

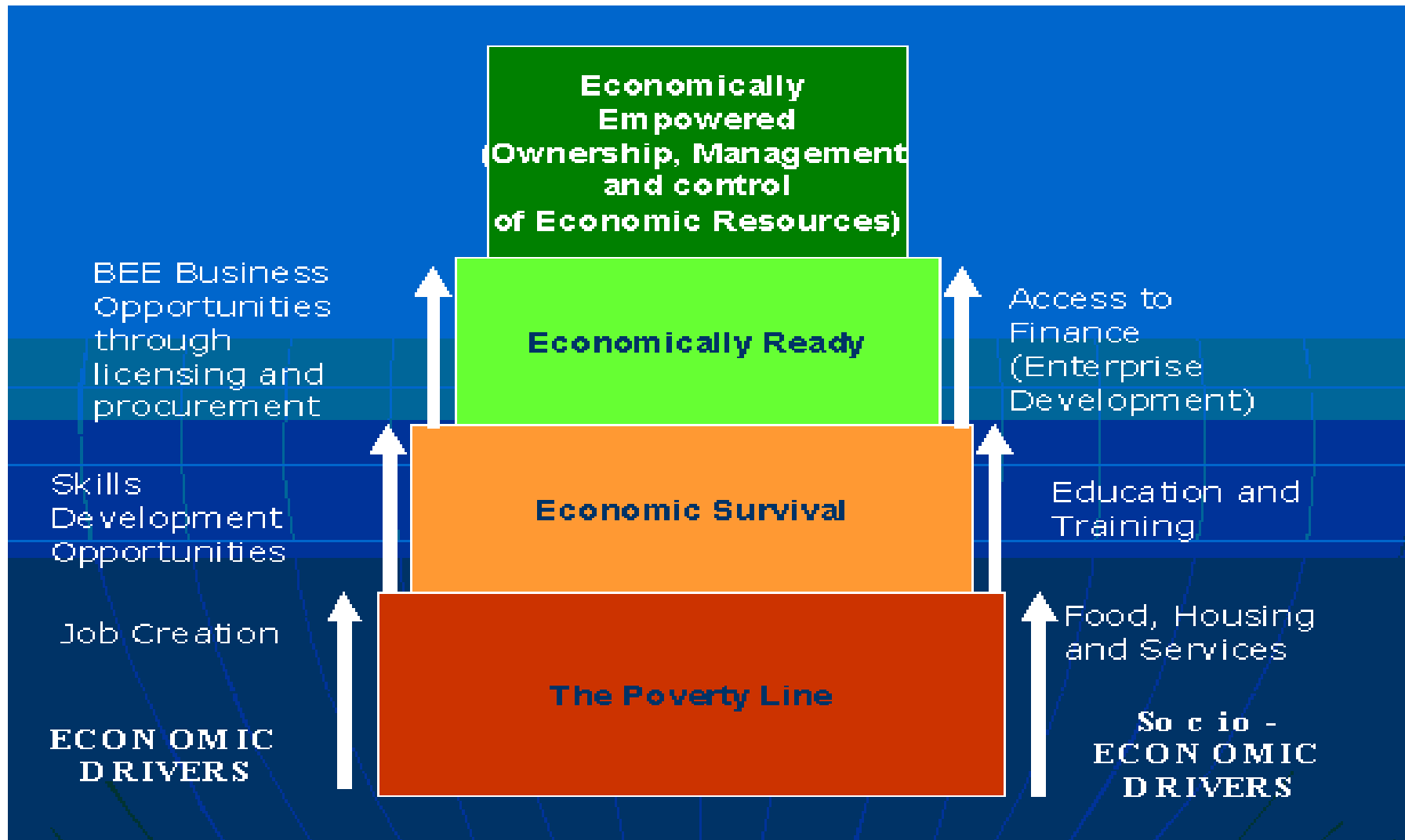


Guide to Broad-based Black Economic Empowerment

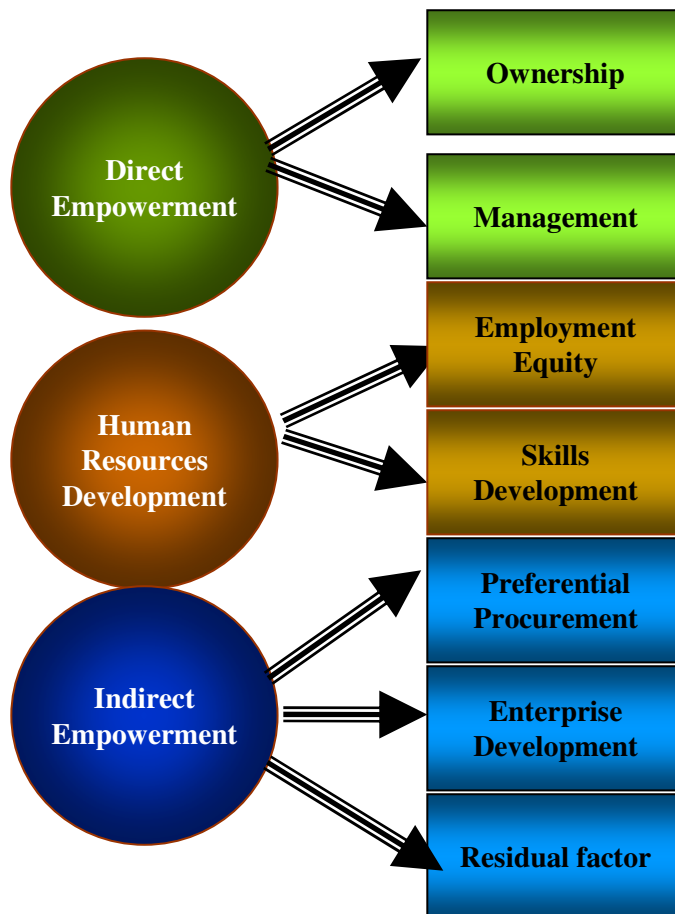




The Well of Economic Oblivion

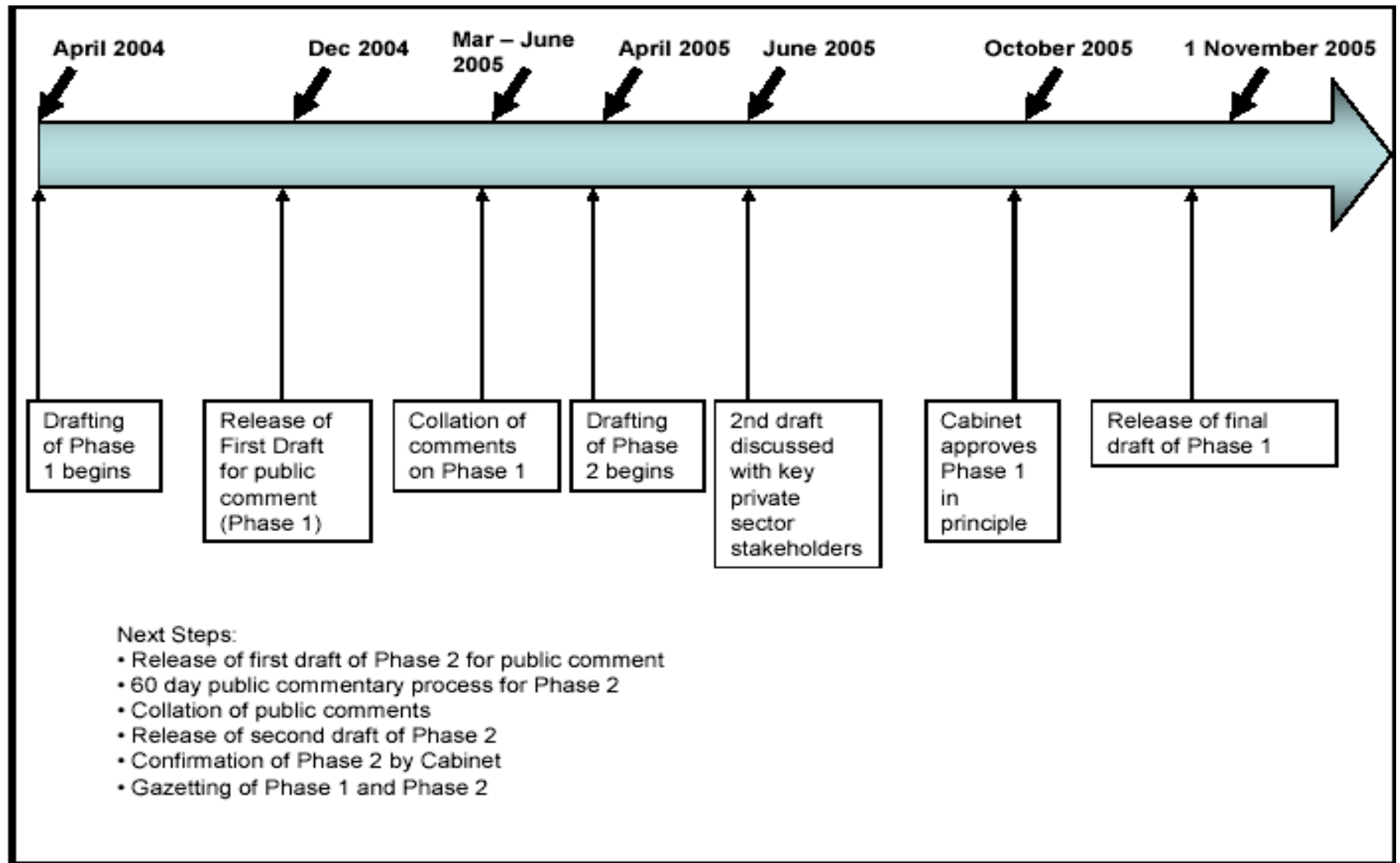


KEY ROPES OF BEE



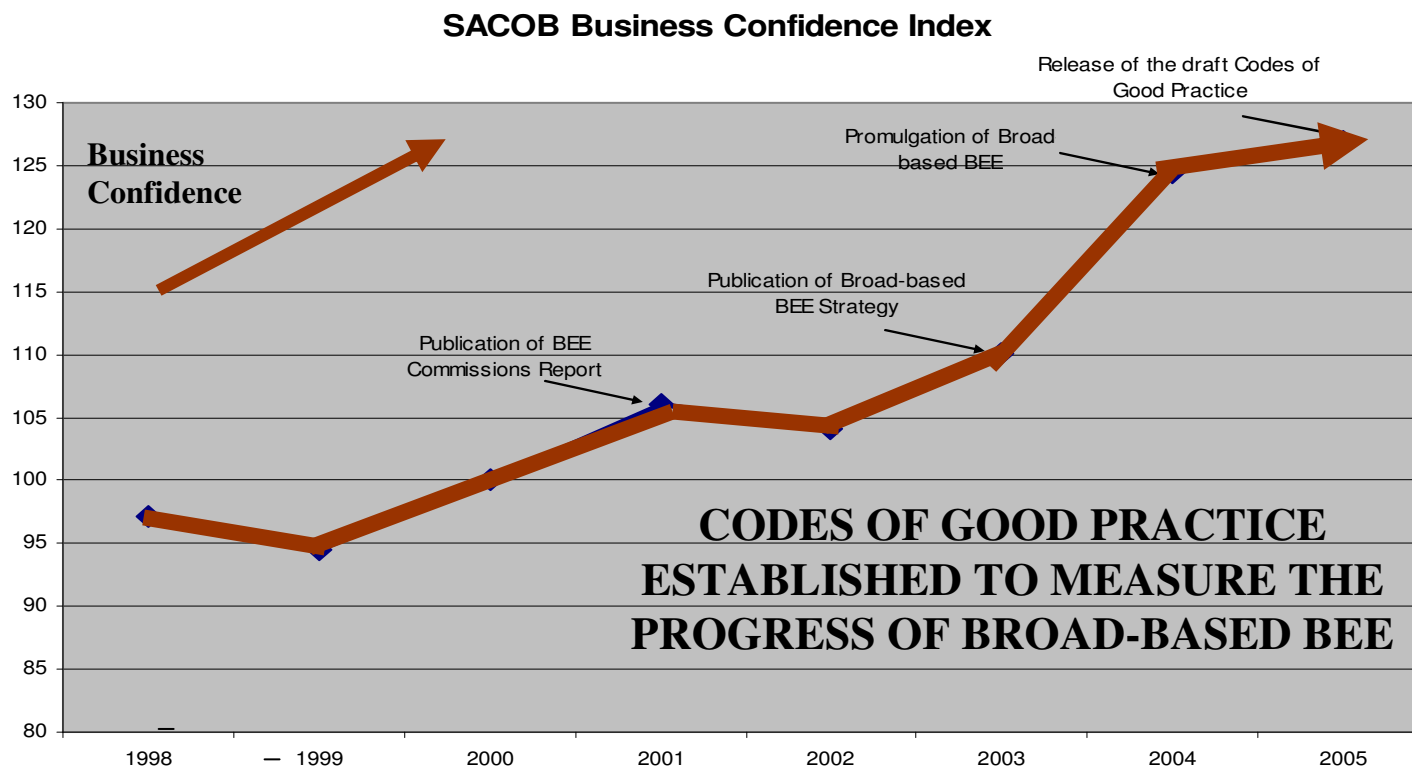
- **Broad-based BEE Strategy** (March 2003)
- **Broad-based BEE Act** (Signed January 2004)
- **Draft Codes of Good Practice on BEE** (December 2004)

Codes Process

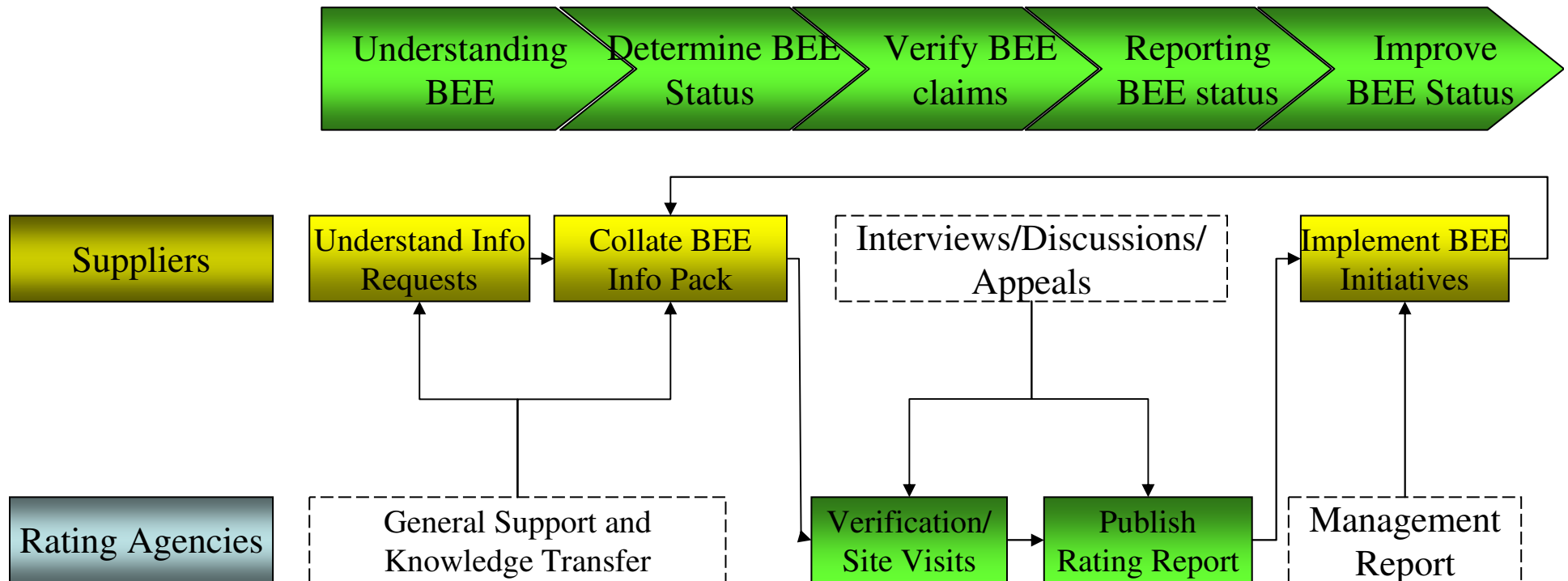


Broad-based BEE Legislative Framework

- Codes of Good Practice formulated on the foundations of **Broad-based BEE**
- Coincides with **growth in business confidence** over the last four years
- S10 of BEE Act, require all state organ to implement the Code when making **procurement, licensing, financing** and other economic decisions



Verification Process



Key Considerations:

- Collation and measure BEE statistics based on the broad-based BEE Scorecard

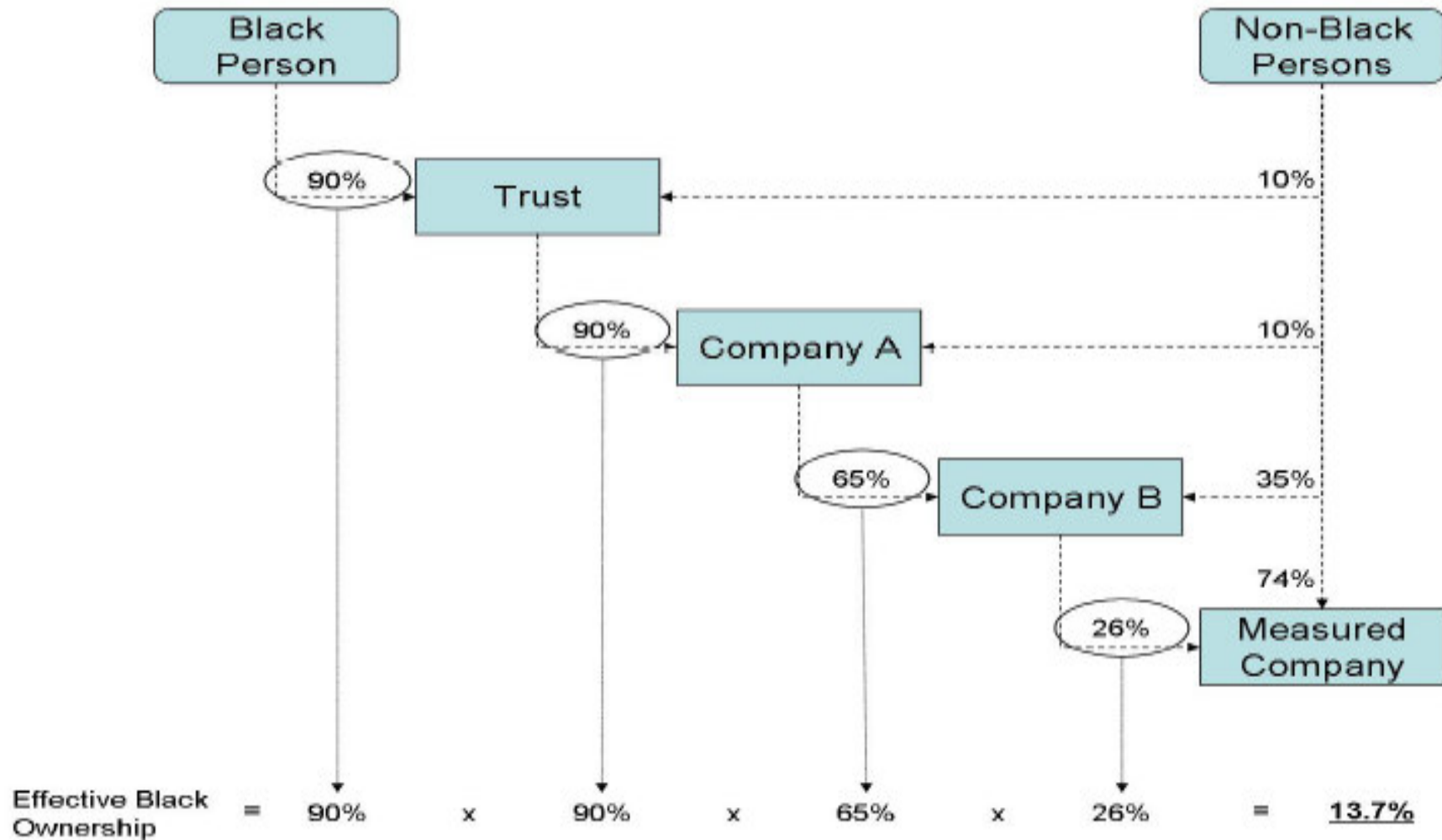
Statement 100 - Ownership

- **Black people definition**
 - Africans, Coloureds and Indians who are natural person and are
 - South African citizens by birth, descent or
 - South African citizens by naturalisation before the promulgation of the Constitution of 1993 or
 - South African citizens after the promulgation of the Constitution of 1993 but would have been entitled to acquire citizenship by naturalisation prior to that date;
 - No permanent residents included
- **Ownership Components**
 - Voting rights
 - Economic Interest
- **Key Principles**
 - Flow-through principle
 - Realisation points

Ownership Scorecard

Ownership Indicator	Weighting points	Compliance target
Voting Rights:		
• Exercisable Voting Rights in the Enterprise in the hands of Black people	3	25%+1 vote
• Exercisable Voting Rights in the Enterprise in the hands of Black women	2	10%
Economic Interest:		
•Economic Interest in the Enterprise to which Black people are entitled	4	25%
•Economic Interest in the Enterprise to which Black women are entitled	2	10%
•Economic Interest in the Enterprise to which Black designated groups are entitled	1	2.5%
Realisation points:		
• Ownership fulfilment points	1	Yes/No
• Net equity points	7	25%

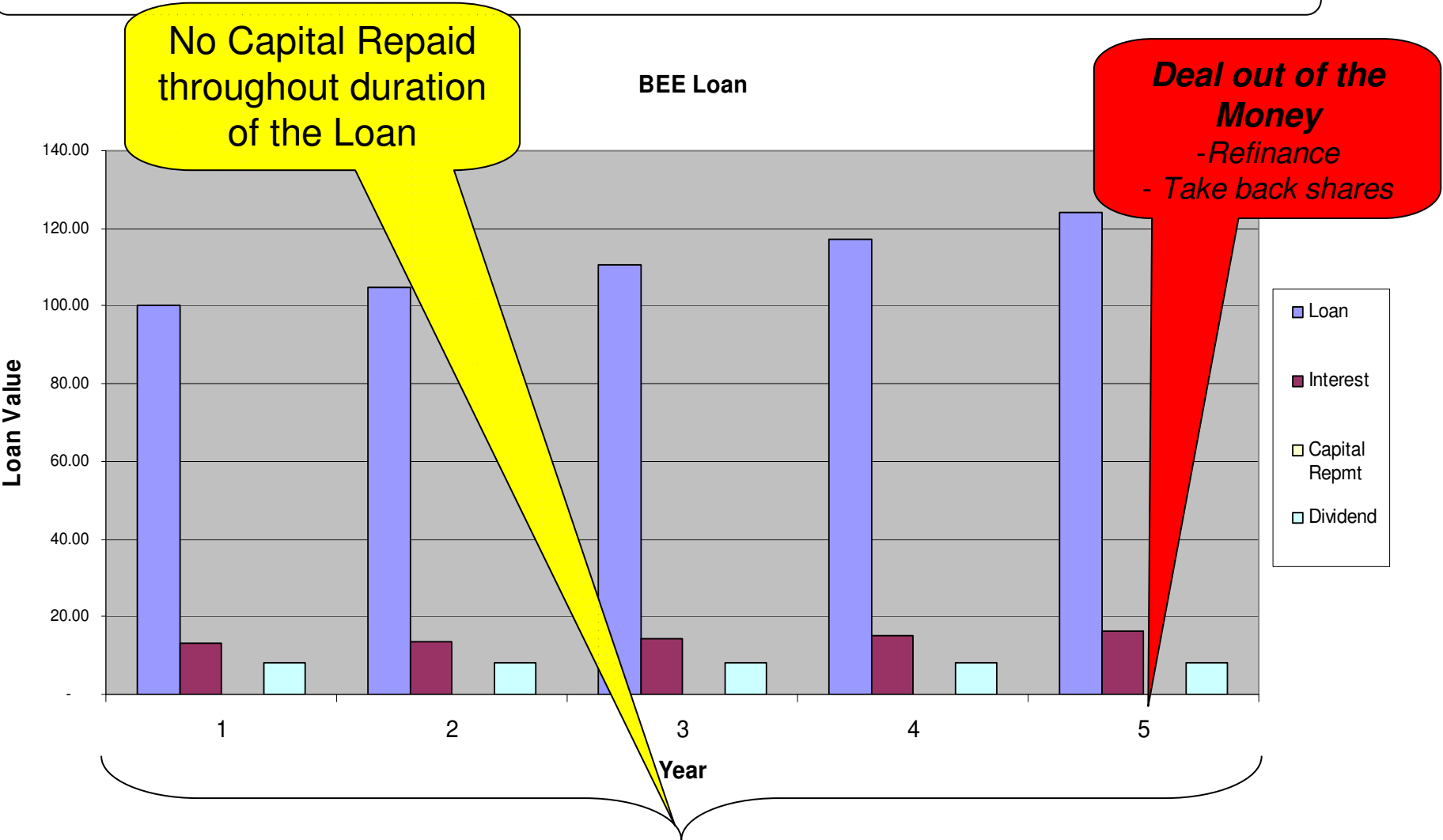
Flow-through principle



Application of the Net Equity Clause

- Typical Scenario
 - 25% Equity Interest Acquired by black person for R100m
 - Financed by 3rd Party or Vendor financed
 - Pledges shares as security
 - Loan period – 5 years
 - Cost of Finance = 13% p.a.
 - Dividend Yield = 8% p.a.

Typical Scenario

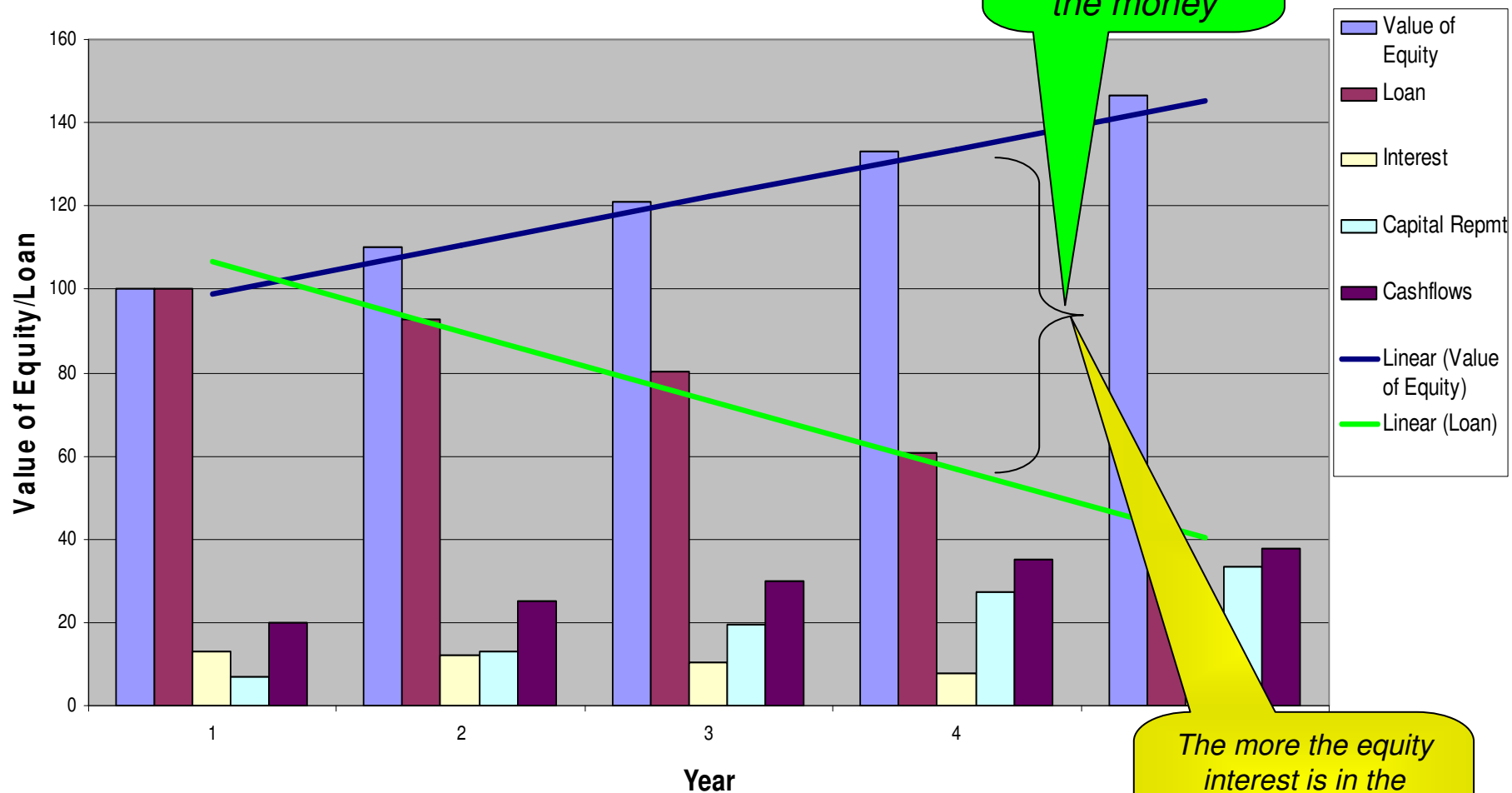


Effect on Company
 Full BEE points allocated on Day 1
 Company increases business due to BEE Credentials

Effect on Black Shareholder
 No Flow of Economic Benefits throughout Loan Period
 No benefit from company's increased business

Effect of the Codes Provisions

BEE Equity Interest & Loan



Extent to which the deal is in the money

The more the equity interest is in the money the more BEE points accruing to Co.

Management

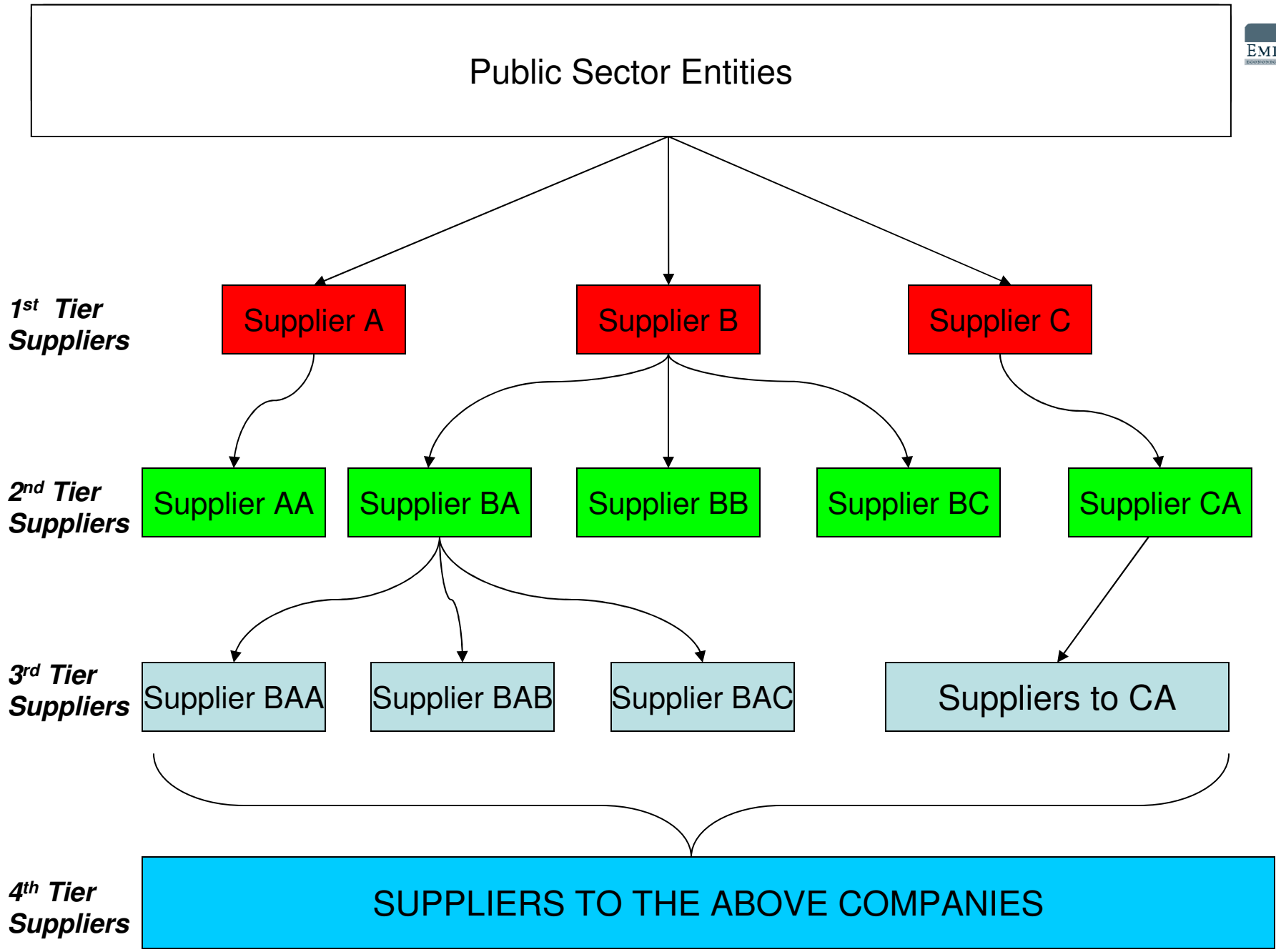
- Key Principle:
 - Effective control over economic activities and resources
- Key Measures:
 - Board of Directors
 - Executive vs. non-executive director
 - Executive Management
 - Divisional StratComs
 - Key Decision-makers (CEO, CFO, COO)
- Key considerations
 - Executive involvement of blacks is key
 - Succession plans to fast-track black

Employment Equity

- Key Principles:
 - Equitable representation across employment levels
- Key Measurement Criteria:
 - Current EE Profile and Skills Level
 - Validation Interviews
- Key Considerations:
 - Plans to improve EE Profile
 - E.g. Graduate Trainee Programme
 - Rising Stars Programs
 - Performance Management

Skills Development

- Key Principles:
 - Investment in skills and human resources
- Key Measurement Criteria:
 - Skills dev. as % of Payroll
 - Systematic Programme in place
 - Training and Development Plan
 - Gender and Race Split
 - Learnerships
- Key Considerations
 - Amount claimed from the SETA



Affirmative Procurement

- Key Principle:
 - Providing business opportunities to black suppliers
- Key measurement criteria
 - Discretionary
 - Non-discretionary
- Key considerations
 - Acceptable BEE Status of suppliers






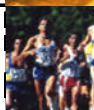

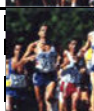








Enterprise Development

- Key principle:
 - Supports provided to and Investment in BEE enterprises
- Key Measurement Criteria:
 - Investment in BEE Companies, Joint Ventures and Associates
- Key Considerations
 - Joint Tendering
 - Skills Transfer
 - Risks
 - Other initiatives
 - Supplier Development Programme
 - Fast tracking of BEE suppliers
 - Price differentials for Black Suppliers (Premium)
 - Special Payment Terms

Social Development

- Key Principle:
 - Provision of support for social development
- Key Measurement Criteria:
 - Financial Contribution
 - Areas of contribution
 - Education
 - Health
 - Poverty Alleviation
 - Job creation and community development
- Key Considerations
 - Quantification of time commitment

Different Ropes in sectors

BEE Factors		DTI Weighting	FSC Weighting	FSC Targets	Mining Charter Targets	BEE Drivers	Key
	Ownership	20%	14%	10% Direct Ownership and 15 % Indirect Ownership (or 25% Black Ownership) by 2010	15% black ownership (2008), 26 % black ownership (2013)	Direct Empowerment	
	Management and Control	10%	8%	33% Representation and 25% Executive (Women: 11% and 4%)	40 % Representation at both executive and non-executive levels	Direct Empowerment	
	Employment Equity	10%	12%	To achieve between 20% to 50% representation at different mgt levels	40% Black representation at all levels of employees	Human Resources	
	Skills Development	20%	8%	1.5% Payroll on Training, 4.5 % employees trained	Fast tracking young black employees both in sector related and unrelated skills	Human Resources	
	Affirmative Procurement	20%	8%	50% BEE Procurement (2008) 70% BEE Procurement (2014)	Identification of accredited suppliers, median procurement target of 30 percent set by the industry	Indirect Empowerment	
	Enterprise Development	10%	8%	Adjusted in accordance with BEE Accreditation of Targeted Company	No formal Guidelines on enterprise development	Indirect Empowerment	
	Social Development	10%	3%	0.5% of Profit After Tax towards CSI	Intergrated community development plan and the provision of housing	Indirect Empowerment	
	Industry Specific Factors		39%	Provide access to 80% of LSM 1-5, fund Empowerment ventures and enterprises	Establishment of Beneficiation project that will create skilled job opportunities in SA	Indirect Empowerment	

Operational Capacity

- Key Principles:
 - Identification of potential fronting risk
- Key measurement criteria
 - Capacity to perform core business
- Key Considerations
 - Extent of reliance on the following
 - Private Sector affirmative procurement programs
 - Public Sector

Recognition Levels

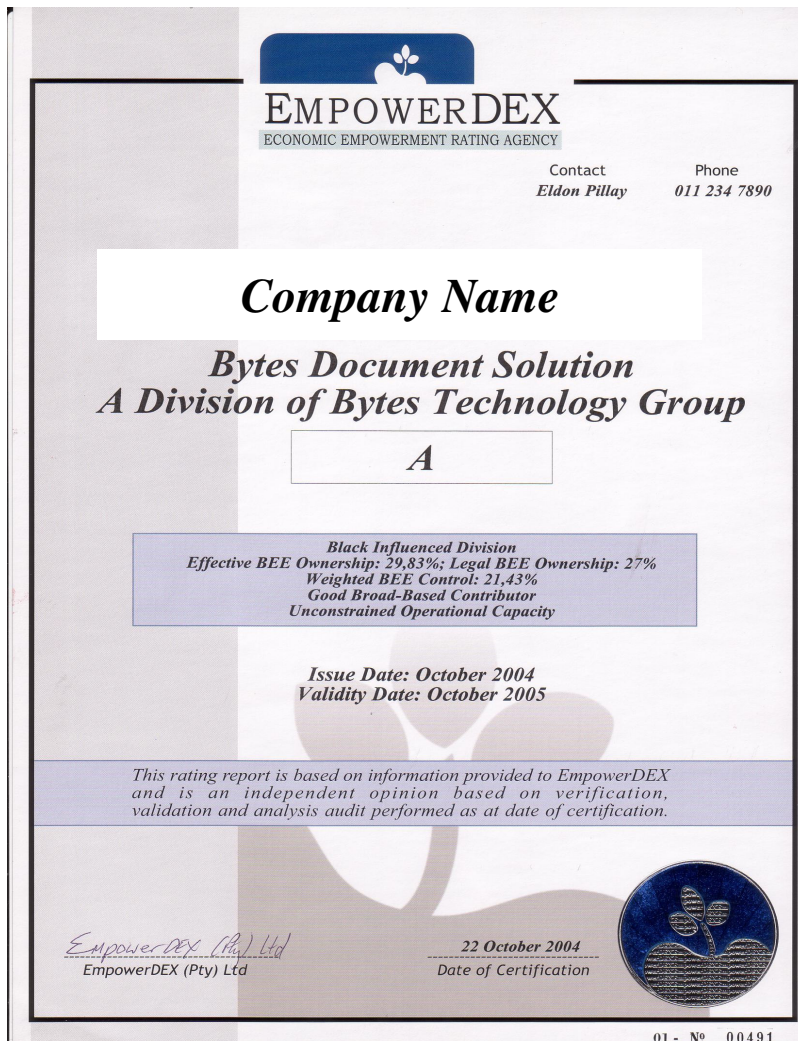
BEE Status	Qualification	BEE procurement recognition level
Level One Contributor	≥100 points on the Generic Scorecard	135%
Level Two Contributor	≥85 but <100 points on the Generic Scorecard	125%
Level Three Contributor	≥75 but <85 on the Generic Scorecard	110%
Level Four Contributor	≥65 but <75 on the Generic Scorecard	100%
Level Five Contributor	≥55 but <65 on the Generic Scorecard	80%
Level Six Contributor	≥45 but <55 on the Generic Scorecard	60%
Level Seven Contributor	≥40 but <45 on the Generic Scorecard	50%
Level Eight Contributor	≥30 but <40 on the Generic Scorecard	10%
Non Compliant Contributor	<30 on the Generic Scorecard	0%

Rating Outcomes (Interpretation)

STATUS	SCORE	DESCRIPTION
AAA	85-100	Good Broad Based Empowerment contributors
AA	75-85	
A	65-75	
BBB	55-65	Fair Broad Based Empowerment Contributors
BB	50-55	
B	45-50	
C	40-45	Unsatisfactory Broad-based Empowerment Contributors
D	30-40	
E	15-30	
FF	0-15	

The overall rating of the entity summarizes the BEE status and contribution of the entity and is awarded depending on the Direct Empowerment Status, the BEE Contribution Status and the Operational Capacity.

Final Output



EMPOWERDEX
ECONOMIC EMPOWERMENT RATING AGENCY

Contact: Eldon Pillay Phone: 011 234 7890

Company Name
Bytes Document Solution
A Division of Bytes Technology Group

A

Black Influenced Division
Effective BEE Ownership: 29,83%; Legal BEE Ownership: 27%
Weighted BEE Control: 21,43%
Good Broad-Based Contributor
Unconstrained Operational Capacity

Issue Date: October 2004
Validity Date: October 2005

This rating report is based on information provided to EmpowerDEX and is an independent opinion based on verification, validation and analysis audit performed as at date of certification.

EmpowerDEX (Pty) Ltd
EmpowerDEX (Pty) Ltd

22 October 2004
Date of Certification

01 - No 00491

- **Rating Status (Authentic Certificate)**
- **Rating Summary**
- **Rating Report**

Stages of BEE- Side 1

- Denial
 - “BEE doesn’t affect me”
- Anger
 - “Why must I **give** away my shares to enrich the black elite?”
- Bargaining
 - “What is the minimum effort I must put in to score the maximum points on the BEE scorecard”
- Depression
 - “After all my efforts to help black people why do I not get the recognition I deserve?”
- Acceptance
 - “I now see why BEE is a business reality and I have concrete ways to contribute to this process”

Stages of BEE – Side 2

- Childhood Innocence
 - “With BEE I’m S-O-R-T-E-D, tell me where to sign?”
- Pain
 - “How could this happen to me?”
- Knowledge
 - “I need to get more info to make this work this time around”
- Action
 - “I am applying the knowledge I’ve gathered to add value and have more returns on my investment”
- Wisdom
 - “...”



Ultimate Test

How many people were we able to extract from the Well of Economic Oblivion through my efforts?

Thank You



Questions?