



BESPOKE BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) OWNERSHIP REPORT

PRODUCED WITH THE AP OWNERSHIP ANALYSIS SYSTEM™

B-BBEE Ownership Report - MI Predetermined

Addressing black ownership is the most complex part of the B-BBEE scorecard, and can be costly if not implemented with due consideration. We solve these ownership complexities for our clients. Our approach is to firstly analyse the current black ownership from the company's share register using the **AP Ownership Analysis System™**. From the analysis a comprehensive B-BBEE ownership report is compiled. The report also includes strategic ownership options stemming from the analysis, **as well as preferred Ownership positioning**.

What is a B-BBEE Ownership report?

Our B-BBEE Ownership report provides analyses of existing ownership options from source (shareholder register) as well as additional ownership options available, plus a cost/benefits analysis associated with the preferred B-BBEE Ownership positioning.

Although this report does not constitute a Competent Persons Report (which can be contracted for separately), it provides you with an indication of the level of black ownership that can be derived from Mandated Investments (Institutional Investors).

The preferred **Ownership positioning** is framed in the context of the Amended Generic Codes of Good Practice on Broad-Based Black Economic Empowerment published on 11 October 2013 (the Generic Codes) and/or any relevant Sector Codes that will apply to the organisation within its industry.

To determine the preferred **Ownership positioning**, one needs to consider;

- The diverse stakeholder base's expectation regarding transformation.
- The impact on financial returns, culture, perceptions, and the business imperative.
- The context of various compliance requirements and current levels of shareholding held by Black People¹.

The **AP Ownership Analysis System™** incorporates analyses that was performed that identified some black ownership through Mandated Investments, as defined in the Codes. There may be additional black shareholding that has not yet been identified to date, and it would be beneficial to optimise the identified black shareholding through an analysis of a company's share register.

The B-BBEE Ownership report provides insights into the current **shareholder base** through:

- An analysis of the various shareholders and stratify them into the following categories: Individuals, Companies, Trusts, Mandated Investments (predetermined), Foreign Shareholders, Partnerships, Treasury, Government and Other Exclusions, and Other.
- Assessment of the remaining shareholders that have not been analysed and a determination made regarding the number of shareholders within each category that would have to be assessed to provide adequate coverage within each category of shareholder to reach a conclusion in terms of the effective black shareholding and secondly, the verifiable black shareholding respectively.

An additional value-add in the report is a matrix of potential B-BBEE participants and mechanisms through which the gap between the baseline assessment and preferred B-BBEE ownership level can pros and cons of involving these participants or utilising the mechanisms to increase ownership allowed under the sector code (if applicable).

A high-level presentation of some typical **financing structures** is included in the report, drawing on past and current B-BBEE transactions.

AN EXAMPLE REPORT FOR ENKULUCO LTD IS INCLUDED

¹ As defined in the Broad-Based Black Economic Empowerment Amendment Act, 2013.



FOR INFORMATION,
OR TO RECEIVE A QUOTE,
PLEASE CALL DELENE TAUTE
AT 021 851 0091 OR EMAIL AT
DELENE@APROS.CO.ZA



ENKULUCO LTD
BROAD-BASED BLACK ECONOMIC
EMPOWERMENT (B-BBEE) OWNERSHIP REPORT

EXAMPLE REPORT - 2017

The content of the B-BBEE ownership report will vary, dependent on the predetermination of mandated investment information and will be established at the time of engagement.

ENKULUCO LTD (EXAMPLE CO)
B-BBEE OWNERSHIP REPORT

Table of Contents

1. EXECUTIVE SUMMARY	5
2. SHAREHOLDING BASELINE	6
2.1. Peer Group Analysis	6
2.2. Types of Shareholders and Contributions to the BEE Scorecard	7
2.3. Stratification graphs	7
3. KEY OWNERSHIP THRESHOLDS AND OTHER CONSIDERATIONS	8
3.1. Ownership Thresholds	8
4. POSSIBLE B-BBEE OWNERSHIP PARTICIPANTS OR SCORING MECHANISMS	9
4.1. Scoring Mechanisms	9
4.2. Participants in B-BBEE Deals	9
5. HIGH LEVEL STRUCTURING AND FINANCING ALTERNATIVES	10
5.1. The Vanilla Structure	10
5.2. The Vanilla+ Structure	10
5.3. The Vanilla Collar Structure	10
5.4. The Silo Growth Approach	10
6. POSSIBLE TRANSACTIONS	11
7. KEY MANAGEMENT DISCUSSION POINTS	11



1. EXECUTIVE SUMMARY

QUOTE FROM ENKULUCO PUBLISHED REPORT

Current BEE Shareholding
XX % BO XX % BWO
High Level Options
1) Remain as is. 2) Reach 25% BO and 10% BWO through the issue of new shares. 3) Reach 51% BO and 30% BWO through the issue of new shares.
The GAP
1) No gap. 2) XX % deal required including a XX % Black Women component. 3) XX % deal required including a XX % Black Women component.

ENKULUCO is lagging the two peer groups² in terms of level of BO and BWO, in particular when compared to the entities reporting against the current SECTOR CODE IF APPLICABLE.

The current sources of black shareholding are XXX that were deemed to be B-BBEE schemes for the purpose of this analysis.

Some additional black shareholding may be identifiable through the analysis of shares held by XXX. At this early stage, we estimate this contribution to be less than XX % of the total number of issued shares. A further estimated XX % BO may be recognisable through the continued recognition principle. Both these assumed additions were excluded for purposes of this report.

The preferred option in terms of deal size has not been determined as ENKULUCO Management's input is required to articulate the preferred positioning, considering the factors highlighted in this report.

It is our view that there are sufficient pockets of wealth created in the hands of Black Participants in the South African equity market for ENKULUCO to align itself to XXX.

² The peer groups considered in this analysis were the top 100 JSE listed entities and the entities that reported against the current SECTOR CODE that features within the top 100 JSE listed entities.



2. SHAREHOLDING BASELINE

2.1. PEER GROUP ANALYSIS

The graphs in this section reflect the level of BO as per the top 100 JSE listed entities as reflected on their respective B-BBEE scorecards. Of the top 100 entities, XX had valid B-BBEE certificates reflecting their levels of BO as at 31 December 2016.

2.1.1. BO – Top 100 Peer Group

There are very few entities with less than 10% BO and the same number of entities with shareholding exceeding 51% BO. The number of entities with between 10% and 25% BO is XX, while XX entities had BO exceeding the 25% target, but less than 51% BO.

2.1.2. BO – SECTOR CODE Entities in the Top 100

Most of the XX entities with valid BEE Certificates as at December 2016 achieved a BO percentage of between 25% and 50%, with XXX being below the 25% target. Although these BO percentages were calculated under the current SECTOR CODE, the graph indicates the industry's approach, which is to comply with the requirements of the applicable Codes, with some entities clearly positioning themselves as leaders in transformation. XX of the entities took a radical approach to transformation exceeding the 51% BO threshold.

2.1.3. BWO – Top 100 Peer Group

Most of the entities have BWO below 10% and only XX entities exceed the 30% threshold as incentivised through the XXX scorecard.

2.1.4. BO – SECTOR CODE Entities in the Top 100

Within the SECTOR CODE peer group, there is a XX split between entities with BWO above and below 10%, with ENKULUCO ranking second last. None of the sector entities achieved the 30% threshold, again indicating that a radical transformation approach was not implemented.

2.1.5. Key observations

From the above analysis, there seems to have been very little appetite for entities, and SECTOR CODE entities in particular, to take a radical approach to transformation in the context of ownership.

The bias towards a compliance approach is evident in the relatively small number of entities (XX out of XX) that concluded transactions approximating the XX % BWO target in its total BO deals.

It is evident that ENKULUCO is lagging within its peer group, both as a listed entity and as an entity reporting under the current SECTOR CODE

Should ENKULUCO choose to demonstrate its active participation in the transformation agenda in relation to BO it would have to move to a minimum of 25% BO and closer to the 10% BWO target.

³ All transactions where BWO attributed at least 35% of the total BO.



2.2. TYPES OF SHAREHOLDERS AND CONTRIBUTIONS TO THE BEE SCORECARD

To inform the baseline, an assessment of the current shareholders of ENKULUCO was performed. The table below reflects the various “types” of shareholding as identified from ENKULUCO’s share register as at 26 March 2016.

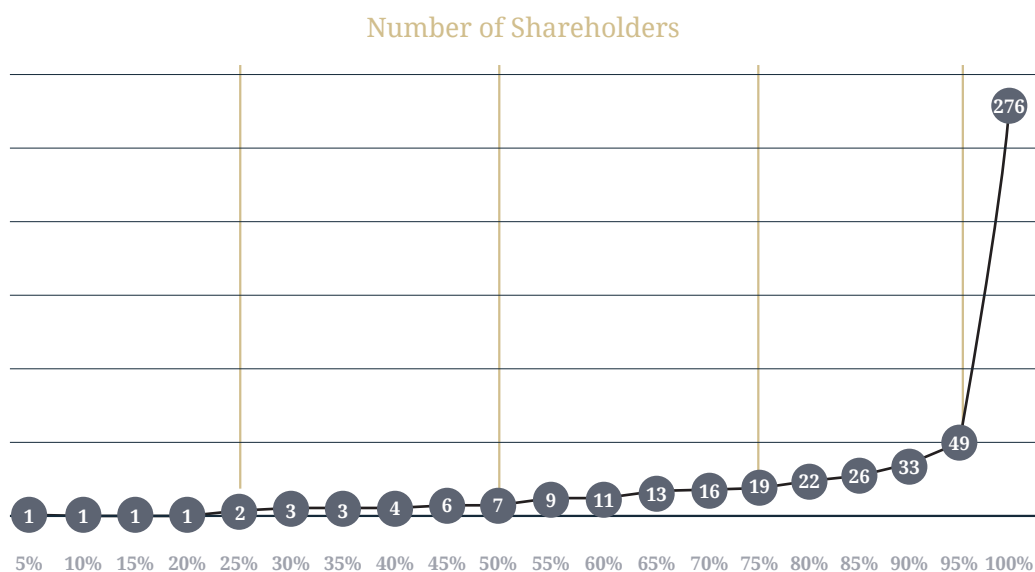
Type of Shareholder	Number of shares	% of total number of shares	% Derived Black Shareholding (EI)	Number of shareholders	% of total number of shareholders
BEE schemes	XX	XX %	XX %	XX	XX %
Foreign	XX	XX %	XX %	XX	XX %
Mandated Investments	Known through MI product	Known through MI product	Known through MI product	Known through MI product	Known through MI product
Companies	XX	XX %	XX %	XX	XX %
Trusts & Foundations	XX	XX %	XX %	XX	XX %
Individuals	XX	XX %	XX %	XX	XX %
Exclusions	XX	XX %	XX %	XX	XX %
Unclassified	XX	XX %	XX %	XX	XX %
TOTAL	XX	100,00%	XX %	XX	100,00%

Two pockets of BO were identified, namely XXX, that consist of XXX, and XXX. After removing the permissible exclusions from the total number of shares, the effective black shareholding was calculated at XX %⁴.

More BO within the Company, Trusts & Foundations and Individuals types (collectively referred to as Retail shareholding) should be identifiable, should a detailed analysis of all shareholders be conducted and additional vetting procedures implemented.

2.3. STRATIFICATION GRAPHS

Stratification graphs of the various types of shareholding are provided as an indicator of the level of effort that would be required to determine if there are more pockets of BO



⁴ This percentage differs from the percentage reflected in the table due to the denominator being adjusted for treasury shares and exclusions.



3. KEY OWNERSHIP THRESHOLDS AND OTHER CONSIDERATIONS

3.1. OWNERSHIP THRESHOLDS

The table below describes some key thresholds as derived from the Draft Amended SECTOR and the Generic Codes⁵.

<p>10% BO (MFTP not applied)</p>	<ul style="list-style-type: none"> Minimum target to achieve the threshold for the Net Value component of the Ownership scorecard. Effective acquisition debt settlement period becomes 3 years. PROSPECT NAME currently achieves this threshold, primarily through Mandated Investments. Net Value points threshold is achieved since Mandated Investments are deemed to be unencumbered.
<p>10% Direct BO</p>	<ul style="list-style-type: none"> DTI migrating towards direct shareholding (non-EL, BBOS and Mandated Investment shareholding). Old ES Charter legacy threshold below points could be scored for indirect shareholding. Linked to perception rather than compliance.
<p>25% BO (MFTP applied)</p>	<ul style="list-style-type: none"> Will result in good ownership score, if a strong black women component included in deal. Depending on extent of MFTP applied, the effective acquisition debt settlement period may be shortened.
<p>30% BO (MFTP not applied)</p>	<ul style="list-style-type: none"> Will score most points on Ownership scorecard, depending on level of black women participation and level of acquisition debt. No bonus point scored.
<p>30% BWO</p>	<p style="text-align: center;">CLEAR THRESHOLD TABLES FOR EASY REFERENCE</p> <ul style="list-style-type: none"> Will score most points on the Ownership scorecard, depending on level of acquisition debt. Progressive positioning, but may be viewed by “clients” from a procurement perspective.
<p>31% BO (MFTP applied)</p>	<ul style="list-style-type: none"> Will score most points on the Ownership scorecard, depending on level of acquisition debt. Progressive positioning, but may be viewed as misrepresenting in level of BO.
<p>31% BO (MFTP not applied)</p>	<ul style="list-style-type: none"> Will score most points on the Ownership scorecard, depending on level of acquisition debt. Very progressive positioning and favourably viewed by most pro-transformation stakeholders and “clients” from a procurement perspective.
<p>51% Black & 25% Black Women (MFTP not applied)</p>	<ul style="list-style-type: none"> Will score most points on the Ownership scorecard, depending on level of acquisition debt. Very progressive positioning and favourably viewed by most pro-transformation stakeholders, women groups and “clients” from a procurement perspective.
<p>Exceeding all thresholds</p>	<ul style="list-style-type: none"> Will score most points on the Ownership scorecard, depending on level of acquisition debt. Extremely progressive positioning and favourably viewed by most pro-transformation stakeholders, women groups and “clients” from a procurement perspective.

⁵ The thresholds for bonus points were ignored in this table. These thresholds are XX % and XX % BO each contributing 1 bonus point.



4. POSSIBLE B-BBEE OWNERSHIP PARTICIPANTS OR SCORING MECHANISMS

4.1. SCORING MECHANISMS

Generally, there are various mechanisms available to improve a Measured Entity's level of BO. On initial evaluation, the most feasible mechanism available to ENKULUCO to increase its BO from its current measured percentage would be XX.

The table below sets out the various mechanisms through which BO could generally be increased.

Mechanism	Description of Mechanism	Pros	Cons
Sale of Asset Transaction	Selling a portion of the business to black participants, or selling shares in an underlying entity to black participants. Measured based on relative value of asset or shares to total market cap of SA business operations.		
Equity Equivalence (Max 5%)	Empowerment of Black Industrialist Financing & Development (EIF) Black Industrialist Financing & Development (EIF) measured as % of SA market cap. Requires an entity to be a bank or Domestic Multi-National.	•	•
Increased Foreign Operations	value of BO is expressed as a % of total SA market cap. Should black participants share in SA and non-SA market cap, the deemed BO will be higher than the actual BO.	•	•

4.2. PARTICIPANTS IN B-BBEE DEALS

The Generic Codes and Draft Amended SECTOR CODE allows for different types of participants. The table below provides a list of possible types of participants including the pros and cons typically associated with these types of participants.

Type of Participants	Examples	Pros	Cons
Individuals or family trusts		•	•
B-BBEE Consortiums		•	•
Broad-Based Ownership Schemes		•	•
Employee Schemes		•	•
Institutional Investors (Mandated Investments)		•	•
B-BBEE Facilitators		•	•



5. HIGH LEVEL STRUCTURING AND FINANCING ALTERNATIVES

There are a number of structures that have been implemented in past BEE transactions. Most of these transactions are based on vanilla structures and then altered to limit the Black Participants' risk, achieve greater tax efficiency or accounting benefit, or ensuring that the Measured Entity gets value from their BEE investor.

The options presented here excludes sale of shares by existing shareholders to BEE Participants as this mechanism has been found to be tax inefficient and not frequently utilised in B-BBEE Transactions implemented by listed entities.

5.1. THE VANILLA STRUCTURE

Basic structure.

5.2. THE VANILLA+ STRUCTURE

The Vanilla+ option is utilised where Participants do not have own balance sheet to invest. This typically dilutes Return on Investment ("ROI") for existing shareholders. This structure is commonly used with Broad-Based Ownership Schemes and Employee Share Ownership Programmes ("ESOP"). A special purpose vehicle ("SPV") is included in the structure to allow for risk to be limited for the B-BBEE Participants and allow for the issuing of Preference Shares.

5.3. THE VANILLA COLLAR STRUCTURE

The collar removes downside risk for the B-BBEE participant, but also limits upside risk. If ENKULUCO's share price falls below the value at which the B-BBEE Participant can exercise their right to sell, the Black Participant will sell at the put option strike price. Should the value increase above the price that ENKULUCO can buy-the shares at, ENKULUCO will then buy back the shares at the call option strike price.

This structuring mechanism is often used by investment bankers who speculate or who wish to hedge a particular position in the market. There are various alternatives to this vanilla collar which may involve script lends and structured dividends.

5.4. THE SILO GROWTH APPROACH

In this approach, as with the vanilla structure, ENKULUCO would issue shares to the B-BBEE Participants financed through vendor finance, own equity or third party debt. The B-BBEE Participant is given the opportunity to develop a separate business with the support of the Measured Entity (ENKULUCO). The support qualifies as Enterprise Development ("ED") or Supplier Development contributions. The dividends derived from the new business venture is used to service and/or settle the vendor finance or third party debt. At a future date, any remaining debt is settled through the incorporation of the new business venture into ENKULUCO. Should the value of the new venture exceed any remaining debt, the black participants could either receive cash or additional shares in ENKULUCO, as settlement.



6. POSSIBLE TRANSACTIONS

The purpose of the options in this section is to provide a base for discussion on the various possibilities in the context of the shortfall in BO and BWO in relation to the various shareholding thresholds.

A discussion with ENKULUCO Management is required to align the various options and types of shareholders with the strategic imperative of concluding a B-BBEE Transaction.

7. KEY MANAGEMENT DISCUSSION POINTS

The above options demonstrate the various parameters that need to be considered in an effort to achieve the required shareholding. These options need to be refined or alternatives to these options need to be developed with ENKULUCO Management.

Some key points for discussion would include;

- What would be the ideal level of BO and BWO for ENKULUCO given the compliance criteria and thresholds, the peer group analysis, stakeholder expectations and strategic positioning?
- What business objectives (e.g. staff retention, giving credibility to its own black trading platform) can ENKULUCO address, other than meeting compliance targets and addressing stakeholder expectations through involving other schemes (e.g. staff schemes or listing on its own black trading platform)?
- Who would the key financing partners be should the ideal structure be implemented?
- What would the cost be of implementing the ideal structure?

