


	<p style="text-align: center;">DENEL SOC LTD COMPANY POLICY 3</p>	<p style="text-align: center;">FINAL</p>
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<p>DENEL PROCUREMENT POLICY EFFECTIVE DATE: 06 January 2020</p>

REVISION HISTORY

Date	Version	Comments
25 August 2008	001	
19 November 2014	002	
31 May 2017	003	Entailed the update of the policy to align with relevant legislation and recently introduced Group SCM Procedures Manual
January 2020	004	

<p>DRAWER: SUPPLY CHAIN</p>	<p>APPROVED AT THE BOARD MEETING HELD ON</p> <p>26 March 2020</p>	<p style="text-align: center;">SIGNATURE</p> <div style="text-align: center;">  </div> <p style="text-align: center;">GROUP CHIEF EXECUTIVE OFFICER</p>
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1. PURPOSE AND MANDATE

The Denel Procurement Policy sets out the framework within which procurement must be executed within the Denel Group in order to be both effective for the business and fully compliant with the Public Finance Management Act [2] (PFMA), and other applicable legislation.

Section 217 of the Constitution, Act 108 of 1996, read with section 51(1) (a) of the Public Finance Management Act 2 of 1991 ('PFMA') stipulates that Denel must have and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

Denel Supply Chain Management Policy gives effect to these statutory requirements and sets a uniform procedure for Denel to facilitate a uniform interpretation internally, and ensuring long-term sustainability and successful partnership with both the public and private sector locally and internationally.

2. APPLICABILITY

- The Policy is applicable to all employees of the Denel Group and its Divisions.
- Changes to the external legislative framework will be reviewed by the Group Supply Chain Manager (GSCM) in consultation with the Divisions and Denel Group Legal, before implementation.
- The principles outlined in the Policy are applicable to all procurement transactions regardless of their nature or value.
- The Policy has been mandated by the Group Chief Executive Officer (GCEO) and has been duly authorised by the Denel Board of Directors.
- Any omissions and/or contraventions of this policy must be brought to the attention of the GSCM.
- The Policy is implemented through the Denel Group Procurement Procedure Manual (PPM), Divisional Procurement Procedures and Work Instructions.
- Approval for the Divisional Procurement Procedures will be according to the Delegation of Authority (DOA).



3. ABBREVIATIONS

AA	Accounting Authority
AO	Accounting Officer
B-BBEE	Broad-Based Black Economic Empowerment
BAC	Bid Adjudication Committee
BEC	Bid Evaluation Committee
BOM	Bill of Materials
BSC	Bid Specification Committee
CEO	Chief Executive Officer
CFT	Cross Functional Team
CIDB	Construction Industry Development Board
COC	Certificate of Conformance
CSD	Central Supplier Database
DCO	Denel Corporate Office
DOA	Delegation of Authority
DPE	Department of Public Enterprises
DTI	Department of Trade and Industry
EA	Engineering Authority
ECP	Engineering Change Proposal
EME	Exempt Micro Enterprise
EOI	Expression of Interest
ERP	Enterprise Resource Planning
ESD	Enterprise and Supplier Development
EXCO	Executive committee
GCC	General Conditions of Contract
GCEO	Group Chief Executive Officer
GCFO	Group Chief Financial Officer
GCOO	Group Chief Operations Officer
GSCM	Group Supply Chain Manager
HDI	Historically Disadvantaged Individuals
ICT	Information and Communication Technology
IP	Intellectual Property
ISO	International Organisation for Standardisation
ITAR	International Traffic in Arms Regulations
JIT	Just-in-Time
KPA	Key Performance Area
KPI	Key Performance Indicator
MPS	Master Production Schedule
MRP	Material Requirements Planning
NCACC	National Conventional Arms Control Committee
NDA	Non-Disclosure Agreement
NIPP	National Industrial Participation Program
NPC	National Proliferation Council
NT	National Treasury



OEM	Original Equipment Manufacturer
PDA	Product Design Authority
PDP	Product Data Pack
PFMA	Public Finance Management Act
PLCM	Product Lifecycle Management
POPI	Protection of Personal Information Act
PPM	Procurement Policy Manual
PPPFA	Preferential Procurement Policy Framework Act
QM	Qualified Material
QPS	Qualified Processes and Services
QSE	Qualifying Small Enterprise
R&D	Research and Development
RFD	Request For Deviations
RFI	Request for Information
RFP	Request for Proposal
RFQ	Request for Quotation
RFT	Request for Tenders
RFX	Combination of RFI, RFP, RFQ
SARS	South African Revenue Service
SCC	Special Conditions of Contract
SCM	Supply Chain Management
SLA	Service Level Agreement
SMME	Small, Medium and Micro Enterprises
SOC	State Owned Company
SOP	Sales and Operations Plan
TOR	Terms of Reference
VAT	Value Added Tax

4. DEFINITIONS

Active Vendor List	Suppliers that are currently registered and compliant on CSD where applicable and approved in the ERP systems.
Approved Suppliers	Approved Supplier – This refers to any category of Supplier or Service Provider that has been screened and approved in line with the requirements of the Denel Group.
Arms Control	A system of obtaining and maintaining permits to design, manufacture and service controlled items.
Black owned enterprises	Black Owned Enterprises’ means enterprises that are at least 51% owned by Black people.
Bid or Bidding	Open – Bids which are advertised on the E-Portal of National Treasury and follow the appropriate procedures introduced herein and expanded in the Group Procurement Manual.



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	Limited – A bid where suppliers were sourced from the relevant Denel Procurement Database yielding multiple, single or sole suppliers bids.
Bid rigging	Bid rigging (or collusive bidding) occurs when businesses, that would otherwise be expected to compete, secretly conspire to raise prices or lower the quality of goods and / or services. Bid rigging is, therefore, an agreement between competitors not to compete.
Bill of Material (BOM)	A comprehensive list of the raw materials, sub-assemblies, intermediate assemblies, sub-components, parts, and the quantities of each needed to manufacture an end product required for the manufacture and support of Denel products or systems.
Central Supplier Database (CSD)	A supplier database established by National Treasury. The Central Supplier Database (CSD) maintains a database of organisations, institutions and individuals who can provide goods and services to government.
Consultant	A business entity or a person who provides expert advice professionally. The term consultants include, amongst others, consulting firms, engineering firms, management firms, procurement agents, auditors, research agencies, government agencies and individuals.
Controlled Items	Primarily goods, including components and technical data that have military or national security significance, and are controlled domestically by the Government.
Corporate Plan	A three year plan of Denel as contemplated in the PFMA read with the Treasury Regulations.
Cross Functional Team	A cross functional team is a team formed of at least three members that belong to different functional entities that are working together to reach a common goal. These members have various functional skills and experience, and they come from different sections within the organisation.
Data Pack	The data pack, product data pack (PDP) or technical data pack is that set of data and drawings that defines a particular requirement, i.e. a part, an assembly or a service required by Denel. A data pack may be referenced from and will then form an integral part of a contract between Denel and the Supplier.
Delegation of Authority	The assignment of approval authority pertaining to all aspects of the Denel business environment as approved by the Board of Directors, documented in Denel Policy 2 and further elaborated in the sub-delegations published by divisions under the authority of the Divisional CEOs.
Denel Procurement Policy (the Policy)	The document setting out the objectives, guidelines and roles and responsibilities for all procurement related activities.
Black Designated Groups	Black people who are youth, black people who are persons with disabilities, black women, and black military veterans.
Division or Entities	In the context of this Policy, the terms "Entities or Divisions" are used to refer to any of the companies within the Denel Group that operates a fully-fledged business with a clearly defined set of core products and services.
Emergency procurement / transactions	Occurs when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to call competitive bids.



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End User	A persons or person of an organisation that ultimately uses the final product or service.
Engineering Authority (EA)	The person appointed by the CEO of a Division to manage and ensure effective control of Engineering activities, improve the effectiveness of Engineering, ensure Product Design is reviewed and certify Products where required.
Enterprise and Supplier Development (ESD)	ESD is a combination of Preferential Procurement, Supplier Diversity, Supplier Development and Enterprise Development programs to service business needs. It is part of the Broad-Based Black Economic Empowerment policy to advance economic transformation in South Africa. The aforesaid can be defined as follows:
	Preferential Procurement is a national policy that encourages government departments and agencies to buy goods and services from previously disadvantaged individuals or businesses.
	ESD refers to an organisation's efforts to create and maintain a network of competent suppliers. In the context of this policy, ESD represents any effort from Denel with the objective of increasing the performance or capabilities of enterprises and/or the supplier while meeting the Denel's supply needs.
Enterprise Resource Planning (ERP)	An integrated business management system used to track and manage information and resources across their organisation's various segments and departments.
Fronting	Deliberate circumvention or attempted circumvention of the B-BBEE Act and the Codes. Fronting commonly involves reliance on data or claims of compliance based on misrepresentations of facts, whether made by the party claiming compliance or by any other person.
Fruitless and wasteful expenditure	Expenditure made in vain and would have been avoided had reasonable care been exercised.
International Organisation for Standardisation (ISO)	Organisation for Standardisation that develops and publishes international standards. There are primarily three ISO standards of significance that Denel subscribes to and seek approval for in order to support Denel's international recognition and reputation:
	ISO 9001:2015 - Quality Management Systems
	ISO 14001:2015 - Environmental Management System
	ISO 45001:2018 - Occupational Health and Safety Management System
Irregular expenditure	Expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.
Legacy Products	Products that were delivered to clients under previous contracts and for which Denel still has support or supportability obligations.
Master Production Schedule	A comprehensive list of materials and services, potential Suppliers for the said products and services, as well as the timelines for the use thereof, in order to produce a saleable product or system.
Material Requirements Planning	A Plan that details the list of materials and timelines for the materials to be available for production activities to commence and would typically be used within ERP software to obtain detailed scheduling of material for procurement, production and delivery activities.



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<p>Market analysis /scan</p>	<p>A procurement process conducted to understand how the supply market works, the direction in which the market is going, the competitiveness and the key suppliers within the market.</p> <p>The results of this analysis can help the buyer to improve and shape the strategy and tendering process and align their behaviour in order achieve better value for money, reduced prices or an improved service.</p>
<p>Material</p>	<p>A substance or item that is used in the development or manufacture of a core product or by-product for the purpose of effecting a transaction with a Client.</p>
<p>Non Conformance Procedure</p>	<p>The procedure utilised to manage all deviations from the contracted KPIs.</p>
<p>Non-disclosure Agreement (NDA)</p>	<p>A legal contract between at least two parties that outlines confidential material, knowledge or information that the parties wish to share with one another for certain purposes, but with restricted access, or restricted access by third parties.</p> <p>It is a contract through which the parties agree not to disclose information covered by the agreement. An NDA creates a confidential relationship between the parties to protect any type of confidential and proprietary information or trade secrets. An NDA protects non-public business information.</p> <p>Refer to Denel's standard NDA local and international templates.</p>
<p>Obsolescence management</p>	<p>The establishment and identification of actions to identify and mitigate risk posed as parts, spares, equipment, skills (people), software, etc. required to support products, becomes obsolete.</p>
<p>Offset trade</p>	<p>Sales transaction for both defence and non-defence, to foreign governments, which require the seller to provide some reciprocal economic benefit to the country. These benefits may be through local procurement, co-production, marketing assistance, investments, technology transfer, R&D, or other acceptable offset activities. The buying government often defines these in its regulations, guidelines or standard contractual documentation.</p> <p>Some countries have offset obligations that are called countertrade; however, offset goes by many names including industrial participation, industrial cooperation, industrial benefits, or similar expressions where some offsetting benefit is being provided to assist the sale.'</p>
<p>Procurement</p>	<p>The acquisition of goods and services to give effect to the activities of the company. Procurement does not include human resources contracted through the different HR departments within Denel.</p>
<p>Procurement Practitioner</p>	<p>A Procurement Practitioner is an employee appointed, trained and authorised to co-ordinate and/or execute a procedure or process as contained in this Policy.</p>
<p>Product Design Authority (PDA)</p>	<p>Within the context of Engineering Authority (EA) there is a delegation of authority to certify products. This is done within each Division and for each product.</p>
<p>Project Lifecycle Management (PLCM)</p>	<p>Project Lifecycle Management (PLCM) is a management framework used to facilitate efficient management decision-making. It is described in DCOF02 (Product Lifecycle Management Framework).</p>
<p>Purchase Order</p>	<p>A commercial document and first official offer issued by a buyer to a Supplier indicating types, quantities, qualities and prices for products and or services.</p>



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Purchase Requisition	The document used to inform the purchasing department of a purchase request in order to initiate the purchasing process.
Product Qualification	Product qualification is the process of certifying that a certain product has passed performance tests and quality assurance tests, and meets qualification criteria stipulated in contracts, regulations, or specifications (typically called 'certification schemes' in the product certification
Request for deviations	Request for approval for deviating from the standard tender process of public open tendering or obtaining minimum of three quotations
Requestor	A requestor is any employee who identifies the need for procurement and who requests support and consultation in activities associated with the acquisition of goods and services.
Single source suppliers	Supplier that was selected after a competitive bidding process and has had their processes and products qualified through a structured process with clearly defined parameters and outcomes. This category of Supplier is temporary or fixed term.
Sole source suppliers	Sole source procurement may occur when there is evidence that only one supplier possesses the unique and singularly available capacity to meet the requirements of the organisation.
Subsidiary	<p>This refers to a company in which Denel SOC Ltd has more than a 50% ownership or where Denel SOC Ltd is able to exercise or control the exercise of the majority of the voting rights associated with the issue of shares in the company, whether pursuant to a shareholders' agreement or otherwise.</p> <p>A subsidiary company is also defined as such where Denel SOC Ltd has the right to appoint or elect or control the appointment or election of the directors of that company, who in turn, control a majority of the votes at a meeting of the Board. For the purposes of this Policy it is seen to be equivalent to a Division as elaborated under the definition 'Division or Divisional' and all parts of this policy applies to all divisions and subsidiaries.</p>
Suppliers	A Supplier is an institution (sub-contractors, service providers, vendors) that is able to provide a particular commodity and/or service to Denel.
Supplier Panel	A list or grouping of pre-approved Suppliers that can supply a particular category of goods and/or services in a specified period.
Suppliers of Industrialised components and processes	Supplier that was selected after a competitive bidding process and has had their processes and products qualified through a structured process with clearly defined parameters and outcomes. This category of Supplier is a temporary.
Supply Chain Management	A set of approaches utilised to efficiently integrate suppliers, manufacturers, warehouses, and stores, so that products are produced and distributed at the right quantities, to the right locations, and at the right time, in order to minimise costs while satisfying service level requirements.
Transversal contract	A centrally facilitated contract arranged by the National Treasury for goods or services that are required by one or more than one institution.
Work Instructions	A document which provides specific and detailed instructions to carry out an activity. A work instruction is usually more detailed than a procedure.



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5. ROLES AND RESPONSIBILITIES

Denel Board	The Board of Denel is appointed as the Accounting Authority of Denel. The Denel Board reports to the Minister of Public Enterprises who represents the shareholder. The Board of Denel is, amongst others, responsible for an appropriate procurement and provisioning system as well as a system for properly evaluating all major capital projects prior to a final decision.
GCEO	Group CEO is mandated to ensure Denel's long-term sustainability and is accountable to approve transactions up to the limits set in the DOA.
GCFO	Group CFO is mandated to ensure effective financial management of Denel's financial operations, including SCM.
GCOO	Group COO is mandated to ensure the effective day-to-day administrative and operational functions and performance of Denel, such that the organisation achieves cost optimisations from both a Cost of Sales and Opex perspective. This includes negotiations with key and critical domestic and international suppliers, and transformation in the local supply chain.
GSCM	The Group Supply Chain Manager acts as the entry point in Denel for notifications on changes to the applicable Acts, Regulations and Instructions. Reviews the SCM Group policy and approves the Group Procurement procedure frameworks.
Divisional CEO	The Divisional CEO is mandated via the Denel DOA and is accountable for all aspects of management and control in a Division.
Divisional EXCO	The Divisional EXCO is appointed by the Divisional CEO and the members are accountable for the functional areas of the Division that they lead.
Divisional SCM Heads	The divisional SCM Heads are responsible for all SCM functions and activities within the division and adherence of the SCM Policy with good governance and compliance.
Product Design Authority	Product Design Authority is responsible for ANY change(s) made to a product baseline.
Procurement Practitioner	Procurement Practitioners are responsible for the execution of all procedures or processes as contained in this Policy and the procurement procedure framework.
Procurement & Bid Committee	Approves expenditure for procurement of goods and services with due regard to the procurement processes, the required governance, and the compliance to the Denel Policy, Group Procurement Manual and the related Divisional Procedures and Work Instructions.



6. PILLARS OF PROCUREMENT

Value for money	The best available outcome when all relevant costs and benefits (including Price, quality and on-time delivery) are considered, over the procurement cycle.
Fairness	Denel shall encourage effective competition and openness in procurement process by ensuring that potential suppliers have reasonable access to procurement opportunities.
Ethics	Denel shall ensure that business is conducted in a fair and reasonable manner and with integrity.
Accountability and reporting	Denel shall ensure openness and transparency in administration and reporting activities.
Equity	Denel is committed to support economic growth through the development of Small, Medium and Micro Enterprises (SMME) and Historically Disadvantaged Individuals (HDI).
Effectiveness and Efficiency	Denel shall at all times, strive for procurement processes that are cost effective and ensure on-time delivery.

7. SUPPLIER MANAGEMENT

7.1 SUPPLIER MARKET ANALYSIS

Principle: Approaching the supplier market must be initiated by an expression of interest (EOI) or a request for information (RFI). Market analysis should be conducted on a continual basis at least 24 months to achieve the following objectives:

- a. Identify and understand current and new supplier capability and capacity for different commodity profiles or categories.
- b. Estimate the ability of a market to supply or collect the necessary information required in creating supplier panels.
- c. Facilitate the scanning of both the local and foreign supply market to enable entry of new and potential suppliers into the supply chain.
- d. Allow flexibility to shorten lead times.
- e. Justify the use of foreign content in the supplier pool.

7.2 SUPPLIER IDENTIFICATION

The identification of possible new suppliers will be conducted by the procurement function in conjunction with the relevant stakeholders. This will be the responsibility of specifically assigned person(s) attending to strategic sourcing tasking, and should not be seen as part of normal acquisition or operational activities.



7.3 CENTRAL SUPPLIER DATABASE

The National Treasury (NT) Central Supplier database (CSD) is mandatory for use by all State Organs, government departments and State Owned Companies (SOCs). All local Suppliers in the active vendor list must be sourced using the CSD. Service providers must be registered on the CSD prior to order placement.

If it is not possible to obtain price quotations from the list of prospective suppliers listed on the CSD, the procurement practitioner must conduct a market analysis to identify possible supplier/s, record the process and submit the list of prospective suppliers obtained through the market analysis to the GSCM as delegated by the Accounting Authority.

7.4 DENEL ACTIVE VENDOR LIST

Principle: The active vendor list shall not be used for sourcing suppliers. The active vendor list can be used for governance house-keeping, administration and payment purposes.

Denel must strive to ensure that the majority of local procurement budget is spent on suppliers that have a majority black ownership. If a non-transformed supplier is selected, Denel reserves the right to require the supplier to submit a transformation plan.

7.4.1 Screening of suppliers

The primary goal of supplier screening is to reduce the likelihood of supplier non-performance and non-compliance. Suppliers that are identified as potentially able to meet Denel's product, service, commercial and transformation requirements will be subjected but not limited to:

- a. Obtaining a capability and quality assessment before registration
- b. Providing a valid Tax Clearance Certificate or PIN supplied by SARS
- c. Declaration of interest
- d. Providing proof of registration on the National Treasury CSD

Management should ensure an effective process that will verify that all required documentation is in place.

7.4.2 Supplier Panel

Suppliers may be pre-approved based on a thorough market analysis. These suppliers may be linked to particular Supplier Panels. Supplier Panels are typically established up to a period of three years to enable rapid selection of suppliers during the acquisition phase. It is the responsibility of every Denel division to ensure that:

- a. A Supplier Panel is established only where it makes business sense.
- b. An appropriate process is followed prior to the formal supplier selection.

- c. Supplier Panels are reviewed regularly regarding their ability to meet the different requirements.
- d. Supplier Panels create the necessary flexibility to add new suppliers as stipulated in the tender documents.

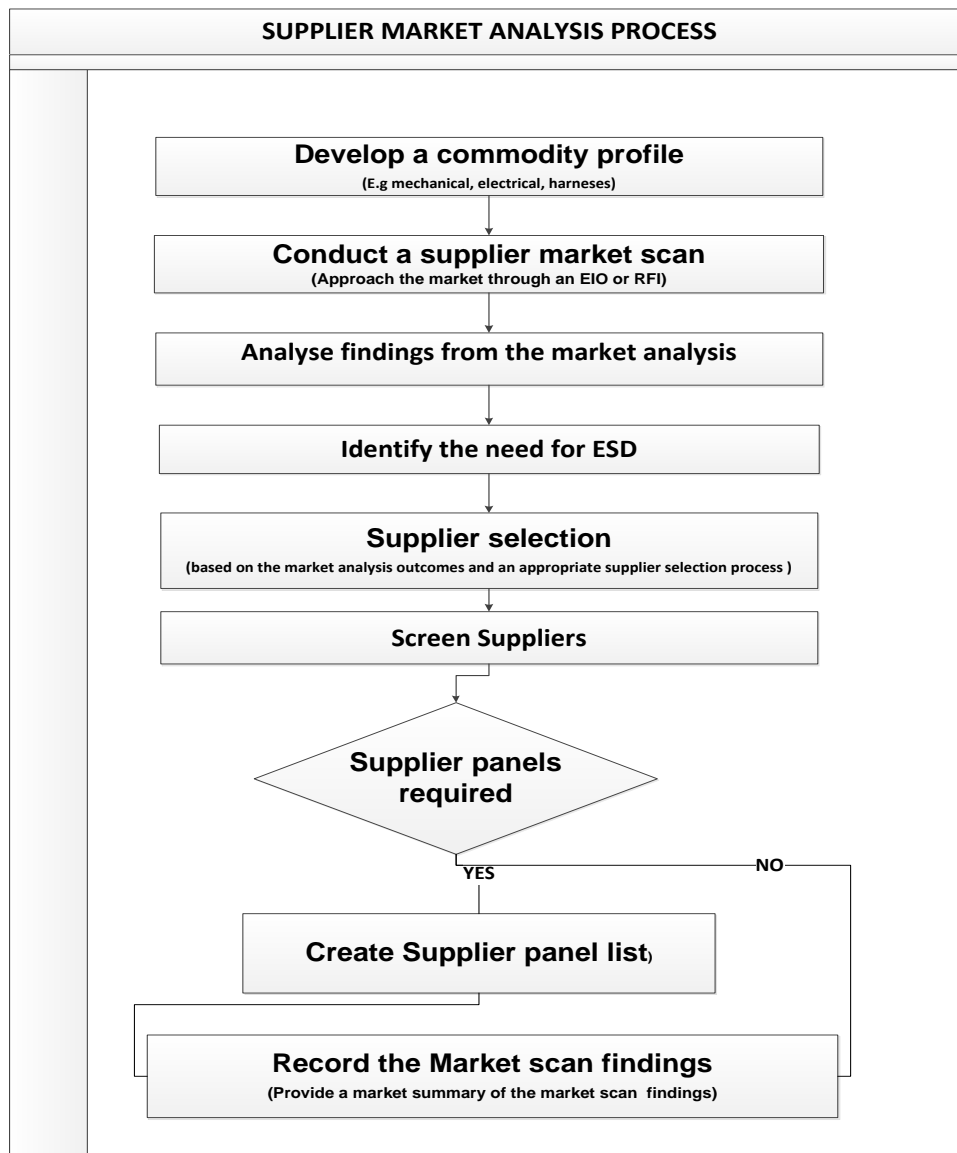


FIGURE 1: SUPPLIER MARKET ANALYSIS PROCESS



7.4.3 Suppliers of industrialised material, processes or services

A Supplier may be linked to a qualified material and/or process(es) in the Supplier Panel. Linking a Supplier to a particular material, process or service must be temporary and should be based on a structured and auditable process (including industrialisation). The selection of a supplier to be linked to qualified material and/or process(es) should follow a competitive bidding process.

Should there be a production stoppage of 2 years or more, there may be a need to reindustrialise the commodity preferably at a different supplier. Where justifiable, the same supplier can be used.

7.4.4 Supplier communications and complaints

The relevant SCM personnel will liaise and engage with suppliers on an on-going basis through approved communication mechanisms that may include a dedicated e-mail address for suppliers to communicate with Denel, Supplier Forums and surveys. All issues formally raised by suppliers must be formally recorded and maintained for reference purposes. All formal supplier complaints must be routed to the dedicated email address.

7.4.5 Foreign supplier tax clearance

The Supply Chain Heads shall ensure that Instruction Note 7 of 2016/2017 dated the 24th of May 2017 (or as amended) is applied prior to any Order being placed on the targeted foreign Supplier.

8. DEMAND MANAGEMENT

Principle: Demand management is a cross functional effort that must ensure the availability and cost effectiveness of resources required to support strategic and operational commitments, including the MPS (planned) and non-MPS (unplanned) requirements.

8.1 DEMAND PLANNING

Denel operates in a highly unpredictable business environment and requires flexibility in the planning, procurement, and production environment. To enable this flexibility, demand planning must at the very least:

- a. Be conducted by a cross functional team (CFT)

SCM function shall establish a CFT consisting of the relevant skills and at least; operations, Enterprise and Supplier Development (ESD) and risk and compliance representatives.

- b. Pro-actively define and analyse all requirements

Where possible, SCM must standardise and collaborate procurement requirements to leverage on economies of scales (EOS) and to create opportunities for long term contracting including transversal contracts.

- c. Pro-actively approve requests for deviations (RFD)

SCM must identify limited or single sources of suppliers identified during the market analysis process. A deviation application process must be proactively initiated by the Programme Manager, supported by the Procurement Practitioner.

- d. Utilise an ERP system to enable transparency and traceability

For effective scheduling and delivery of the required material and services, the Supply Chain Function or Planning Function must draw up the MPS based on the ERP system. The MPS should identify opportunities for preferential procurement and ESD. The MPS must be presented to the divisional Executive Committee team for first line approval and submitted by the relevant Divisional Supply Chain Head to the office of the GSCM in accordance with the DOA.

- e. The SCM function shall participate in the annual performance planning process and in the Phase Reviews as part of the Product Life Cycle Management (PLCM) stage gate reviews.



FIGURE 2: PRODUCT LIFE CYCLE MANAGEMENT STAGE GATE REVIEW PROCESS

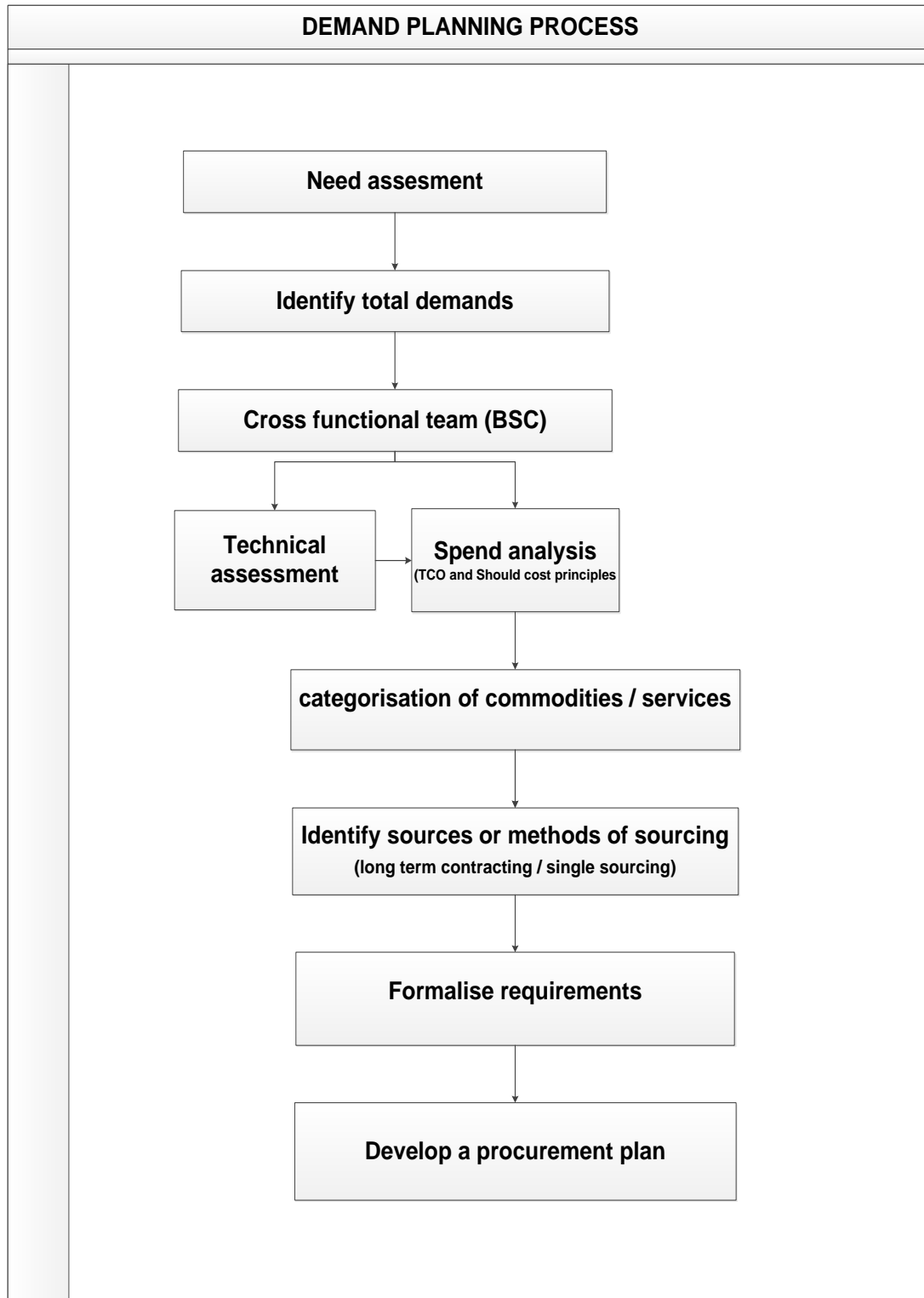


FIGURE 3: DEMAND PLANNING PROCESS

9. ACQUISITION MANAGEMENT

Principle: The acquisition process must ensure a cost effective and timeous procurement process for all products and services budgeted and planned for during the demand planning phase. The acquisition process will be initiated by a Purchase Request.

9.1 SOURCING STRATEGIES

Principle: Open bidding process will be the default tender process with exception to instances specified in 9.1.2.1. The sourcing of products and services shall be conducted from the CSD, and supplier panels. Approval for the selected sourcing strategies must be in line with the DOA.

TABLE 1: SOURCING STRATEGIES

SOURCING STRATEGIES	REFERENCE	THRESHOLD
Petty cash	9.1.3	≤ R750
1 Quotation	9.1.3	< R30 000
3 Quotations	9.1.3	R30 000 - R1 000 000
Open bidding	9.1.1	> R1 000 000
Limited bidding	9.1.2	> R1 000 000 with deviation approval

9.1.1 Open bidding

An open bidding process shall be the default tender process where the total value for the order is equal or greater than R1m including VAT and applicable taxes, with exception to instances specified in 9.1.2.1. All instances of Open Bidding will be advertised on the E-Tender portal and the Denel website. In the event that the E-Tender portal is not accessible, the Denel website shall be utilised.

9.1.2 Limited bidding

Principle: Requests for limited bids must be conducted according to applicable National Treasury directives and in exceptional cases.

9.1.2.1 Exceptions from limited bidding

Products / Services supplied by the following categories may be excluded from the normal competitive bidding:

- Sole Suppliers / OEMs
- Accredited Agents / Distributors of OEMs/ Service centres
- Suppliers of industrialised material and process/(es)
- Suppliers selected for an emergency situation
- Controlled Items as per section 15
- Client Prescribed Suppliers based on verifiable written confirmation from the relevant Client



9.1.3 Quotation process

Principle: Suppliers must be sourced from the supplier market according to the appropriate RFQ process, as defined in the PPM. The RFQ must stipulate the functionality and preference points to be used for evaluation. Potential suppliers will be sourced as described below.

Petty cash

Procurement using petty cash will be kept at a threshold of R750.

Procurement below R30k

For procurement of goods and services below a total value of R30k, one quotation will be sufficient.

Quotation process

For procurement of goods and services that are more than R30k and less than R1m a minimum of three quotations will be required. Any deviation from the three quotation process must be clearly motivated and approved by the Divisional CEO.

9.2 PROCUREMENT OR BID COMMITTEE

Principle: Each Denel Division shall constitute a Procurement or Bid Committee that will approve procurement activities in line with the DOA.

The committees must ensure compliance with the relevant and applicable legislation. The following tender committees will be constituted

- **Bid Specification Committee (BSC)**

The BSC defines the product and/or service specifications / requirements. The BSC is an ad-hoc committee set up as-and-when required.

- **Bid Evaluation Committee (BEC)**

The BEC evaluates submissions or proposals from bidders in accordance with the defined functional / performance, governance, Price, B-BBEE and any other relevant criteria.

- **Bid Adjudication Committee (BAC)**

The BAC reviews the tender evaluation process and assesses the final approval authority as per the DOA.

All members of the Procurement or Bid Committees, Bid Evaluation Committee and Bid Adjudication Committees, must have at least applied for security clearance to a confidential level, as a minimum requirement. Members serving on these committees shall sign a declaration of interest for each tender they evaluate or adjudicate. Contravention thereof will result in consequence management. Members serving in the BEC must be different from members serving in the BAC.

All meetings will be formally minuted and all documentation formally approved and archived. The permanent members of the Procurement and Bid Committees will be formally constituted and appointed by the Divisional CEO. The terms of reference (TOR) will be defined in the PPM.

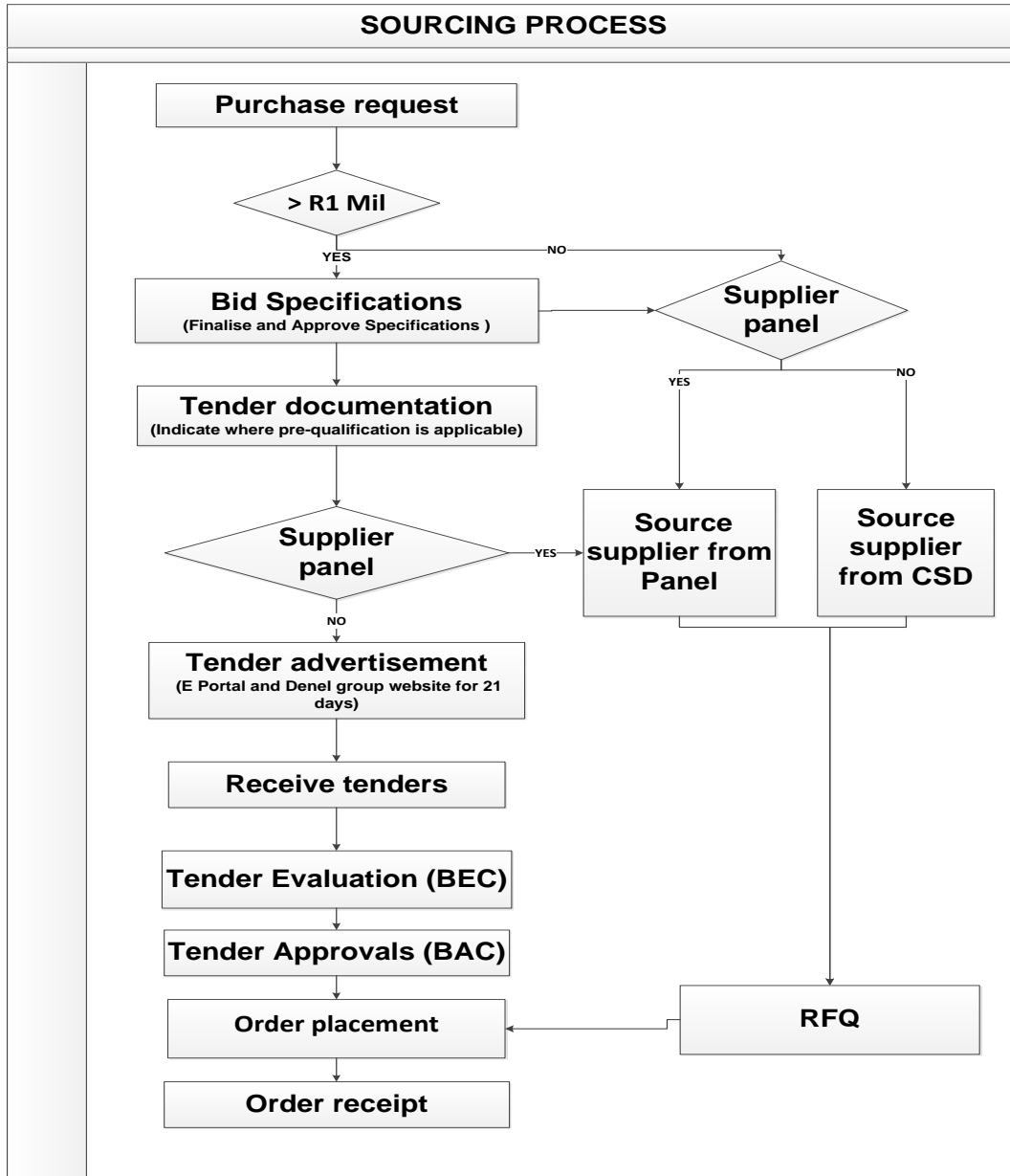


FIGURE 4: SUPPLIER SOURCING PROCESS



9.3 EVALUATION OF BIDS, PROPOSAL AND QUOTES

9.3.1 Pre-qualification

Denel may apply pre-qualifying criteria to advance certain designated groups by specifying a bid condition that only one or more of the following bidders may respond:

- a. Bidders having a stipulated minimum B-BBEE status level of contributor.
- b. An EME or QSE.
- c. A bidder subcontracting a minimum of 30% to specified EMEs and QSEs.

9.3.2 Tenders to be evaluated on functionality

Denel will evaluate bids based on functionality, as stated in the tender documents and the said evaluation criteria thereof must be objective. The bid documents must specify:

- a. The evaluation criteria for measuring functionality.
- b. The points for each criterion and, if any, each sub-criterion.
- c. The minimum qualifying score for functionality.

For the bid to be considered further, the minimum qualifying score must: -

- a. Be determined separately for each tender; and
- b. Not be so-
 - (i) Low that it may jeopardise the quality of required goods or services,
 - (ii) High that it is unreasonably restrictive.

Note: A tender that fails to obtain the minimum qualifying score for functionality as indicated in the tender documents will not proceed to the next stage of evaluation.

9.3.3 Price and B-BBEE

Bids must specify the evaluation criteria as specified by the BSC. The evaluation of bids shall be in line with relevant regulations or instruction notes issued by National Treasury from time to time, Denel Supply Chain Procedures and the PPPFA criteria stipulated below:

a. **R30 000 – R50 million**

Denel shall use the **80/20 formula** to evaluate tenders with a Rand value equal to or above R30 000 and up to a Rand value of R50 million, inclusive of all applicable taxes.



b. R50 million and above

Denel shall use the **90/10 formula** to evaluate tenders with a Rand value equal to or above with a Rand value above R50 million, inclusive of all applicable taxes.

TABLE 2: SUPPLIER EVALUATION PROCESS

PRE-QUALIFICATION		STAGE 1			STAGE 2				
STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8	STEP 9	STEP 10
Administrative, documents and schedules		Minimum threshold			Weightings and scoring			Selection	
ESD can be requested as a pre-Qualification criterion		Local content	ESD	Functionality / Technical					
Bidders will be requested to submit their SD commitments / plans as returnable documents, where market analysis indicate that it is not viable to include SD as a threshold			ESD threshold must be based on a market analysis	Functionality / Technical criteria & weightings must be stipulated in the tender documents	Price (80/90)	Post tender negotiations requesting preferred bidders to provide BAFOs	Final evaluation 80/20 or 90/20	Selection of preferred bidder & negotiation of various aspects including final SD commitments and the B-BBEE plan	Conclusion of contracts incorporating SD and B-BBEE plans
Bidders will be requested to submit B-BBEE improvement plans to indicate how the B-BBEE status will improve over the contract period					B-BBEE (20/10)				

9.4 SINGLE SOURCE PROCUREMENT

Principle: Great effort must be taken to reduce the use of single source procurement since it does not provide the benefits of competition and should be used in exceptional cases where a formal business case demonstrates financial and capability constraints.

9.4.1 Creation of single source procurement

Single-source procurement occurs in the following instances:

a. Industrialisation

An item is selected to be built into a design due to its specific performance characteristics. Once the component is designed in the product, the manufacturer of that component becomes the single source. At the point of contract conclusion SCM along with Business Stakeholders will agree on a validity period for the single source supplier to allow for new market entrants, subsequently creating a more competitive environment.

In other instances, certain components may be difficult to manufacture and may need special tools and jigs to be designed and manufactured

b. Unique technology

A new technology that has not been mastered by many players in the market may be selected, due to its unique characteristics. The supplier of the selected technology/ manufacturing method then becomes the single source. At the point of contract conclusion SCM along with Business Stakeholders will agree on a validity period for the single source supplier to allow for new market entrants, subsequently creating a more competitive environment.

9.4.2 Single source selection

Both instances of single source procurement do not preclude that there could be other suppliers in the market. However, switching suppliers may require a significant effort and investment for redesign (Refer to section 18, the risk mitigation regarding single source procurement). The justification for selecting single-source procurement should be:

- Preceded by a thorough market analysis.
- Examined in the context of the overall business interests.
- Approved in line with the DOA and applicable National Treasury instruction notes.

9.5 STRIP-AND-QUOTE TRANSACTIONS

Based on a pre-qualification or open bidding process, panel contracts may be established, where a quote can only be given for repairs once the component is stripped and the damage assessed.

9.6 EMERGENCY AND ACCELERATED PROCUREMENT

9.6.1 An emergency procurement may occur when there is a serious unforeseen / unexpected situation that poses an immediate risk to health, life, property or environment which calls for an immediate action and there is insufficient time to invite competitive bids.

9.6.2 Emergency procurement must differentiate from an “*accelerated procurement*” which may be deemed foreseeable but does not give rise to immediate risk to life, environment or property. Requirements for foreseeable “accelerated” procurement must be administered via the normal procurement process. Urgent requirements may be approved via special meetings, round robin approvals and should be prioritised by SCM. A shortened tender period may be considered where necessary.

9.6.3 In a nutshell, an emergency is a situation which is unforeseen and there is clear evidence that failure to act immediately, may result in amongst others:

- a. The death of, injury or other damage to the health or safety of any person.
- b. The destruction of or damage to any property or the environment.
- c. A disruption of essential services to the community.

- d. Due to a catastrophic event, there is an extremely urgent need for the requirements, and engaging in any other method of procurement would be impractical due to the time involved in using those methods.

9.6.4 An accelerated procurement is a situation which is unforeseen but does not relate to any scenario as depicted in 9.6.3 but there is clear evidence that failure to act immediately, may result in amongst others:

- a. A threat to, or interruption of the company's ability to execute its mandate, financial loss to the company.
- b. Significant litigation claims.
- c. The possibility that the security of the company could be compromised.
- d. The company's ability to effectively execute its mandate in terms of protecting the sovereign capability on behalf of the South African government.

9.6.5 The justification for emergency procurement from the Divisional CEO should be escalated to the GSCM, who will require authorisation from the Accountable Officer and the justification should at least include the following information:

- a. The situation that caused the emergency.
- b. Classification of emergency which meets the criteria of either threat to health or safety of any person, or the preservation or protection of property or environment.
- c. Impractical competitive bidding processes.
- d. Basis for selection of suppliers to be used.
- e. The situation is urgent and requires immediate intervention.

9.6.6 The justification for accelerated procurement from the Divisional CEO should be escalated to the GSCM, who will require authorisation from the Accountable Officer and the justification should at least include the following information:

- a. The situation that caused the procurement process to be accelerated.
- b. Classification of the event which meets the criteria of either the impact on the mandate of the company, financial loss to the company, litigation claims, compromise the company's security, impacting company's ability to protect sovereign capability on behalf of the South African government.
- c. Impractical competitive bidding processes.
- d. Basis for selection of suppliers to be used.

e. The situation is urgent and requires immediate intervention.

9.6.7 Nevertheless, it remains imperative to ensure that the circumstances giving rise to an emergency and/or accelerated procurement were unforeseen and not due to negligent conduct on the part of the entity or Denel. The prevailing emergency, imminent danger or urgent event, should however, be of such a scale and nature that it should readily be alleviated by short-term interim measures whilst the procurement process is underway.

9.6.8 In order to ensure compliance with the principles of section 217(1) of the Constitution, procurement may, where possible take place by way of inviting quotations, if written reasons are kept for deviating from inviting competitive bids and such reasons must be approved by the relevant authority.

9.6.9 Procurement should be embarked on to specifically address the immediate emergency. In other words, the GCEO should be cautious in using the emergency and/or urgent event to secure long-term and high value contracts for emergency requirements. Long-term requirements in response to emergency should be addressed by ways of a competitive bidding process.

9.6.10 GCEO must during the planning phase identify common needs and commodities that normally requires urgent attention and put measures in place to satisfy the needs, i.e. term contract, framework agreements, pre-qualified list of service providers, without deviating from the normal procurement process.

9.6.11 The identification of situations that may give rise to emergency and institutional procedures to be followed in cases of emergency should be incorporated in the SCM policies.

9.6.12 Any deviation that could have been avoided through proper planning will be regarded as an induced emergency and may lead to the expenditure being regarded as irregular. In an event where there is evidence that the emergency was induced the GCEO must follow the irregular expenditure treatment processes. Regular procurement processes should be followed afterwards. Retrospective authority to be followed. Where retrospective authority was not followed, condonation process should apply.

9.7 DEVIATION APPROVAL

Although the categories of companies and products / services listed in 9.1.2.1 are approved as per this policy, the applicable categories must also be submitted to National Treasury as part of the quarterly Deviation Reports.



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OEMs, sole and single source transactions must be approved by the GCEO or by his/her delegate, as per the DOA. All other transactions requiring approval for a Deviation from the normal procurement process shall be initiated by the relevant Supply Chain Head, co-signed by the Divisional CEO or by his/her delegate and be submitted for approval to the Office of the GSCM and for final approval from National Treasury.

Emergency transactions shall be approved by the Divisional CEO or by his/her delegate. Once the emergency transaction is authorised and approved, the deviation report must be updated by the relevant Supply Chain Head for submission to the Office of the GSCM.

Divisional Supply Chain Heads shall maintain a Register for all Deviations. Updated copies shall be submitted to the Office of the GSCM and the Group Risk and Governance Manager on a monthly basis for review and record purposes.



10. CONTRACTING & CONTRACT MANAGEMENT

Principle: Denel shall ensure that processes that exist for Contract Management are standardised across the group. The contracting process shall be planned adequately and efficiently to enable the company to achieve its business objectives.

10.1 CONTRACTING

Denel will utilise the latest National Treasury General Conditions of Contract (GCC) as the minimum contractual requirements. Special Conditions of Contract (SCC) will supplement the GCC and regulate the contracting for IP and R&D where applicable.

In all instances, negotiated contracts will be subject to Legal approval before final conclusion. The signing of contracts shall be in terms of the Denel DOA and the signatory will verify the approval status from the Procurement or Bid Committee before signing.

The contract must be awarded to the bidder who scores the highest points except where an objective criterion, in addition to justifiable reasons validates the award to another bidder. Once a decision is made to award the contract, the relevant SCM representative must issue a letter of acceptance and service level agreement (SLA) where applicable or there is potential for long term contracting.

10.2 MANAGEMENT OF CONTRACTS

Principle: Contract management and monitoring must be included in the performance contracts of management and relevant employees.

10.2.1 Conditions for long term contracting

A procurement opportunity which meets any one of the following criteria should be placed via a long term contract:

- a. Security of long term supply (greater than 1 year).
- b. Financial benefit.
- c. Sharing risk between the parties.
- d. Reducing administration work on high frequency requirements.
- e. Transversal contracts, where economically beneficial and practical.
- f. If feasible, where there is a client contract for support (supply, maintenance, and warranty linked to life span).

Any reasons for not entering into a long term contract for the above criteria must be documented, signed off by the Divisional Supply Chain Head and be available for review by any other Supply Chain Manager in Denel.



The principles of Just in Time (JIT) procurement, 'should cost' modelling and Total Cost of Ownership (TCO) should, as applicable and when available, be applied in the commercial negotiations.

10.2.2 Monitoring of contracts

Continuous monitoring and auditing of contracts are required to ensure compliance with the contract, achieve cost effectiveness, avoid irregularities and manage contract expiry dates.

The SCM function must ensure that contracts are managed in collaboration with the relevant stakeholders, including Project Management, Engineering and Legal and Compliance representatives.

The SCM function shall ensure that all contracts are adequately managed, retained and maintained in line with divisional configuration management policies and registered in a contract register as prescribed by the National Treasury. Physical contracts are to be archived in a suitably secure environment.

10.2.3 Payments

Payments to the suppliers will be outlined in the bidding documents and/or contract documents.

10.2.4 CIDB contracts

Denel and its Divisions must put sound processes in place to ensure that:

- a. All construction contractors doing business with Denel obtain the necessary CIDB certificate.
- b. All construction sub-contractors, contracted by suppliers doing business with Denel shall obtain the necessary CIDB certificate.

10.2.5 Modification of contracts

All contract variations and expansions shall be scrutinised, both individually and in aggregate. Existing orders/contracts may be increased or varied by not more than:

- a. 20% or R20 million (including all applicable taxes) for construction related goods works and or other services, and
- b. 15% or R15 million (including all applicable taxes) for all other goods and or services,

Approvals for contract variations need must be presented to the Procurement & Bid Committee for new decisions. Any deviation in excess of the prescribed thresholds will be subject to prior written approval from National Treasury and consequent management may apply.



10.3 CONSULTANTS

Principle: The processes used to select consultants should result in the selection of competent consultants. Consultants should only be engaged when it is cost-effective and when the necessary skills and/or resources to perform a project/duty/study are not available within Denel.

The appointment of Consultants must be supported by a motivated business case setting out an analysis of the underlying skills gap and a diagnosis of requirements and specified deliverables, as approved by the duly authorised GSCM. A service level agreement must be signed by all Consultants.

The relationship between the accounting authority and the Consultant should be one of purchaser/ provider and not employer/employee and regulated by a contract. The following considerations must guide the selection process:

- a. The need for high-quality services.
- b. The need for economy and efficiency, with the objective of reducing overall costs of consulting services.
- c. Ability to commit to a skills transfer plan with the objective of reducing Denel's over reliance on external consultants.
- d. The need to give qualified consultants an opportunity to compete in providing services.
- e. The importance of transparency in the selection process.

Duly authorised Divisional CEO's must ensure that appropriate monitoring and reporting requirements are set for all consultancy contracts and that penalty provisions are invoked when deemed necessary.

10.4 TECHNICAL ADVISORS

Technical Advisors will be appointed in accordance with Policy 59.



11. LOGISTICS MANAGEMENT

11.1 WAREHOUSE AND INVENTORY MANAGEMENT

Principle: Denel will employ the JIT inventory management system to increase efficiency, cut costs and decrease waste by receiving products and services as and when they are needed based on the demand planning and/or MPS.

All Denel Divisions shall have an inventory management procedure and an inventory register, that is readily available to ensure that appropriate controls are in place to:

- Ensure that inventory is safeguarded and secured.
- Manage excess stock and obsolete stock.
- Manage the export and import of goods.

11.2 STOCKTAKING

Stocktaking of all inventory /assets in stock or on distribution shall be conducted at least quarterly in a year. A report indicating the results of the stocktake must be compiled and submitted for record purposes.

11.3 DISPOSAL MANAGEMENT

To ensure that the most appropriate method is selected for the disposal of redundant material, consideration must be given to obsolescence. A disposal strategy must be selected and executed according to the divisional procurement procedure. Disposal must comply with divisional Safety, Health and Environment (SHE) policies and approval must be in line with the DOA.

11.4 SALVAGE AND RECLAMATION

The Divisional Supply Chain Heads are responsible for the salvage, reclamation and sales of materials in accordance with prescribed standard operating procedures to be defined in the PPM.



12. GOVERNANCE & COMPLIANCE

Principle: The SCM policy is required to comply with the constitutional principles of fairness, equitability, transparency, competitiveness and cost effectiveness and applicable National Treasury instruction notes, which remain the overriding obligation.

12.1 APPROVAL FRAMEWORK

The Policy is subject to review annually. All amendments to the Policy must be approved by the Denel Board of Directors.

12.2 NON-COMPLIANCE

Breaches of this Policy will be held in a very serious light. Employees who do not comply with the Policy shall be subject to disciplinary action in terms of the applicable Denel disciplinary processes and procedures.

12.3 DELEGATION OF AUTHORITY

The approval of any transaction, depending on the value of the transaction, shall be in accordance with the Denel Group DOA. Divisions must draft customised divisional DOA documents to simplify and cascade approval levels in line with the Group's DOA. It is the responsibility of the Divisional CEO to ensure that there is full alignment with the Group's DOA.

13. BUSINESS ETHICS AND CONSTRAINTS

All employees are required to familiarize themselves with the Denel Policy 41 in respect of business ethics and the Denel Code of Conduct. Procurement-specific requirements are listed in the Appendices.

14. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

Principle: All Supply Chain Heads shall follow a systematic process as defined in the Group PPM to detect, manage and effectively prevent irregular as well as Fruitless and Wasteful Expenditure.

The effectiveness of the detection and prevention of potential irregular and fruitless expenditure will be determined by the controls implemented and discipline on the part of SC personnel and other key stakeholders. The reporting controls shall be complied with as per the PPM and in accordance with the National Treasury prescripts and regulations.

14.1 CONDONATIONS FOR IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

Applications for condonations shall be submitted to the GSCM's office for evaluation prior to them being presented to the Group Executive committee (GEC) for recommendation to the Board. All condonations shall be approved by the Board and National Treasury.



14.2 LOSS CONTROL FUNCTION

Upon detection of alleged fruitless and wasteful expenditure, the Loss Control Function or another relevant Function must conduct an assessment to confirm whether expenditure incurred meets the definition of fruitless and wasteful expenditure. The loss control function must at least collect information on:

- the root causes that led to the fruitless and wasteful expenditure.
- the employee(s) responsible for the fruitless and wasteful expenditure.
- confirmed amounts of fruitless and wasteful expenditure to be recovered.
- Confirmed amounts of fruitless and wasteful expenditure assessed and confirmed as irrecoverable.
- Any breakdown in the designed internal controls.

Once the transgressions have been properly investigated, root cause(s) identified, effective and appropriate disciplinary steps must be taken against any employee who makes or permits fruitless and wasteful expenditure, in accordance with the Denel Disciplinary Code. Refer to National Treasury: Fruitless and Wasteful Expenditure Framework, Annexure A for details and Appendix A of this policy for the loss control function process.

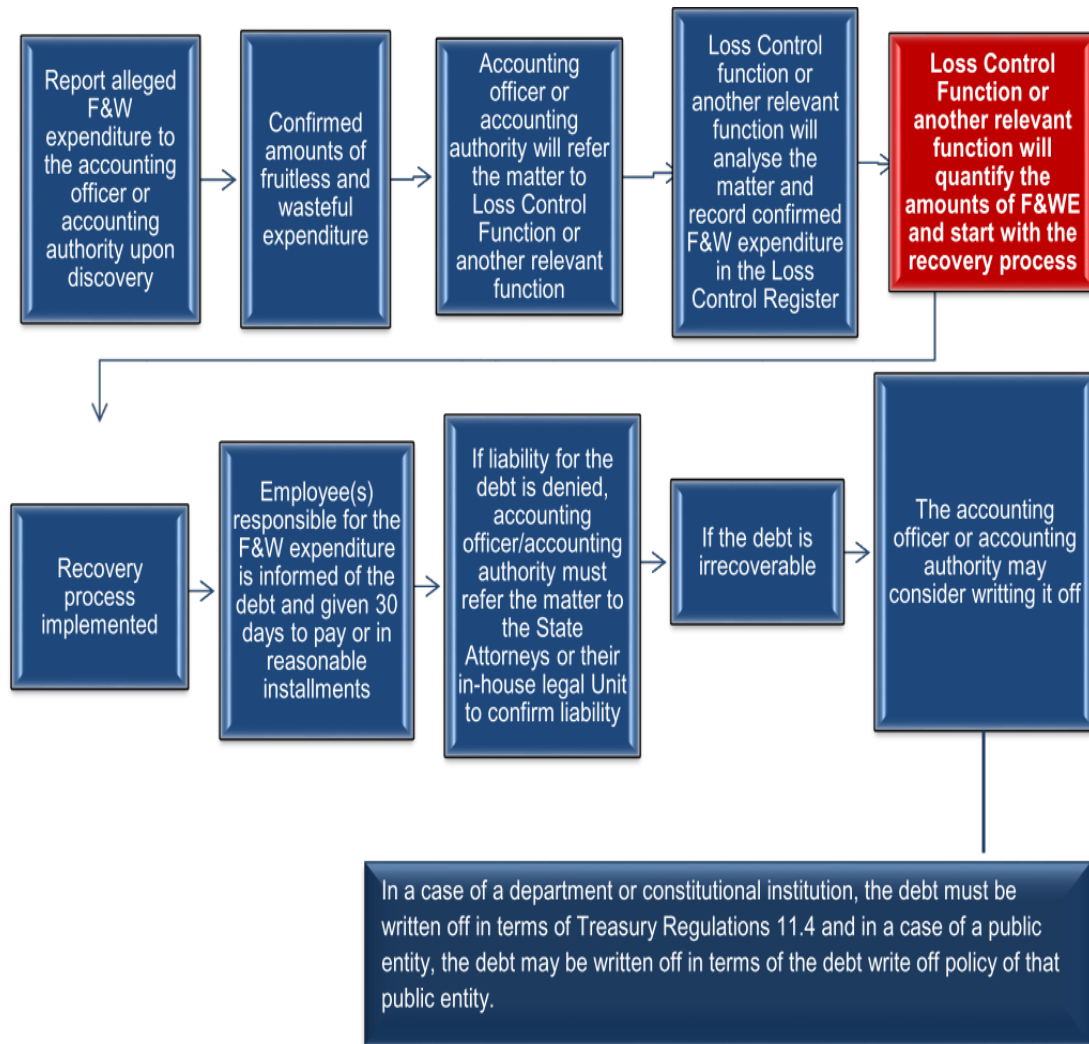


FIGURE 5: PROCESS FOR RECOVERY OF IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

15. CONTROLLED ITEMS

For goods and services relating to Controlled Items, Denel will carry out assessments to ensure compliance with applicable regulations and additional qualifying requirements. The Supply Chain function shall establish a proper control management system in order to manage Arms Control requirements as per the NCACC Act, ITAR, NPC.

Each Division shall identify controlled items and submit supporting documentation to the office of the GSCM for evaluation and recommendation to the National Treasury. A Register of approved Controlled Items shall be maintained by each Division for record and audit purposes.



16. CONFIDENTIALITY

16.1 GENERAL PROVISIONS

Denel's trade secrets and proprietary information are important for its business profile, profitability and continued competitiveness. In addition to information created by Denel, the company also acts as a custodian for confidential information entrusted to it by local and foreign customers. It is required for all Denel employees exposed to such information to treat it with strict confidentiality. Information about Denel may not be made public other than through the recognised channels. Transgressions could result in disciplinary and/or legal action.

No information regarding any quotation or tender may be revealed if such an action will infringe on the relevant party's personal rights. Matters of a confidential nature in the possession of Procurement Practitioners should be kept confidential unless legislation, the performance of duty or the provisions of law require otherwise. Such restrictions should also apply after separation from service.

16.2 NON-DISCLOSURE AGREEMENT (NDA)

NDAs are entered into with potential suppliers to ensure that information shared between the parties is kept confidential. Denel uses a standard non-disclosure agreement. Any changes to this standard template must be approved by an authorised legal person. The NDA must be signed according to the DOA.



17. BROAD-BASED BLACK ECONOMIC EMPOWERMENT

Principle: Denel shall ensure compliance to all applicable B-BBEE legislative requirements.

Denel shall strive to advance procurement from previously marginalized communities within the South African economy through:

- Active promotion of preferential procurement including historically disadvantaged individuals (HDIs).
- Active support of the industrialisation of the local economy and the promotion of locally manufactured products.
- Active support to ESD initiatives and the country's economic growth and transformation.

17.1 B-BBEE PERFORMANCE

Denel shall set transformation, localisation and B-BBEE targets to monitor and evaluate the company's performance towards B-BBEE objectives.

The targets will be measured, tracked and reported on in line with the shareholder compact and/or applicable/relevant Sector Charters.

Denel shall develop plans to ensure that companies under the ESD programme have access to business opportunities.

17.2 LOCALISATION AND LOCAL CONTENT

In the case of designated sectors specified by the DTI through several National Treasury instruction notes, Denel shall advertise tenders with a specific tendering condition that only goods and services with a stipulated minimum threshold for local content will be considered.

In the case of non-designated sectors, Denel reserves the discretion to include minimum local content as a bid condition.

Denel encourages untransformed bidding entities to form Joint Ventures (JVs) with Black Designated Group companies or to sub-contract a specified minimum percentage of a contract as per the PPPFA Regulations. A joint venture must submit its own B-BBEE certificate in order to be recognised and evaluated as such.

Denel reserves the right to demand that non-compliant bidders submit a B-BBEE or transformation improvement plan outlining steps to address shortcomings in their transformation / B-BBEE status over the contract period. This requirement shall be stipulated at contract negotiation stage or as a pre-qualification requirement to participate in the tender process.

18. RISK MANAGEMENT

Principle: It is mandatory to formulate and monitor Risk Mitigation Plans to address risks that could disrupt operations in the Group.

Risk Mitigation Plans shall focus mainly on sole, single and legacy suppliers, due to the risks they present regarding business continuity.

Legacy and single source suppliers shall be approved for a limited period (preferably contract duration). A plan to re-industrialise new suppliers shall be submitted to the GSCM. In instances where it is not feasible to re-industrialise new suppliers due to significant cost and time delays, this becomes a strategic decision to be taken by the Denel Board and National Treasury respectively, in line with the DOA.

An effective supplier relationship management strategy for sole suppliers is crucial. Keeping regular communication and interactions with sole suppliers for the sake of ensuring innovation, and continuous service level improvements must be included in the mandate.

All Risk Mitigation Plans shall be reviewed at quarterly intervals to ensure continued relevance and effectiveness. Divisional Supply Chain Heads shall ensure that risks are effectively anticipated, identified and mitigated in the bidding process and during contract execution, as per [12] Policy No. 12, Risk Management Framework. Details are outlined in the PPM.

Any supplier listed in the Defaulters Register or blacklisted on the National Treasury Blacklist shall not be considered for any contracts within Denel or its divisions. Refer to the circular note on restricted suppliers and tender defaulters.

19. SKILLS MANAGEMENT

Principle: Denel shall ensure the availability of adequate skills and core competencies within the procurement and SCM profession.

Denel divisions shall ensure the availability of adequate skills to successfully implement the SCM policy throughout the whole organisation. Each division shall conduct a skills gap analysis to evaluate employees on a regular basis and identify where any additional skills should be developed or appointed.



20. PERFORMANCE MANAGEMENT

Principle: To achieve good performance, it is imperative that a performance management system or tool is developed and implemented by all divisions.

20.1 SUPPLIER PERFORMANCE MEASUREMENT

The supplier performance management tool should measure performance on the part of all contracted suppliers. Denel divisions must monitor and take corrective actions in instances when performance is unacceptable. The supplier performance management tool should also be used to recognise and reward Suppliers who consistently meet or exceed Denel requirements.

20.2 KEY PERFORMANCE INDICATORS

The implementation of the Policy will be measured within the following Key Performance Areas (KPIs) within each Division. The detailed measurement methodology for the below KPIs will be published in the Group PPM:

- a. Cost savings
- b. Ageing stock
- c. Stock turnover
- d. Stakeholder management
- e. Innovation
- f. Supplier on-time delivery performance (Quotation turnaround times)
- g. Skills development and management
- h. Compliance (Policy Deviations / Findings, etc.)
- i. Throughput time for procurement bidding processes
- j. Empowerment impact
- k. Quality of Supplies.



21. REPORTING

21.1 KEY PERFORMANCE INDICATORS

The Heads of Supply Chain shall, on a monthly basis, communicate the progress against the stipulated KPIs to the Divisional EXCO. Heads of Supply Chain at divisions shall also ensure that quarterly reports as per the stipulated Supply Chain metrics are submitted a week prior to the quarterly meetings.

21.2 FRAUD AND BID RIGGING

Fronting and bid rigging (collusive bidding) are not allowed. Procurement Practitioners should be alert and sensitised to be able to identify such behaviour and such activities must be reported immediately. Refer to Denel Policy 41 – Code of Ethics and Business Conduct.

21.3 WHISTLE BLOWING

Refer to Denel Policy 41 – Code of Ethics and Business Conduct.

22. OFFSET TRADE

In support of the DTI's Industrial participation and NIPP policy, Denel encourages offset agreements with foreign suppliers, to promote local production development, foreign direct investment, R&D collaboration and technology transfer where feasible.

APPENDIX A: APPLICABLE DOCUMENTS

A.1 EXTERNAL

The primary Acts and Regulations applicable to this Policy are:

- [1] Constitution of the Republic of South Africa, Act 108 of 1996, Section 217 as interpreted in the PFMA and Section 239 as applicable to the PPPFA.
- [2] Public Finance Management Act (PFMA), Act No. 1 of 1999, as amended.
- [3] Public Finance Management Act: Treasury Regulation, issued in terms of the Public Finance Management Act, 1999, as updated.
- [4] Preferential Procurement Policy Framework Act (PPPFA), No. 5 of 2000, as amended.
- [5] Preferential Procurement Regulations, 2011 published in Government Gazette number 34350 dated 08 June 2011.
- [6] Companies Act of 2008, as amended.
- [7] Broad-Based Black Economic Empowerment Act, No. 53 of 2003.
- [8] Codes of Good Practice on Broad-Based Black Economic Empowerment.
- [9] International Traffic in Arms Regulations – ITAR (USA)

A.2 INTERNAL

The internal Denel Policy Documents and Directives applicable to this Policy are:

- [10] Policy No. 2, Delegation of Authority
- [11] Policy No. 12, Risk Management Framework
- [12] Policy No. 23, Intellectual Policy
- [13] Policy No. 36, Performance Management Framework
- [14] Policy No. 38, Arms Control Compliance System
- [15] Policy No. 41, Code of Ethics and Business Conduct
- [16] Policy No. 62, Prevention of Fruitless and Wasteful Expenditure
- [17] Policy No. 65, Fraud and Corruption Prevention
- [18] Policy No. 74, Intergroup Pricing

[19] Directive No. 3, Inventory Provisioning

[20] Directive No. 40, Localisation, Enterprise and Supplier Development Directive

A.3 REFERENCE DOCUMENTS

The secondary Acts and Regulations and other relevant documents are listed here for information purposes:

[21] Broad Based Black Economic Empowerment Defence Sector Charter

[22] Competition Act, No. 89 of 1998, as amended

[23] Construction Industry Development Board Act (CIDB ACT) 38 of 2000, including the CIDB Regulations and Standard for Uniformity, as amended

[24] Customs and Excise Act, No. 91 of 1964

[25] Prevention and Combating of Corrupt Activities Act, No. 12 of 2004

[26] Promotion of Access to Information Act (PAIA), No. 2 of 2000

[27] SCM Framework published in the Government Gazette number 25767 dated 05 December 2003 as part of Treasury Regulations in terms of section of the PFMA)

[28] SCM, a guide for Accounting Officers/Authorities of February 2004

[29] Guidelines on Complex Structures & Transactions, and Fronting (Previously Statement 002). http://www.dti.gov.za/economic_empowerment/guidelines.jsp

[30] Government of the Republic of South Africa: General procurement guidelines (DTI)



APPENDIX B: BUSINESS ETHICS AND CONSTRAINTS

There are a number of very important issues regarding ethical business practices and constraints within the military business industry that must be complied with. Some of these are detailed below. Also refer to Denel Policy 41 – Code of Ethics and Business Conduct.

B.1 CONFLICT OF INTEREST

All suppliers must declare potential conflict of interest at registration stage. Thereafter, only suppliers within a financial year with total purchase orders exceeding R1 million are required to repeat the declaration process as and when Denel requests that. Suppliers must fill in and sign a Supplier declaration form, confirming that the Supplier has no interest or declaring interest. Denel undertakes to safeguard all declarations in line with the POPI Act. Refer to Denel Policy 41 - Code of Ethics and Business Conduct for details on conflict of interest regarding employees and receiving of gifts.

B.2 FRAUD AND CORRUPTION

Fraud and corruption will not be tolerated and will be dealt with in terms of the disciplinary procedure and, where appropriate, criminal and/or civil action will be taken against those involved.

Denel encourages employees and stakeholders to report suspected fraud and corruption activities by putting in place reporting procedures including a fraud and corruption hotline, to report any fraud and all forms of corruption to the dedicated fraud line 0800 20 48 80.

All incidents of fraud and corruption will be investigated and if proven, disciplinary action shall be taken and Denel reserves its right to prosecute those involved or take civil action against them.

B.3 COMBATIVE PRACTICES

Combative practices are unethical and illegal and should be avoided at all cost. They include but are not limited to:

- Suggestions to fictitiously lower quotations;
- References to non-existent competition;
- Exploiting errors in bids; and
- Soliciting bids from bidders whose names appear on the list of restricted bidders / suppliers/persons.

B.4 FRONTING

As Fronting is not allowed, the following guidelines are provided regarding typical Fronting Practices and Fronting Indicators in order to assist in the identification of Fronting activities. Refer to Guidelines on Complex Structures & Transactions, and Fronting (Previously Statement 002). http://www.dti.gov.za/economic_empowerment/guidelines.jsp

B.5 FRONTING PRACTICES

B.5.1 Window-dressing:

This includes cases in which black people are appointed or introduced to an enterprise and may be:

- a. Discouraged or inhibited from substantially participating in the core activities of an enterprise.
- b. Discouraged or inhibited from substantially participating in the stated areas and/or levels of their participation.
- c. Denied of the economic benefits received as a result of the B-BBEE status of an enterprise such that these benefits do not flow to black people in the ratio as specified in the relevant legal documentation.

B.6 FRONTING INDICATORS

Fronting can be typically recognised by the following indicators:

- a. The black people identified by an enterprise as shareholders, executives or management are unaware or uncertain of their role within an enterprise.
- b. The black people identified by an enterprise as shareholders, executives or management have roles or responsibilities that differ significantly from those of their non-black peers.
- c. The black people who serve in executive or management positions in an enterprise are paid significantly lower than the market norm, unless all executives or management of an enterprise are paid at a similar level.
- d. There is no significant indication of active participation by black people identified as top management at strategic decision-making level.
- e. An enterprise only conducts minor functions and not the core functions reasonably expected of other, similar, enterprises.
- f. An enterprise relies on a third-party to conduct most core functions normally conducted by enterprises similar to it.
- g. An enterprise cannot operate independently without a third-party, because of contractual obligations or the lack of technical or operational competence.