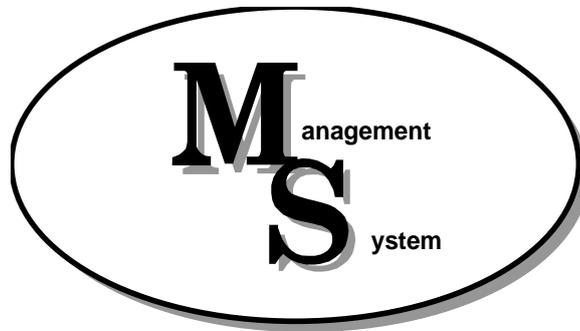


**PREFERENTIAL PROCUREMENT POLICY GENERAL
CONDITIONS AND DEFINITIONS**



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**PREFERENTIAL PROCUREMENT POLICY GENERAL
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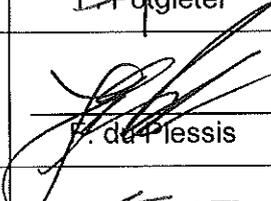
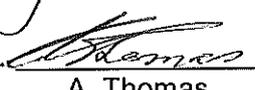
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ABBREVIATIONS

BBBEE	Broad Based Black Economic Empowerment
BEE	Black Economic Empowerment
JSE	Johannesburg Stock Exchange
RFQ	Request for Quotation
OHS.....	Occupational Health & Safety
MRU	Material Requisition Unplanned
HDSA	Historically Disadvantaged South African
RS.....	Reutech Solutions

1. SCOPE

1.1. INTRODUCTION

The Broad-Based Black Economic Empowerment Act no. 53 of 2003 and government's Black Economic Empowerment Strategy, aim to address more than just the inequalities resulting from the systematic exclusion of the majority of South Africans from meaningful participation in the economy and aims to position BBBEE as a tool to broaden the country's economic base, accelerate growth, job creation and poverty eradication.

As a subsidiary of the JSE listed Reunert and in line with its commitment to the SA government's initiatives towards Broad Based Black Economic Empowerment (BBBEE), Reutech Solutions a division of REUTECH (Pty) Ltd has decided to formulate and adopt a range of policies that are aimed at facilitating and expediting the achievement of BBBEE objectives throughout all of its operational activities. This policy document address preferential procurement and enterprise development as the two primary measures of indirect empowerment. To this end, the activities envisaged in this policy are commercially oriented and as such must be differentiated from other programs for Black Economic Empowerment, which have a social upliftment orientation. By committing to its implementation, the management of Reutech Solutions hopes to contribute to promote entrepreneurship in Black communities and to give Black businesses access to the mainstream of defence business opportunities.

While intent on supporting Black suppliers throughout its operational sphere, Reutech Solutions will concentrate its developmental efforts on Black suppliers in manufacturing and installations as well as on providers of services in the defence environment.

1.2. APPLICABILITY

This procedure is applicable to purchasing of all types of services and products excluding imported items.

1.3. PURPOSE

The aim of this policy provides the strategic intent of Reutech Solutions to comply with the South African legislation on BBBEE but also to adopt the practices associated with indirect empowerment (preferential procurement & enterprise development) as a business imperative. Reutech Solutions will endeavour to increase the amount of funds spent on Black suppliers and has a target of at least 80% on local purchases.

2. APPLICABLE DOCUMENTS

2.1. SPECIFICATIONS

None

2.2. INTERFACE CONTROL DOCUMENTS

1. 7654-AA-0049 ST : Supplier Development Philosophy

2.3. STANDARDS

None

2.4. OTHER PUBLICATIONS

1. The Codes of Good Practice (the codes) under section 9 (1) of the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003)

3. DEFINITIONS

As a principle, this policy provides definitions for use in its application on a day-to-day basis and these are not meant to be authoritative. To this end, those applicable definitions as may be contained in the different Acts and Bills that pertain to BBBEE and preferential procurement will always take precedence whenever a misinterpretation occurs / a dispute arises.

Black	:	A Generic term which means African, Coloured and Indians.
Business	:	Means any business entity organized for profit (even if its ownership is in the hands of a non-profit entity) with a place of business located in South Africa and which makes a contribution to the South African economy through payment of taxes and use of South African products, material and/or labour, etc. "Business" includes but is not limited to an individual, close corporation, partnership, corporation, joint venture, association, or co-operative
Disabled Person	:	A South African person who has a long-term or recurring physical or mental impairment that substantially limits his/her prospect of entry into, or advancement in employment.
Front	:	A supplier is termed a front if: <ul style="list-style-type: none"> ▪ Black partners are given shares without any payment. ▪ The "Black" company uses the non-Black surrogate company's infrastructure without making any payment. ▪ The Black partner makes no meaningful contribution to the day to day running of the business. ▪ The Black owners' shareholding is linked to their employment conditions. i.e. Blacks forfeit shareholding when they cease to be employed by the company. ▪ The supplier's market and involvement is limited to the acquisition of government and parastatals contracts only. The above definitions are not exclusive, and any other behaviour intended to hide the true nature of ownership and control / to circumvent transformation will be viewed as fronting.
Industrial Participation Programme	:	Is a program used to encourage domestic economic development, to improve the Balance of Payments accounts by means of domestic content, licensing of technology, investment requirements, counter-trade or similar requirements. Such economic development can either be in the broader SA economy & is often referred to as the National Industrial Participation Programme (NIPP) or in the defence sector & referred to as the Defence Industrial Participation Programme (DIPP). Of the latter type, there can be direct DIPP (linked / associated with the project of origin) or indirect DIPP (not associated with the project of origin but still in the defence sector).
Non Value Adding	:	Where an entity /agency adds an additional link but does not add value in the supply chain, Reutech Solutions will disregard whether it is Black or not and will not purchase through it. Value is added when the entity / agency supplies expert back-up services, financing, spares or item stockholding or some similar service or benefit to the customer. A common instance is where an entity does nothing else other than to only carry and market stock supplied by a traditional supplier while the traditional supplier guarantee stock and provide backup.
Qualifying Small Enterprise	:	Means an Entity that qualifies for measurement under the Qualifying Small Enterprise scorecard with a turnover of R10 million or more but less than R50 million.
Supplier	:	Includes but is not limited to seller, contractor, vendor, service provider, and consultant.
Supplier Database	:	A repository of information on approved suppliers that are utilized by the purchasing division to source suppliers for specific contracts.
Supplier Registration	:	Sourcing directories or registers of suppliers will indicate whether the enterprise is certified as a BEE supplier (e.g. equity, indirect empowerment & social responsibility), and also whether the enterprise is qualified (e.g. technical, quality assurance and environmental or financial requirements) for participation in supply of certain categories of goods or services.
Youth	:	A South African person who is 35 years and younger.

4. APPROVAL OF SUPPLIERS

The primary task of the procurement function remains unchanged: to find reliable, cost effective suppliers for the business. Procurement must be done on the basis of quality, service, price and availability. All approved suppliers and contractors should have an equal opportunity to compete for Reutech Solutions business. To this end, BEE suppliers will not be treated differently than the norm with regard to quality, expected service level, delivery, or any technical requirements. When new business is being developed, however, the normal financial evaluation requirements may be temporarily relaxed, if this can be done without substantially endangering Reutech Solutions interests. A small Black business should, therefore, not be denied listing as a supplier due to lack of a formal environmental policy and quality management system. Where manufacturing, maintenance or other similar requirements are involved the supplier will have to be qualified as to capability / capacity. In either case development assistance may be required.

The following qualifiers are taken into account prior to placing the order:

- Technical compliance.
- Lead time and capability to deliver.
- Quality.
- Safety, Health and Environmental.
- After sales service and technical assistance.
- Contribution to / compliance with the requirements of BBBEE.
- Price.

Any changes to the make-up of the tenderer or to their Black Empowerment Program that will improve their BEE status but that occur after the tender closing date and time and before order/contract placement will not be taken into consideration in tender evaluation, even if these changes were under consideration at the time of tendering. If a contracted enterprise no longer qualifies for support as a Black/BEE supplier due to the changed parameters set out in this document, but not for any other reason, it will retain its status for the remainder of the contract period. The supplier must be blocked for RFQ and not for payment. If the enterprise wishes to tender for new business during this period, it must firstly conform to the new parameters for it to be considered Black/BEE. However, if a supplier loses its BEE status at any time, Reutech Solutions must be informed within seven (7) working days.

5. REGISTRATION, EVALUATION, UTILISATION AND REMOVAL OF SUPPLIERS

As a general principle, most contracting opportunities will require at least three quotations to allow Reutech Solutions to efficiently source the requisite services and products. In order to minimise uncertainty and reduce turnaround times, Reutech Solutions follows a process through which suppliers are evaluated, registered, utilised and removed from the supplier database.

5.1 REGISTRATION

When applying for registration as suppliers, and again on every occasion when they submit a quote to Reutech Solutions, suppliers provide a statement of their ownership/control and internal Black Empowerment initiatives (as well as any other information as may be requested/relevant), which will be used in supplier assessment and in assessing tenders along with technical and commercial offerings. Areas that will receive specific attention during BBEE status evaluation and verification are:

- **Black Ownership:** This is reflected by percentage equity ownership, board membership, source of working capital, risk, etc. and as demonstrated in voting rights.
- **Black Management:** This is reflected by the percentage of Black board members and executive and middle operating/core management, i.e. decision makers and risk takers as well as day-to-day operational involvement and policy formulation where applicable
- **Employment Equity:** Employment Equity addresses not only the percentage of Black employees but also the targeted groups like women, youth and the disabled.
- **Skills Transferred:** This reflects the proportion of skilled (i.e. having some technical qualification) non-management Black workers, i.e. artisans, technicians, technologists, draftsmen, certified operators, etc., employed by the supplier.
- **Purchasing from Black suppliers:** This may include purchases from or subcontracting of Black suppliers, joint ventures or partnerships with Black groups (not specifically related to the procurement under consideration) leading to transfer of technology and skills, etc.
- **Other BEE Initiatives:** This may include Black employee equity ownership schemes, assistance to start-up Black businesses, bursary schemes assisting Black students, and many other social upliftment initiatives.

The above is over and above the information on the company's technical capabilities and capacity as may be contained in their profile.

5.2 EVALUATION

Upon receipt of a registration form with all the accompanying documentation, Reutech Solutions will (where necessary) dispatch a team to conduct a site inspection on the supplier's premises in order to ascertain various aspects like capability, capacity and compliance to quality, OHS and other requirements. Thereafter, a process will be followed to ascertain all BBBEE related claims with specific focus on the following:

In order to verify the validity of all information submitted, Reutech Solutions reserves the right to request the following from the supplier:

- Proof of legal documents lodged with the Registrar of Companies which will confirm who has an interest / shareholding status in the supplier as an entity, and the particular interest percentage.
- Other forms of authenticable documentary proof, like the company shareholders agreement, in order to check the terms and conditions of the empowerment transaction / relationship as well as bank statement to prove that the shares have been paid for by the Black enterprise or individual.
- Official shareholding structure to ensure that there are no special arrangements e.g. preference shares and "N" shares which may be used to protect some interest of one party (usually the White shareholders), or to take priority over ordinary voting shares when dividends are being paid.
- Proof that Black participation in the business is not conditional. An example is where Black interest is attached to his employment, and once he/she resigns or is dismissed for whatever reasons, the interest is forfeited or unduly places a restraint of trade on the Black partners.

5.3 UTILISATION OF BLACK SUPPLIER

Once the evaluation process has been completed and all the information verified, suppliers are then included in the Reutech Solutions Supplier Database and considered to be approved suppliers who will then receive preference whenever a contracting opportunity arises. Using the minimum of three quotes as received, Reutech Solutions will evaluate the quotation and whenever possible preference will be given to Black suppliers. In a situation where several proposals / quotations are received and the approved Black supplier qualifies on all aspects except for price, Reutech Solutions may apply the principle of price matching for either the whole contract or parts thereof. Price matching is a mechanism used to affirmatively assist Black suppliers to gain business in competition with established suppliers. It means allowing Black suppliers to match the lowest price of non-Black suppliers, or a realistic market price. If more than one Black supplier has tendered, and price matching is appropriate, the approved and qualifying Black supplier submitting the lowest priced acceptable tender will be approached.

5.3.1 THE PRICE MATCHING PROCESS

While the buyer has to inform his/her immediate manager, he/she does not need to obtain a mandate to negotiate in order to apply price matching, provided all the requisite adjudication processes have been followed. The first principle is to exclude any settlement discount and Value Added Tax where Black suppliers are involved.

Thereafter, the buyer must look at the cost breakdown of the supplier in order to make a sensible comparison and be able to ascertain that the contract price tendered in the lowest priced financially, commercially and technically acceptable tender is a “fair market price” before price matching can be done. A fair market price means a price based on reasonable costs under normal competitive conditions. In this process the buyer must question the fairness of the lowest tendered price only if the price is an outlier, which is substantially below that of other tenders, or if the price is lower than the current contract price.

Note: In estimating a fair market price for a repeat purchase, the buyer considers recent award prices for the same items or work if there is comparability in quantities, conditions, terms, and performance times. He should adjust the estimated price to reflect differences in specifications, plans, transportation costs, packaging and packing costs, and other circumstances. Price indices may be used as guides to determine the changes in labour and material costs. Comparison of commercial prices for similar items may also be used.

Any supplier that deliberately quotes a price below his marginal cost in order to ruin his competitors is contravening the Competition Act. If the buyer has good reasons to believe that the lowest tender is not “fair market price” then that tender should be disregarded as a non-responsive tender and the Black supplier must match the next lowest price. This is done in order to protect the interests of both the Black supplier and Reutech Solutions. If such a situation occurs, then the approval for such a report should be done at one level higher.

The buyer decides whom to invite to price match based on the following criteria:

- If no development aid is being given to any Black supplier, the buyer ranks the Black suppliers that submitted acceptable tenders according to tendered prices and invites the one with the lowest price to price-match.
- If development aid is being given to one or more Black suppliers, the buyer invites the supplier/s being developed or earmarked for development to price match without ranking them. (The decision to develop small Black suppliers is made at or before the contract strategy stage.)
- If no Black supplier has submitted a quote, or the Black suppliers invited to do so fail to price-match, the buyer invites the supplier with the next best BBBEE credentials to match the price.

The buyer prepares a schedule indicating the prices that have to be matched if the supplier must match individual unit prices. Alternatively, the supplier is provided with a schedule showing the total delivered price that the Black supplier must match if the total contract price is the criterion. This includes conditions such as fixed prices, foreign currencies, etc. The effect to the user in Reutech Solutions / the client must be that the same price is paid for the item / service.

Prior to inviting the concerned supplier to match the price, the buyer must seek assurance that the Black supplier is willing to match the price and ascertain if the supplier is in fact capable of profitably supplying at that price, by questioning the price basis of the Black supplier’s tender. Thereafter, the supplier can be offered an opportunity to match the price. The attached standard letter can be used though it will be tailored from time to time (see Appendix 1).

5.3.2 SUPPLIER INFORMATION BASE

This is an official list of approved suppliers that is built up over a period of time. This is a repository of information of suppliers that is an essential buying tool and should be constantly updated with all the requisite information by adding/removing suppliers whenever it becomes necessary. Part of the database maintenance/update process will involve the regular circulation of questionnaires aimed at ensuring the integrity of the information contained in the database. While there are many ways in which suppliers can be classified, the following categories will be utilised in the Reutech Solutions Supplier Database.

5.3.2.1 DISCRETIONARY SUPPLIERS

Discretionary suppliers include all suppliers where Reutech Solutions has a choice in procuring goods and services. The decision is made mainly on the basis of comparing quality, price, lead-time and BBEE status. These are the suppliers where price matching is most likely to be applied.

5.3.2.2 NON-DISCRETIONARY SUPPLIERS

Non-discretionary suppliers includes all suppliers where Reutech Solutions does not have a choice in procuring goods and services and is compelled to use a specific supplier due to different reasons like monopoly of supplier, specialisation of industry and sole agency status on imported goods. These are the suppliers where enterprise development is most likely to be required.

5.3.2.3 SECONDARY PROCUREMENT

As opposed to a transaction in which a BEE supplier is directly contracted, secondary procurement relates to the procurement of services / products from a BEE supplier by a Reutech Solutions accredited non BEE contractor who is completing a Reutech Solutions contract. Second tier procurement values will be obtained from suppliers. Where doubts arise as to the accuracy of second tier values Reutech Solutions may require a certificate from the supplier's auditors or some other form of proof. Secondary procurement activities will be dictated by Reutech Solutions to the main contractor and may include the following:

- Sub-contracting portions of the contract.
- Procuring manufactured components/subassemblies.
- Procuring consumables/MRU materials.
- Procuring of support services, e.g. transport, insurance.
- Procuring professional services, e.g. engineering, design, project management.

5.3.3 SUSPENSION OF SUPPLIER

Reutech Solutions reserves the right to suspend or remove a supplier from its database should the supplier be found to have misused the provisions of this policy to have conducted their business unethically. This is particularly applicable to any supplier or potential supplier that misrepresents the facts in order to gain some unfair advantage

using this. The name of the supplier and nature of unethical conduct will be divulged to Reutech Solutions sister companies and associates especially where the supplier's involvement may have been facilitated by Reutech Solutions.

Further, Reutech Solutions may remove a supplier from the list if the supplier:

- Becomes bankrupt (if the supplier in question was part of Reutech Solutions enterprise development efforts, the supplier will have been responsible for ensuring that Reutech Solutions knew of any impending financial difficulties).
- Give false declarations including SARS tax clearance certificates and other information like BBBEE credentials or previous contracts.
- Repeatedly does not quote competitively when invited to do so.
- Does not perform in terms and conditions of the contracts placed.

It is important that (before Reutech Solutions takes any action with regards to a supplier) a formal complaint be submitted to the relevant manager, an investigation be initiated and the supplier be given the opportunity to not only present their perspective but also to rectify the problem where feasible. Lastly, and in an effort to assist both Reutech Solutions employees and suppliers to conduct themselves in an acceptable manner, Reutech Solutions has compiled a code of conduct, which is binding to both parties and is attached appendix 2.

6. PROCUREMENT STRUCTURE

Reutech Solutions Chief Executive Officer will assume the overall responsibility for the achievement of the preferential procurement and enterprise development activities in the company. The actual implementation and co-ordination of preferential procurement is the responsibility of the Procurement / Purchasing Manager while that of enterprise development is the responsibility of the various Business Development Managers. Adequate funds will be budgeted and resources allocated for these activities.

The current procurement structure is attached appendix 3.

7 ENTERPRISE DEVELOPMENT

Reutech Solutions Supplier Development program strives to provide leadership, guidance and extended opportunities to local suppliers through a structured supplier development platform that stimulates their sustainability, job creation, skills transfer and the development of local industries as a whole.

(Refer to Supplier Development Philosophy 7654-AA-0049 ST. Appendix 4.)

8. PERFORMANCE MEASUREMENT AND REPORTING

The Chief Executive Officer of Reutech Solutions is to ensure that preferential procurement and enterprise development are included in the performance appraisal of all affected personnel (both procurement and operational personnel). Performance measurement and reporting requirements are set out in directives from management from time to time. Key Performance Indicators are:

- Amounts spent procuring goods or services from BEE suppliers.
- Expenditure on the enterprise development.
- The proportion BEE suppliers who get repeat contracts while being developed.

9. CONCLUSION

This code of conduct applies equally to all Reutech Solutions employees, particularly those involved in the purchasing function. It is incumbent upon any Reutech Solutions employee who becomes aware of a breach of Reutech Solutions policy to report immediately such breach to his or her manager who will instigate investigations as necessary. Similarly, it is the responsibility of the supplier to report any malpractice by a Reutech Solutions employee/supplier to the appropriate Reutech Solutions manager who will instigate appropriate disciplinary proceedings. The supplier's employee is assured that such action will not compromise or disadvantage his organisation in any way.

10. APPENDIX

10.1 APPENDIX 1 - PRICE MATCHING LETTER

(Printed on Reutech Solutions Letterhead and addressed appropriately)

In accordance with Reutech Solutions policy of supporting Black suppliers, you are hereby given the opportunity to match prices (on selected items/portions of the contract) with the lowest quote submitted in response to the above-mentioned enquiry.

Price matching should be done with great caution, with reference to your own price structures. Reutech Solutions will not be responsible for, and (supplier's name) indemnifies Reutech Solutions against, any losses, claims, proceedings, damages, costs, charges and expenses of whatever nature arising as a result of matching the lowest quoted price/s. Reutech Solutions will not consider any "hardship" claims arising from price matching.

Schedules of the prices that may be matched are enclosed. The terms and conditions applicable to the original enquiry remain unaltered and will apply despite the matching process.

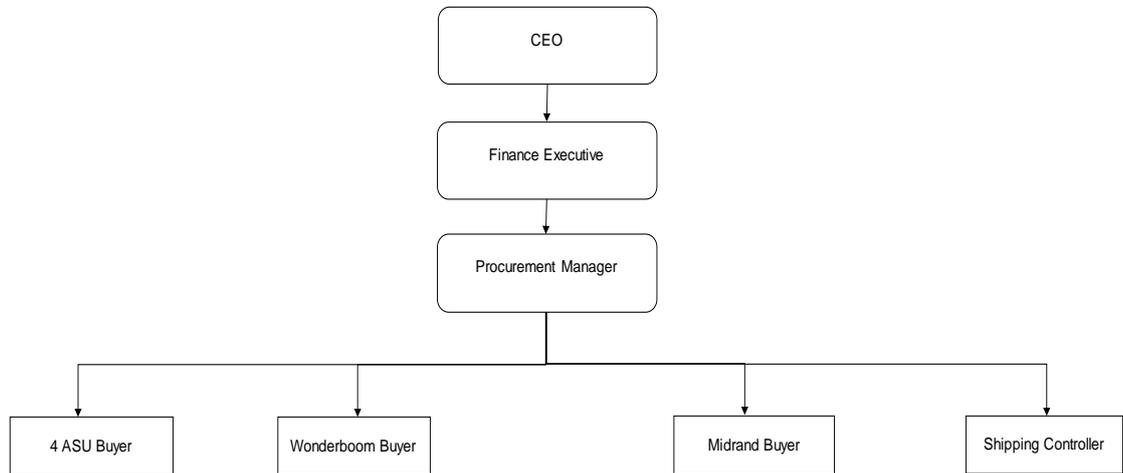
Kindly complete and return the attached price matching schedules before (date). Reutech Solutions will evaluate the price offered and may approach you for further information. Reutech Solutions does not guarantee that any portion of the resulting contract/s will be awarded to your company.

10.2 APPENDIX 2 - PROCUREMENT & SUPPLIER CODE OF CONDUCT

Reutech Solutions suppliers accept that they will at all times:

- Maintain an unimpeachable standard of integrity and professionalism in all their business and personal dealings that may influence their business prospects.
- Reject all improper / unethical business practices.
- Declare and divulge to Reutech Solutions any information that may compromise Reutech Solutions business and pertains to Reutech Solutions relationship with the supplier as well as between Reutech Solutions and other suppliers. (Included in this is the so called 'conflict of interest' which may entail family/business relations between an Reutech Solutions employee and the supplier / the supplier's employees that may influence objectivity in decision making)
- Not misuse opportunities, information and relationships arising in the course of their interaction with Reutech Solutions.
- Seek constantly to maintain and enhance the standards of professional competence of themselves as a company.
- Adopt policies and practices that are aligned with those of the SA Government's BBBEE as adopted by Reutech Solutions.
- Handle as confidential all information, to which a supplier has access in the course of his or her work, and thus not disclose such information without the express permission from the appropriate Reutech Solutions employee authorised to grant such dispensation.
- Provide accurate information that will not in any manner mislead Reutech Solutions. Reutech Solutions reserves the right to request an audit of such information where deemed appropriate.

10.3 APPENDIX 3 - PROCUREMENT DEPARTMENT ORGANOGRAM



10.4 APPENDIX 4 - SUPPLIER DEVELOPMENT PROGRAM

(Refer to 7654-AA-0049 ST)