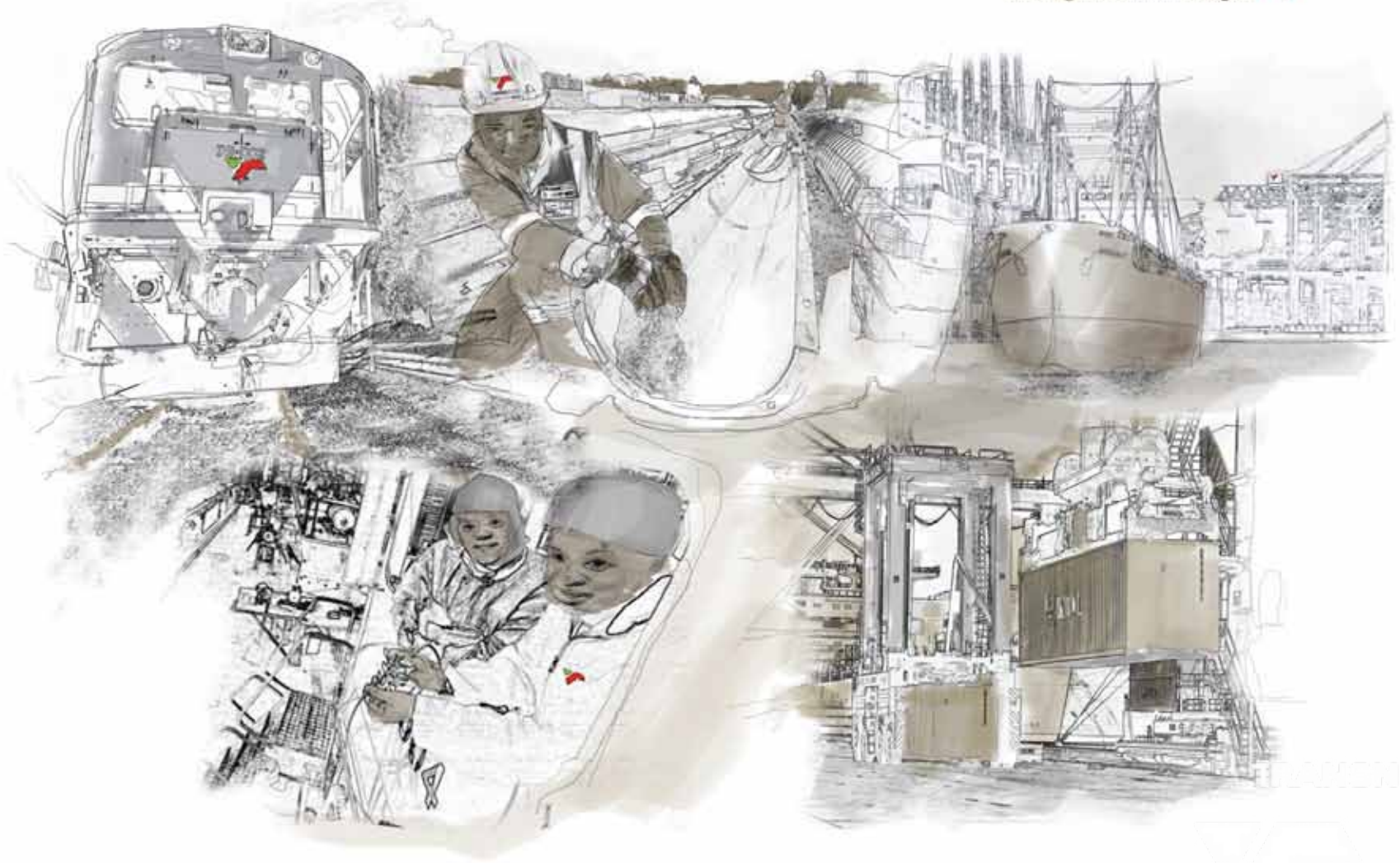


PRESENTATION TO PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES PROCUREMENT AND SUPPLIER DEVELOPMENT

TRANSNET



delivering on our commitment to you



TRANSNET

14 October 2010

driving our business forward



iSCM (Integrated Supply Chain Management) Strategy :

Executive summary

- In response to declining performance and the expected economic turnaround, **Transnet's 09/10 strategic objectives** for the next 5 years will focus around volume and revenue growth, creating capacity, operational efficiency, financial strength, safety and health, and development of people all underpinned by good governance and compliance
- Transnet requires a **'quantum leap' in performance** in order to reach its aspirations and take advantage of opportunities created by increased global demand for key commodities. Supply chain management (SCM) can significantly contribute to delivering Transnet's strategic objectives through optimising inbound supply chain activities to enable efficient and reliable outbound services to the end customer
- The execution of an integrated Supply chain strategy across Transnet will **deliver sustainable value** through building the foundation where SCM is recognised as providing strategic advantage through increasing efficiency and effectiveness with seamless delivery to internal customers, demand management, optimizing warehouse capacity and inventory levels, integrated strategic sourcing and local supplier and skills development, whilst observing good governance
- The potential opportunity for Transnet will result in significant savings over the next 5 years through strategic sourcing activities and additional working capital savings through optimizing logistics and warehousing. As a result of improving the P&L bottom line and asset optimisation, SCM will make a significant contribution to increasing **Shareholder Value Add (SVA)**
- iSCM acknowledges that it is in its early stages of maturity, and a key focus over the first 2 years will be to **stabilize SCM and build the foundation** leading to **innovation** in the next phase, and eventually becoming a **differentiated** "world class" SCM organisation
- Using best practice principles, and undertaking a collaborative approach across all ODs and group, an **integrated 'one supply chain management (iSCM)' strategy** and operating model has been developed with centre led **Centres of Excellence (COEs)** with cross-functional teams, comprised of divisional and corporate task team members, to deliver value through improved efficiencies and compliance to the regulatory environment
- Key strategic objectives will be executed through the COEs with a **risk mitigation plan** supported by **Enterprise Risk Management (ERM)**. Each COE, their strategic objectives as well as the overall iSCM will be **measured and monitored** through structured comprehensive **performance dashboards** and monthly COE and iSCM council meetings

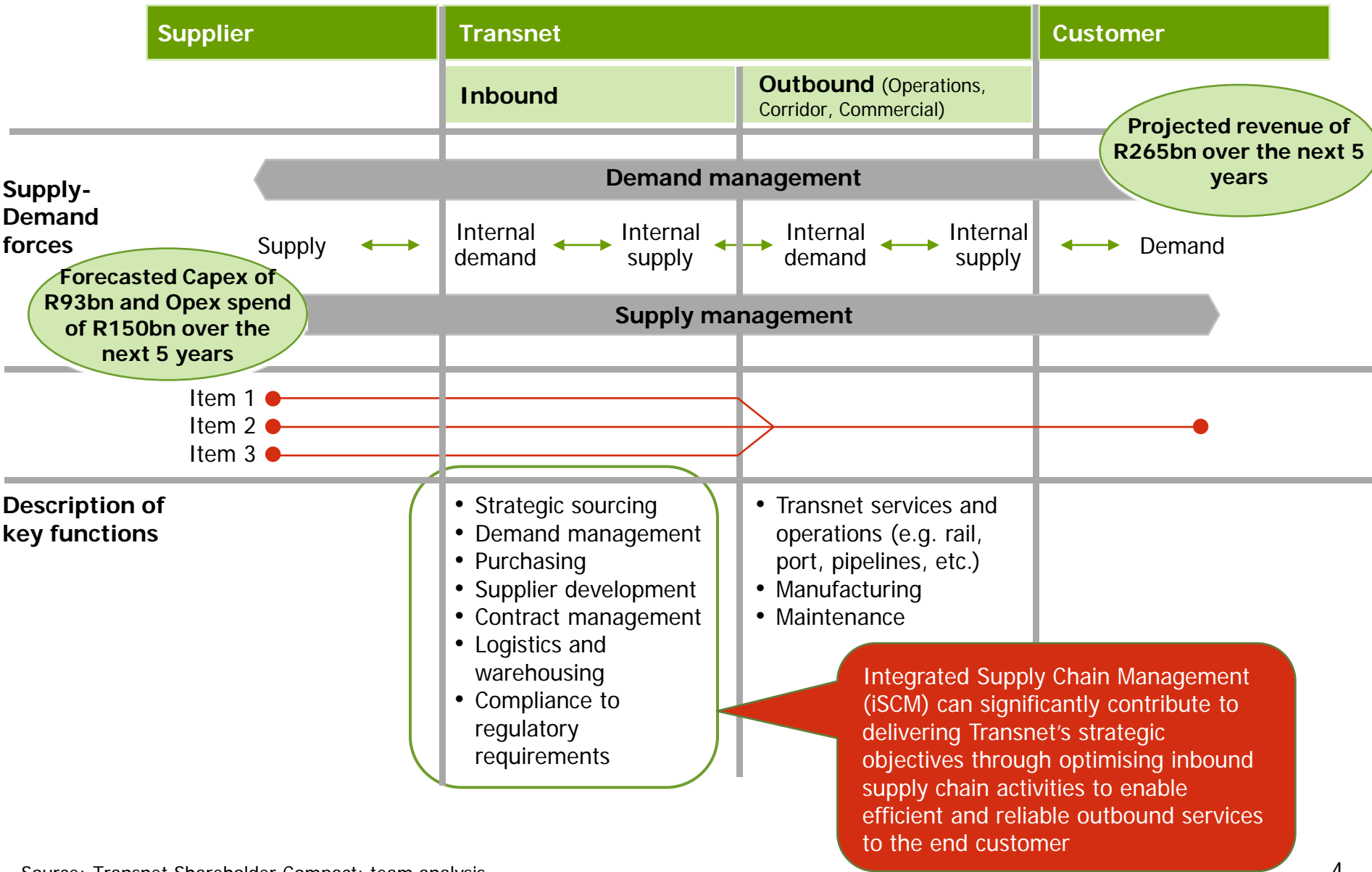




Supply chain management plays a critical role in enabling Transnet's strategic objectives

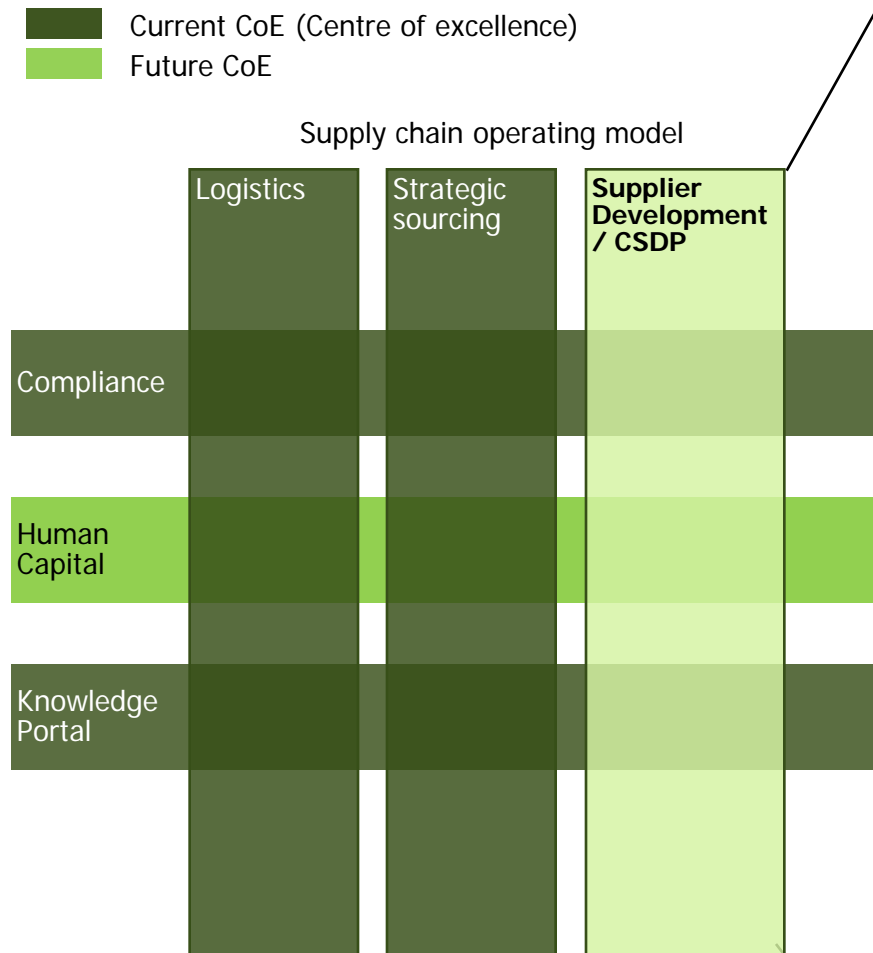


Through optimized inbound supply chain management, Transnet will more effectively deliver services to it's customers





Transnet has integrated supplier development (SD) into its supply chain operating model in order to fully realise the benefits available



Supplier Development (SD) consists of 2 key elements CSDP and BBBEE (ED and preferential procurement)

Supplier Development focuses on improving the socio-economic environment by creating competitive local suppliers. SD consists of 2 components, BBBEE and CSDP :

1 Competitive Supplier Development Programme (CSDP)

- A procurement practice that contributes toward competitiveness by leveraging SOE procurement to develop a local supplier base indirectly by placing influence on the multinational to develop downstream suppliers.

2 Enterprise Development (ED) and Preferential Procurement (PP)

- Typically enterprise development, refers to the wide range of non-financial services that helps poor entrepreneurs start new businesses and grow existing ones.
- ED in SA is largely influenced by BBBEE and therefore includes financial services in the form of direct monetary investments in local suppliers.
- ED can be used to develop a sustainable PP supply base for key components in the supply chain.

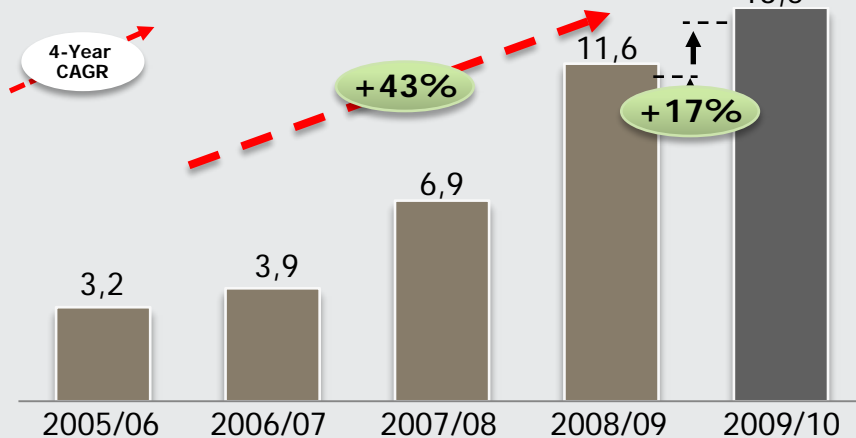
Benefits of SD to the SOE:

- Ensure security of supply to the SOE;
- Contribute to the reduction in operating cost of the SOE;
- Reduce the reliance on imported product;
- Enhance the local IP and skills base; and
- Improved economic growth and competitiveness through the development of export capabilities in the local industry



Transnet has progressed significantly in transforming its supplier base towards a Broad Based Black Economic Empowerment supply base

BBBEE Spending (R billion)
(TMPS = R20.7 billion)



Black-owned Enterprises

R3.2bn

(24% of BBBEE Spend)

Exempted Micro-Enterprises

R1.9bn

(14% of BBBEE Spend)

Other
BBBEE
R4.9bn

Qualifying Small Enterprises

R2.7bn

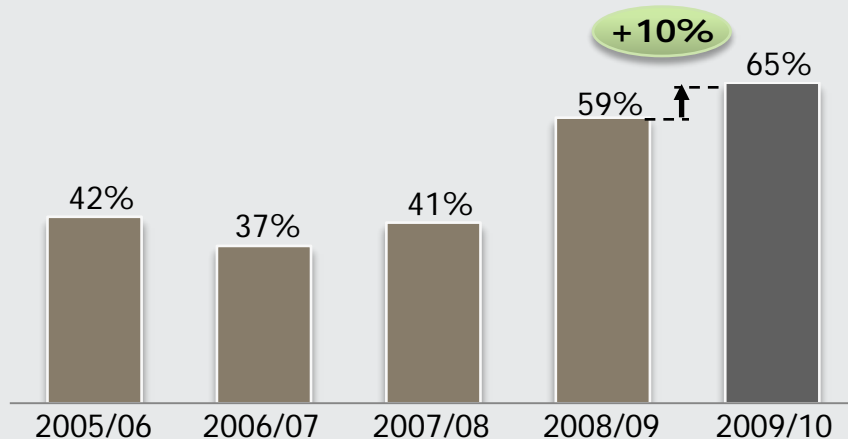
(20% of BBBEE Spend)

Black Woman-Owned Enterprises

R0.8bn

(6% of BBBEE Spend)

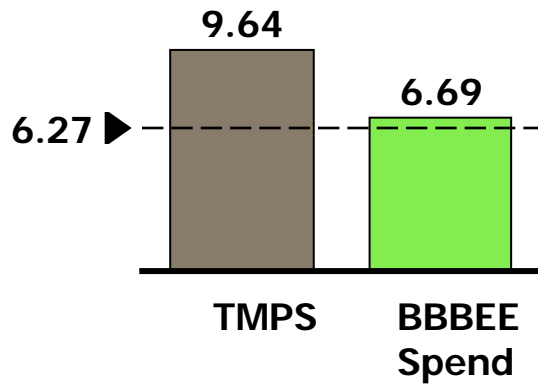
BBBEE % Spending against TMPS



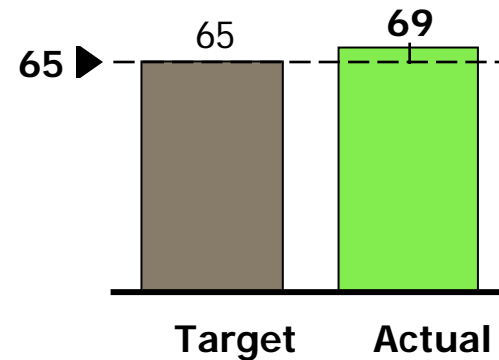
- Transnet is fully committed to and has a proud record of empowering small, medium and black enterprises as well as giving effect to Government's policy on BBBEE
- Significant focus has been placed on BBBEE spend evidenced by the large increase in spend in recent years
- Emphasis has been placed on improving Preferential Procurement and Enterprise Development which is led by the supplier development centre of excellence

Transnet's Year to date Broad Based Black Economic Empowerment Spend (August 2010)

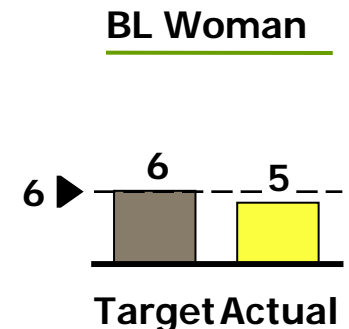
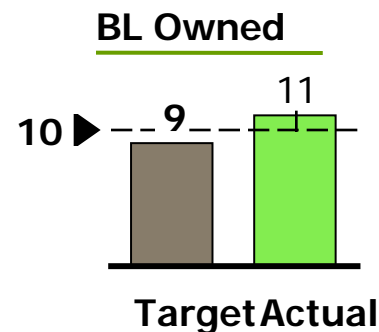
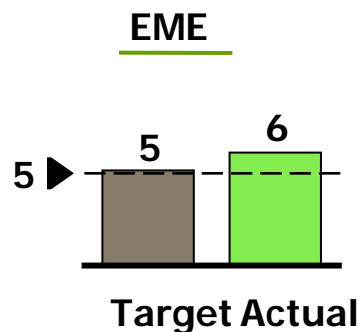
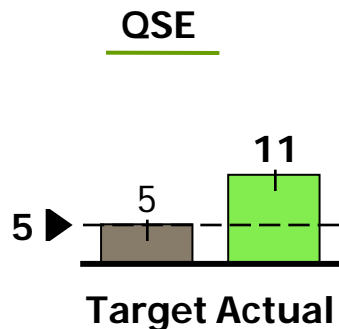
YTD Group BBBEE spend vs. TMPS (Rbn) against target



YTD Group BBBEE spend of TMPS (%) against target



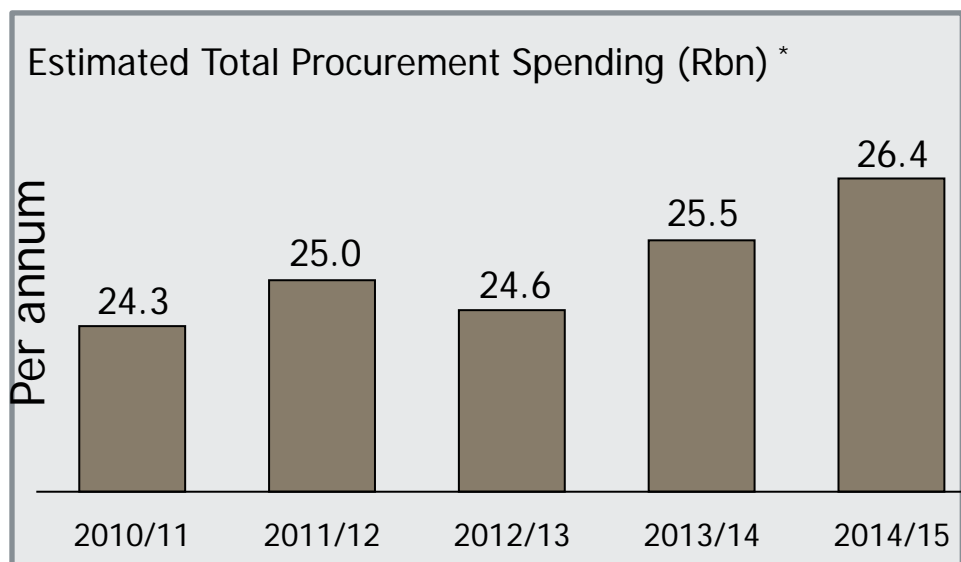
YTD BBBEE Categories spend of TMPS (%)



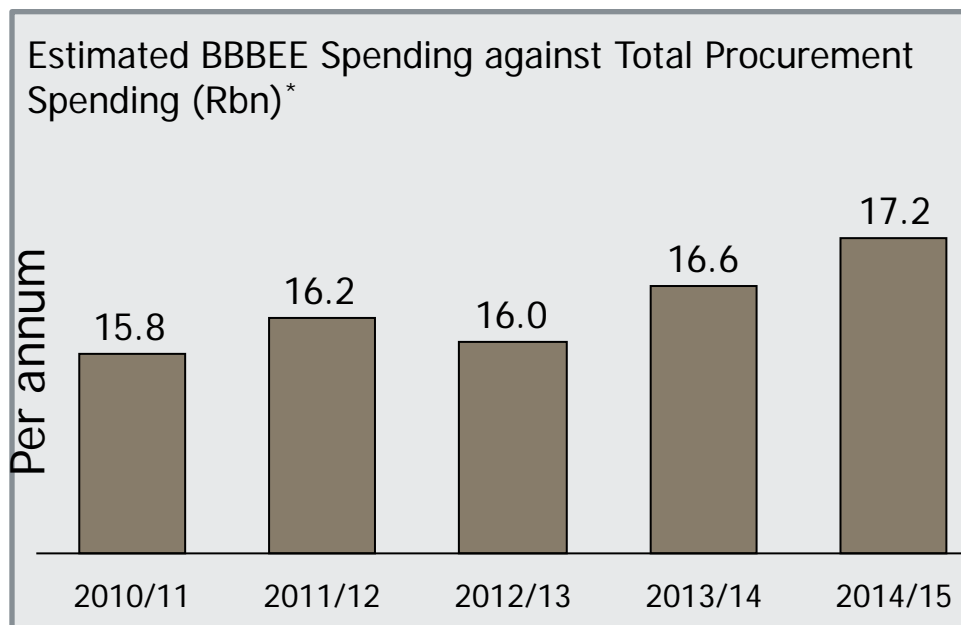
Transnet is confident that it will continue to exceed the target of 65%

TMPS = Total Measurable Procurement Spend

Transnet plans to further improve the Broad Based Black Economic Empowerment supply base in future – Future BBBEE plans and targets



BBBEE procurement spending going forward
~ R15-17bn per annum over the next 5 years



* Based on 2010/11 Transnet Corporate Plan and targeted ratios



The value of the procurement, the length of the contract and the current supplier market analysis determines the type of localisation effort pursued



- Generally focuses on skills transfer in the related industry
- This type of transaction is generally targeted for once-off purchases or situations where it is clear a competitive local supplier base cannot be developed

Initiatives

- SAFCEC Diamond Academy
- Youth in Construction.
- Company-to-Company Mentoring Programme (Contractor Development)
- Welding Academy & NMPP Welding school
- NMPP Harrismith B&B project
- Procurement Boot-camps
- Transnet's 'Schools of Excellence'

- Developing local capability and competitiveness to meet international standards
- Allows for import substitution and developing export capability
- Includes skills transfer
- Skills transfer generally linked to manufacturing process

Initiatives

- GE 100 30ACi loco deal & long term spare parts deal
- EMD 39-200 class Loco purchase (50 Like New) & long term spare parts deal
- Mitsui/UCW 44 15E and 110 19E loco purchases
- Concrete Sleepers
- Various other deals concluded and Port Handling Equipment still under negotiation and tender phase
- Significant localisation achieved under large Capex programs

- A deliberate plan to build a specific commodities/ industry to develop new and enhance existing capabilities to gain competitive advantage
- Allows for exports
- Government support required
- Comprises a no. of localisation initiatives that are phased over time

Initiatives

- Transnet is currently collaborating with DPE and Dti to investigate the benefits of developing a local locomotive industry
- Transnet is in full support of the Industrial Policy Action Plan and anticipates a number of advantages for Transnet and its domestic supplier industry arising from the implementation of the plan



To embed CSDP at Transnet a phased approach is being followed. Transnet is in embed and implement phase

Current focus

← 2008 2009 2010 2011 →

Phase 1: Develop the plan

Design phase

- Migration from NIPP to CSDP to be initiated, migration from an off set program to a supplier development/localization strategy
- Align Transnet CSDP understanding with DPE
- Conduct analysis to determine challenges and opportunities with regard to CSDP
- Draft initial plan
- Initiate pilots to obtain lessons learnt
- Develop SDP
- Gain approval from DPE

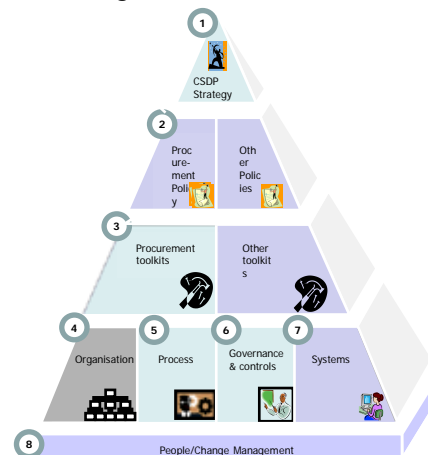
Phase 2: Build the foundation

Phased rollout

- Develop governance and policies associated with CSDP.
- Develop a CSDP process that does not jeopardise the competitiveness, fairness and transparency of the bidding process and integrate CSDP into a robust procurement process
- Develop a communications plan that will ensure that all key stakeholders are adequately involved (benchmarking suppliers, working with other SOEs and government organisations –DTI,DPE etc.)
- Start procurement skills training so that staff are trained to do co-ordinated purchasing

Phase 3: Embed CSDP

- Mobilise team/develop organisation structure responsible for CSDP delivery
- Obtain and revise capex spends to create tangible business cases for CSDP initiatives
- Initiate a short-term supplier development skills-focused training programme to improve skills of staff selected to deliver on the localisation initiatives linked to the capex programme.
- Use consolidated demand to clarify local industry's place within Transnet's CSDP strategy
- Collaborate with BUs to start using longer term demand forecasting
- Start instilling a programme of standardisation of capital equipment
- SCM to broaden its reach of strategic sourcing practices in Capex commodities
- Execute second and third focus of Transnet's SCM critical path



Transnet has already secured significant localization opportunity via major rolling stock CSDP transactions



EMD

Localisation

CSDP Plan Component

- § Incorporate TRE into Global Supply Chain :
 - § for rebuilt traction motors and diesel engines,
 - § to accredit TRE's maintenance facilities for EMD Locomotive maintenance
 - § and to localise the supply of at least 10% of the value and/or quantity of the parts listed per the Spare Parts Agreement
- § Achievements with regards to the Supply Chain
 - § EMD Developed over 300 local suppliers for the 39-200 locomotive co-production
 - § Key suppliers were (Scaw – Locomotive Cast Bogies; Kare – Fuel Tanks and other fabrications; TSW – Springs; DSC – Locomotive Under frames
- § Approximately 2000 of the 3000 parts on the locomotive were South African Sourced – 67% "South African"

Skills Development

- § CSDP goals will be achieved through the transfer of skills and relevant intellectual property required to carry out the activities mentioned.
- § Execution of the EMD CSDP plan is well underway – Tooling has already been provided and EMD experts (approximately 5 at any one time) have been on the floor since 1 January 2010, guiding, training and advising employees to achieve the desired end state.
- § First Quarter: 800 Advisor Hours

National Value Add (NVA)

- § EMD is already actively supporting TRE in acquiring new work in Africa.
- § Significant national value add has been provided*

Strategic Thrust

- Presents TRE with the Opportunity to Export traction motors via the EMD Supply Chain
- Significant opportunity to localise parts sourcing
- Access to global market via EMD marketing efforts
- Skills and Intellectual property transfer
- High National Value Add

GE

Localisation

CSDP Plan Component

- TRE to provide local labour and materials for the 100 GE C30ACi locomotives to be sold to TFR
- GESAT (BBBEE compliant company based in SA) is to be developed to provide adequate customer support for GE locomotives in South Africa.
- GE shall procure locomotive parts and components over a 10 year period, from the South African rail industry. This shall be done through the development and supplier approval of South African based suppliers / manufacturers

Skills Development

- GE developed a CSDP plan consisting of 3 main initiatives – training for maintenance development:
 - ü Lean, Six Sigma - 20 candidates
 - ü Candidate Engineers - 6 candidates
 - ü Localization of various components and parts as well as a license agreement with TRE for the overhaul and modernisation of GE locomotives
 - ü Fuel support - 8 candidates
- Professional and academic learning.
- Candidates become expert “train the trainer” associates for Transnet engineering training program
- Significant skills development

NVA

- § Potential NVA value of greater than a billion Rand
- § Biggest CSDP transaction to date in RSA

Strategic Thrust

- Direct skills transfer to 56 people in Transnet
- Substantial direct NVA in the form of localisation efforts greater than R1 billion
- Licensing agreement to operate under GE licence



Current localisation initiatives example: Concrete Sleepers

Description

- Historically Transnet has imported concrete sleepers
- Transnet collaborated with international firms to develop local manufacturing facilities for the production of concrete railway sleepers
- Joint ventures were proposed with HDI entities
- To date both suppliers have supplied approximately 135000 sleepers to Transnet

Progress to date	Supplier A	Supplier B
No. of Sleepers Over 5 year contract	200 000 Sleepers	200 000 Sleepers
Investment Value: (Building, Plant, Machinery, Land Development & Working Capital)	R75m	R80m
Current Number of Employees (95% HDI)	83 (New Jobs Created)	50 (New Jobs Created)
Commencement of Production And Site Area	1 April 2009 Ladysmith (KZN)	1 March 2010 Kimberley (NC)
Number Of Sleepers supplied to TFR to Date	120 000	15 000
Black Ownership	40%	51%



Transnet has also had and is currently negotiating a number of ongoing successful supplier development (SD) initiatives over the past 3 years

	CSDP/SD Component	Strategic Thrust
VAE	<ul style="list-style-type: none"> Transnet and the National Foundry Technology Network matched foundry to 100% local supply component CSDP Obligations were also included into the new tenders 	<ul style="list-style-type: none"> Local manufacturing of railway crossings The CSDP obligation will be implemented once the VAE contract has been signed
Surtees Penn	<ul style="list-style-type: none"> Feasibility study to establish localisation opportunity 	<ul style="list-style-type: none"> Local re-profiling of gears Gears were sent for re-profiling and failed the acceptance testing. Engineers are investigating the matter as well as future feasibility
Kalmar	<ul style="list-style-type: none"> Building a Cargotec (port handling equipment and freight solutions) training school with free training hours 	<ul style="list-style-type: none"> Skills Development Transnet is currently following up on the status
Liebherr	<ul style="list-style-type: none"> Has previous NIPP obligations which they need to fulfill within 7 years from start of obligation 	<ul style="list-style-type: none"> Specific will be centred around Ngqura Transnet is currently following up on the status
Various Other Deals	Transnet is currently busy with various other deals including Locomotives, Port handling equipment such as Cranes, RTG's, Ship Un-loaders etc.	<ul style="list-style-type: none"> Tenders are currently out to the market and the information is regarded as confidential at this stage. Information will be made available as and when the tenders have been awarded.

Transnet currently has 7 Existing NIPP opportunities across its Operating Divisions

- § DTI is currently handling the monitoring of all 7 NIPP obligations of the various Transnet suppliers
- § Only one supplier i.e. Alstom has fully discharged its NIPP obligations
- § Transnet is working closely with DTI to fast-track progress on the outstanding NIPP obligations

	NIPP Component	Value
Alstom	9E	• R25.8 million
Mitsui (VENUS/MARS)	Extension of the 19E contract – electric locomotive – by 35 vehicles	• \$25.22 million
Cargotec Finland OY/Kalmar	HQH 232 – Supply of straddle carriers & HQH -13/05 Supply of rubber tyred gantry cranes	• €25.60 million
Jan de Nul	NPA 395 – Dredging works for the Port of Ngqura	• €9.48 million
Liebherr Container Cranes	HQH 23/05 – Supply of 14 ship to shore container cranes	• €24.76 million
Van Oord Contractors	RCB/ENG 00038/3 RCB 306 – Construction of Berth 306 at Port of Richards Bay	• \$3.99 million
Venus Railway Solutions	MLLP: 1020 72105 – Supply of 44 locomotives	• \$18.725 million

Supplier development is influenced by industrial policy and Transnet is currently partnering with government on a number of key action plans

IPAP Key Action Plans

Strengthen NIPP

Overhaul of
PPPFA

Strengthen
alignment
between CSDP
and NIPP

Alignment
between BBBEE
and industrial
policy

Identification of
strategic fleets

Transnet's Participation in IPAP

 Current phase

- Transnet has made significant progress in the **adoption of CSDP**. Over the past two years a phased approach to embedding CSDP at Transnet has been followed:
 - Phase 1: Develop the Plan;
 - Phase 2: Build the Foundation; and
 - Phase 3: Embed CSDP.
- **Significant CSDP transactions** leading to high value supplier development interactions have been concluded with various multinationals.
- Transnet will augment its short term purchasing strategy with a move towards more long term strategic **Fleet Procurement** (Locomotives : 75 a year).
- Transnet, together with UNIDO, is participating in the **National Foundry Technology Network (NFTN)**, which is an initiative with the key objective of facilitating the development of a South African foundry industry through appropriate skills training and technology transfer.
- CSDP goals will be achieved through **the transfer of skills and relevant intellectual property**.
- **Tooling has already been provided and expert skills transfer** from major multinational suppliers has already commenced.