

BROAD BASED BLACK ECONOMIC EMPOWERMENT PLAN AND CODE OF GOOD PRACTICE FOR ARC SPRAY (PTY) LTD

DIRECTORS' MESSAGE

Arc Spray (Pty) Ltd acknowledges the importance of Broad-Based Black Economic Empowerment in both the transformation of South Africa and long term shareholder benefits.

Arc Spray (Pty) Ltd is proud of its achievements to date which started as a pioneer in 1970 with the introduction of affordable services, ensuring a safer workplace and our Code of Good Practice embodies our desire to remain in the forefront of change in South Africa.

This Code of Good practice aims to communicate our targets and maps out our path over the next 10 years. I am privileged to commit Arc Spray (Pty) Ltd to it.

APPROACH

This Code of Good practice is a dynamic document, which will be adjusted in line with the changing imperatives of Broad-Based Black Economic Empowerment (B-BBEE) policy strategy and legislation. It is Arc Spray (Pty) Ltd's objective to communicate targets and measure the achievement of the targets set.

This Code of Good practice is not a legally binding document. It is however the intention to Arc Spray (Pty) Ltd to explore the possibilities and implications for the Company of registering the Code of Good practice as an enterprise Code of Good practice with the Department of Trade and Industry (DTI).

The Code of Good practice timeframe is to 2013, however, internally this will be translated into short-term objectives aligned to Arc Spray (Pty) Ltd's strategic planning horizon, which will be reviewed and audited by CenFed BEE Verification Agency on an annual basis as part of the strategic planning process.

PREAMBLE

On 06 October 2003, Mr. A. Steenekamp committed himself to the development of a Broad-Based Black Economic Empowerment Code of Good Practice.

The Code of Good practice was developed noting that:

- Despite significant progress since the establishment of a democratic government in 1994, South African society remains characterized by racially based socio-economic disparities.
- B-BBEE is a mechanism aimed at addressing inequalities and mobilizing the energy of South Africans. It will contribute towards sustained economic growth, development and social transformation in South Africa.

B-BBEE is viewed by government as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and will bring about significant increases in the numbers of black people that manage, own and control the country's economy.

Arc Spray (Pty) Ltd management and staff acknowledge the importance of B-BBEE in the need for transformation of South Africa and has adopted a broad-based strategy that will secure and potentially increase Arc Spray (Pty) Ltd's competitive advantage into the future. Arc Spray (Pty) Ltd has adopted a scorecard approach with a 5 factor enabling framework, based broadly on the DTI approach, in order to set objectives and track progress, and an annual audit by CenFed BEE Verification Agency will monitor and certify the progress made.

The factors with their applicable weightings are:

ELEMENT		GENERIC SCORECARD	QUALIFYING SMALL SCORECARD
1.	Ownership	20	25
2.	Management and Control	10	25
3.	Employment Equity	15	25
4.	Affirmative Procurement	15	25
5.	Skills Development	20	25
6.	Enterprise Development	15	25
7.	Socio-Economic Development	5	25
			Select 4 out of the 7 Elements

Arc Spray (Pty) Ltd has developed an internal scorecard against which B-BBEE contribution can be measured. It is the intention, however, to use CenFed BEE Verification Agency to provide an independent assessment of **Arc Spray (Pty) Ltd** and its major suppliers.

INTERPRETATION BEE STRATEGY

- Since 1994 BEE has been a major thrust of all government policies but there was no coherent strategy towards the implementation of B-BBEE.
- The BEE commission released a report in 2000 which gave the first attempt at broadly defining B-BBEE.
- The receipt of this report by government played a pivotal role in the development by government of a strategy towards the implementation of BEE.
- In 2003 a strategy for Broad-Based Black Economic Empowerment (B-BBEE) was released which defines B-BBEE as:-
 - an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities.
 - Thus the B-BBEE process will include elements of human resource development, employment equity, enterprise development, preferential procurement, as well as investment, ownership and control of enterprises and economic assets.

BEE ACT 53 OF 2003

The strategy laid the foundation for the B-BBEE Act:-

- Section 9 of the B-BBEE Act states that the Minister may by notice in the Government Gazette issue codes of good practice on black economic empowerment that may include-
 - The further interpretation and definition of different categories of black empowerment entities;
 - Qualification criteria for preferential purposes for procurement and other economic activities;
 - Indicators to measure broad-based black economic empowerment;
 - The weighting to be attached to broad-based black economic empowerment indicators;
 - Guidelines for stakeholders in the relevant sectors of the economy to draw up transformation charters for their sector; and
 - Any other matters necessary to achieve the objectives of this Act.
- Section 10 of the B-BBEE Act further gives the status of the codes by stating that:
- Every Organ of State and Public Entity must take into account and, as far as is reasonably possible, apply any relevant code of good practice issued in terms of this Act in –
 - Determining qualification criteria for the issuing of licenses, concessions or other authorisations in terms of any law;
 - Developing and implementing a preferential procurement policy;
 - Determining qualification criteria for the sale of state-owned enterprises; and
 - Developing criteria for entering into partnerships with the private sector.

WHY THE NEED FOR THE CODES

- For BBEE to work properly consistency, visibility and clearer direction is needed.
- BEE initiatives to date have been characterised by:
 - lack of understanding leading to inconsistent application and appreciation of B-BBEE;
 - lack of clarity resulting in delays in the implementation of B-BBEE initiatives;
 - disparity in Charter definitions and targets between various sectors of the economy;
 - lack of implementation guidelines resulting in 'Most going to few', 'Fronting' or 'Sham' transactions;
 - Lack of underlying economic substance to many B-BBEE transactions; and
 - Focus on narrow based B-BBEE leading to a narrow base of beneficiaries.

KEY PRINCIPLES

- Substance over Form
 - B-BBEE must be measured and reported according to economic reality rather than legal form.
 - Penalize the use and reporting of 'fronting' or 'sham' B-BBEE structures and entities.
- B-BBEE Scorecard
 - B-BBEE is measured based on seven core elements: ownership, management, employment equity, skills development, preferential procurement, enterprise development and socio-economic development.

- Facilitate changes in business behaviour (in all key elements).
- Extend B-BBEE benefits to as many beneficiaries as possible.
- Systematic and quantifiable approach.
- B-BBEE Recognition Tiers and Multiplier Effect.
 - All companies measure B-BBEE based on a score system, and receive higher recognition for higher B-BBEE compliance.
 - Foster competition among companies and industries.
 - Encourage all companies to implement and monitor B-BBEE.
 - compliance in all its economic interactions.

GENERAL PRINCIPLES

- Enhanced Recognition applicable on all elements of the scorecard
 - Beneficiaries should comprise:
 - Black women: 40 –50 %
 - Black people with disabilities, black youth, black people living in rural areas and black unemployed people: 2 –3 % (“Black Designated Groups”)
- Transitional Period
 - 12 Months transitional period to allow for conversion from narrow-based to scorecard approach.
 - Provide mechanism to facilitate the adoption of scorecard in reporting and decision-making.
- Non Circumvention
 - Further confirms the principles of Economic Substance over Legal Form.

GUIDELINES FOR THE DEVELOPMENT AND GAZETTING OF TRANSFORMATION CHARTERS AND SECTOR CODES

- Objectives:
 - Outline recommended charter formulation process.
 - Describe the role and constitution of charter councils.
 - Specify principles for gazetting charters as:
 - for information purposes and to give credibility to the charter (s12 of BEE Act).
 - for implementation as a code of good practice (s9 of BEE Act).
 - encourage alignment of key principles and definitions throughout all sector charters with the codes.

CHALLENGES FACING COMPANY BUSINESS

Arc Spray (Pty) Ltd, like other companies, faces the challenges of producing more cost effectively and delivering superb service to its Customers in the face of growing global competition, through committed and competent Staff. B-BBEE is a mechanism that can assist South African businesses in this regard and should be seen in this context.

The diversity that B-BBEE brings to Companies introduces a creativity component that will assist in the reduction of risk associated with business decision-making.

APPLICATION OF THE CODE OF GOOD PRACTICE

This Code of Good practice belongs to **Arc Spray (Pty) Ltd**.

The targets in this Code of Good practice will be applied from **06 October 2003** until **2013**.

Progress against the targets will be tracked and recorded quarterly, reviewing the ongoing applicability of such targets and will be audited by CenFed BEE Verification Agency.

Arc Spray (Pty) Ltd acknowledges that the principles contained in the Code of Good practice will be relevant beyond **2013**.

OWNERSHIP

- Ownership
 - Ownership is measured as an entitlement to both voting rights and economic interest.

- Net Equity Value –measures economic substance vs. legal form.
- Excluded Equity Principle.
- Sale of Assets
 - Any financing structure that passes the test will be able to obtain ownership points.
 - Entities encouraged to facilitate the funding of B-BBEE transactions.
 - Allows for the exclusion of shareholding by managed investments, government owners, s21 companies, etc. when determining B-BBEE ownership targets.
 - Set out conditions under which the sale of assets, equity instruments and other businesses will be recognised.
- Equity Equivalents
 - Equity Equivalent contributions are measured against the ownership element of the scorecard.
 - Measurable against the compliance target of 25.1% of the South African operation.
 - Interested persons may make written submission to the Minister of Trade and Industry requesting approval of equity equivalents.
 - Approval to participate in an Equity Equivalent is subject to qualification criteria (i.e. Global practice, etc.)
 - Multinationals are able to claim ownership points on the scorecard based on their equity equivalent programmes.
 - Promotion of initiatives that will further advance B-BBEE objectives.
- Ownership - Broad Based Schemes
 - Encourage full participation of beneficiaries in all structures of the scheme.
 - Encourage accountability by fiduciaries to the intended beneficiaries.
 - Specific governance requirements.
 - A maximum of 40% of the total points on the ownership scorecard of the measured entity is allowed if the BB scheme is unable to meet some of the requirements.
 - Accrual of benefits tends to be conditional and vest after a long period of time.
 - Discourages a practice where no real powers of ownership accrue to employees or beneficiaries.
 - Discourages a practice where shares remain unallocated perpetually resulting in control still being retained by the traditional shareholders.
 - Discourages the use of broad based schemes as employee retention strategies – master/ servant relationship.
 - Avoid the sole inclusion of ESOPS to the exclusion of new entrants (i.e. entrepreneurs).
 - Encourages the structuring of deals made up of a combination of black women, black designated groups, black new entrepreneurs (i.e. black new entrants), and broad based schemes.
- The recognition of ownership after the sale or loss of shares by black partners.
 - The extent to which ownership points can be maintained after the exit of black partners will be based on both the net value created in black hands as well as the level of transformation in the measured entity.
 - Black shareholders must have their equity stake for at least 3 years prior to exit.
 - There must be demonstrative net value created in the hands of black people.
 - There must be a level of B-BBEE transformation within the measured entity.
 - BEE shareholding arising from the sale or loss of shares by black people cannot contribute more than 40% of the points on the ownership scorecard.
 - It allows for a limited amount of B-BBEE ownership recognition after sale / loss of equity by black shareholders (EXIT).
 - Linking a company's performance on the scorecard as well as wealth created in black hands to allow for recognition for contributing towards the promotion of ownership by black people over a limited period of time.
 - To introduce liquidity in the hands of Black investors after a reasonable period of time.
 - To encourage enterprises not to lock in B-BBEE partners for a long time in order to maintain B-BBEE ownership status.
 - To provide enterprises with enough time to enter into another BEE ownership transaction in order to retain their B-BBEE status.
 - To encourage the retention of black direct investment of at least 15% on a continuing basis.
- New Entrants
 - Involvement in the ownership of the enterprise of black new entrants.
 - Encourage entities to include new entrepreneurs in ownership transactions thereby broadening the base of beneficiaries.
- Private Equity Funds
 - Measured enterprise may treat any of its ownership arising from private equity funds as black owned and controlled if it meets the following criteria:
 - More than 50% of exercisable voting rights are in the hands of black people.
 - More than 50% of profits accrue to black people.
 - Private Equity Fund manager must be a black owned company.

- More than 50% of the value of funds invested by private equity fund must at all times be invested in black owned enterprises.
 - To encourage the emergence of Private Equity Funds owned and controlled by Black People.
 - To encourage Private Equity Funds to drive investment in black owned enterprises.

Arc Spray (Pty) Ltd will increase the number of black people who not only have ownership of equity in the Company group but can via their ownership, contribute to the sustainable competitive advantage of the Company, and will give preference to broad-based organizations where practically possible.

Arc Spray (Pty) Ltd is to be regarded as a **(LEVEL OF CONTRIBUTION)** to Black Empowered Companies, from a BEE Perspective, as measured by CenFed.

Arc Spray (Pty) Ltd acknowledges the complexity around ownership measurement and will take its lead from best practice.

When structuring ownership transactions **Arc Spray (Pty) Ltd** will look to mechanisms that balance the businesses need for sustainable black ownership and the requirement of black ownership to unlock appropriate value from their investment.

Arc Spray (Pty) Ltd will recognize indirect ownership by black companies, black empowered companies and black shareholdings in assessing overall black ownership credentials. It acknowledges that indirect ownership comes with limited Management and Control and therefore does not classify ownership in the same terms as direct ownership. **Arc Spray (Pty) Ltd** will take its lead from best practice in measuring indirect ownership.

Arc Spray (Pty) Ltd will:

- Maintain an appropriate B-BBEE structure for **Arc Spray (Pty) Ltd** that balances the leadership role that the Company needs to assume as one of South Africa's major suppliers of surface engineering in terms of transformation of our economy with the commercial obligation to the shareholders, acknowledging that B-BBEE will provide long-term shareholder benefits.
- Identify and pursue B-BBEE opportunities at an appropriate level that will either unlock value for **Arc Spray (Pty) Ltd** or preserve current value into the future.
- Choose B-BBEE partners who, where practically possible, have both a Broad Based ownership structure and can play an appropriate value-adding role in **Arc Spray (Pty) Ltd**.

The principles of B-BBEE transactions:

- B-BBEE ownership initiatives should be aimed at promoting the productive and sustainable Participation of black companies and black people in **Arc Spray (Pty) Ltd**.
- Ownership will be particularly encouraged if it adds value to the Company / divisions involved and includes meaningful participation in management and control.
- The funding structures should facilitate the transfer of full economic interest to the B-BBEE partner and longer-term shareholder-type relationships, as opposed to short-term portfolio investments (especially where the transaction has been facilitated).
- The retention of the shareholding as a B-BBEE share should be promoted to the greatest extent possible.
- Initiatives aimed at progressing in the area of B-B BEE will be promoted.
- Joint ventures or partnership arrangements should be meaningfully structured with equitable portions of the responsibility and benefit to each party.
- B-BBEE ownership initiatives will be aimed at improving the competitive advantage of the Company.

MANAGEMENT CONTROL & EMPLOYMENT EQUITY

- Management Control & Employment Equity:
 - Setting Targets for Board Representation and Executive Involvement of black people.
 - Targets from Junior management up to senior management level.
 - Alignment with existing legislation..
 - Alignment with EAP targets
 - Minimum targets set at 40% of overall targets.
 - Encourage a proper representation of black people on company boards in an executive and non-executive capacity.
 - Counters market trend in appointing black non-executives rather than executives.
 - Encourage advancement of black people in areas where there is a lack of representation.
 - Prevents contradiction in terminology and efforts in the implementation of EE initiatives in both the EE Act and the B-BBEE Act.
 - Measured entities will only claim full points once they have met the EAP targets.

Arc Spray (Pty) Ltd will focus on increasing the number of black people in positions that have authority and power to manage the company's assets, determine policy and the direction of business operations. This would include certain key corporate positions that participate in decision-making at board and executive management level.

The Company will strive to achieve the following targets by 2013.

MANAGEMENT GROUPING	% BLACK CURRENT 2003	% BLACK TARGET 2013

Disparities in the South African workplace resulting from past discriminatory practices and laws are not only unjust, but also have direct negative implication for economic efficiency, competitiveness and productivity. It is therefore in the country's long-term national interests that a broad-based and diverse pool of skills is developed for the sector to unleash the potential of all South Africans.

Consequently, Arc Spray (Pty) Ltd undertakes to continually redress the inequalities present with regards to race, gender and disability in its employee base and to accelerate the normalisation of this position through structured skills development programs and the injection of talent, through its ongoing commitment to:

- Ensuring that its workforce represents South African demographics in terms of race, gender and disability at all levels and that structured development plans are in place to achieve this.
- Actively driving internal promotion opportunities through structured development programs and career planning.
- Encouraging the recruitment of black talent incentives and rewarding senior divisional managers to achieve the targets set.

The Employment Equity and Skills Development Committees will assess and define policies to address the employment of people with disabilities. Arc Spray (Pty) Ltd commits to ensuring that, where practically possible, its site is adapted to accommodate people with disabilities.

SKILLS DEVELOPMENT

- Skills Development
 - Alignment with Skills Development Act.
 - Parity principle.
 - Use of Learning programme matrix:
 - Alignment of skills development initiatives for both the SD Act and the B-BBEE Act.
 - Ensure skilling of all targeted beneficiaries.
 - Measures both skills spending and output through clearly defined outcomes of skills development programmes.

Arc Spray (Pty) Ltd acknowledges the involvement of black people in operational, professional and executive decision making as a critical aspect of B-BBEE and will accelerate this process via a focused skills development program.

Employment Equity and Skills Development committees exist in all operations to drive skills development at an operational level.

Arc Spray (Pty) Ltd classifies its skills development into the following broad categories:

LEADERSHIP DEVELOPMENT	% REPRESENTATION
Management Development Program	0% Black
The program focuses on leadership development of high potentials at a senior operational management level.	
Tomorrow's Leader Program (TOM)	0% black
The program focuses on skilled staffs that have the potential to fill an operational management role.	
Skills Development Program (SDP)	0% black
The program focuses on developing skilled employees with Leadership potential who may not have had the educational Opportunities in the past	

Graduate Development Program (GDP)	0% black
The program runs for 2 years and focuses on introducing New graduates to the Company	0% black women

BURSARIES AND GRANTS	% REPRESENTATION
Bursary Scheme and Tertiary Grants	0% Black
Draws bursars, in appropriate fields, with an emphasis on schools and communities, to provide a feed into the Graduate Development Program.	0% black women

TECHNICAL AND OPERATIONAL	TARGET	% REPRESENTATION
Learnerships	0% of Payroll	0% black
The program covers technical trades Involved in the company's industry.		
Technical and Operational Training	0% of Payroll	0% black
Covers the technical skills required to Run Inspections		
Support Training	0% of Payroll	0% black
Training outside of operational		

PREFERENTIAL PROCUREMENT

- Preferential Procurement:
 - Promotes BEE Compliance by all entities.
 - Specific Targets for Procurement from Micro's and QSE's.
 - Specific Targets for Procurement from Black Owned and Black Women Owned Enterprises.
 - Enhanced recognition for procurement from value adding suppliers.
 - Enhanced recognition for procurement from ED beneficiaries:
 - Encourages transformation throughout the entire economy.
 - Specific incentive to procure from small and micro business creates new and sustainable entities.
 - Encourage the creation of sustainable black women owned, black owned and controlled enterprises.
 - Encourages procurement of locally produced goods and services.
 - Encourages the sustainable income streams to new entities ensuring their sustainability.

Arc Spray (Pty) Ltd will implement a targeted procurement strategy to increase its procurement from companies that have made significant progress in the area of B-BBEE and are rated as **(LEVEL OF CONTRIBUTION)** to BEE based on a broad-based evaluation methodology.

Arc Spray (Pty) Ltd's target of purchasing from BEE compliant vendors will be between 80% and 100% of the value of Companies core procurement by **2013**.

Should a supplier's business not be run on sound and sustainable business practices, its B-BBEE credentials will be discounted, irrespective of its B-BBEE rating.

In procuring products and services from a B-BBEE Enterprise, **Arc Spray (Pty) Ltd** will take a broad-based assessment approach and will not focus on Management and control. It will however require the vendor to start addressing Ownership and the other legs as it grows.

Arc Spray (Pty) Ltd will also focus on Enterprise Development as a means to increasing its Empowerment supplier base where appropriate. In this regard, it will:

- Actively support existing businesses and the creation of new businesses that are owned by black people and encourage these new suppliers and existing suppliers to improve their B-B BEE credentials, through the leverage it has on its suppliers.
- Assist in the creation of new businesses by facilitating access to finance and skills Transfer, where appropriate.

- Provide support to B-BBEE Enterprises to enable them to benefit from targeted procurement programs. Such support will include programs designed to assist B-BBEE Enterprises in tendering for business, setting aside areas of procurement reserved or preferred for B-BBEE Enterprises only.

Arc Spray (Pty) Ltd will:

- Actively pursue purchases from B-BBEE compliant companies in terms of a DTI accredited Rating by SANAS as a division of the DTI.
- Increase the level of tracking with the roll out of the B-BBEE verification Act and or system in the medium term. Encourage existing suppliers to address B-BBEE and become B-BBEE compliant.
- Report on all spendings in terms of the categories that fall within the definition of B-BBEE compliancy.

It is the intention to use the DTI Approved, independent rating done by CenFed B-BBEE Verification Agency to rate the Companies key suppliers' empowerment status.

ENTERPRISE DEVELOPMENT & SOCIO-ECONOMIC DEVELOPMENT

- Enterprise Development:
 - Measurement of:
 - Enterprise Development Initiatives
 - Industry Specific Contributions
 - Encourage entities to implement/support initiatives in:
 - Access to finance: Loans, equity, seed capital, etc.
 - Non-financial assistance: Training and mentoring; preferential credit facilities; capacity-building programmes for QSE's; Access to infrastructure at low or no cost; Business linkages (i.e. procurement opportunities)
 - Enterprises are encouraged to make either monetary or non-monetary contributions.
- Socio-Economic Development (SED)
 - Measurement of:
 - Social Development Contributions
 - The key principle is for these initiatives to result in the beneficiaries having sustainable access to the economy.
 - Encourage entities to implement/support initiatives in:
 - Public programmes meant to facilitate further socio-economic development.

Arc Spray (Pty) Ltd acknowledges Socio-Economic Development (SED) as an important component of its corporate citizenship. It will take a developmental and transformational approach to initiatives that are linked to the upliftment of South Africa's youth in the areas of education, health and welfare and environment.

The Company is to set aside 1% of its profit after tax for SED in South Africa, focusing the spending on projects and initiatives that can be replicated with other communities either with support from funding from the Company or other donors.

The underlying principle is that the majority of the SED spending goes toward the intended purpose and not on administration costs.

IMPLEMENTATION

Besides Ownership, which is a shareholder issue, an independent, non-executive manager will be appointed to chair a sub-committee to review progress made.

The Executive director of **Arc Spray (Pty) Ltd** has been appointed to manage and coordinate the B-BBEE process for the Company.

Each division will submit a scorecard biannually, commencing **06 October 2003**, reporting on its progress against targets and adherence to the Code of Good practice.

Employment Equity and Skills Development Committees have been established to specifically focus on the Employment Equity targets and the achievement thereof.

Delivery on the Code of Good practice objectives will be set as a key performance area for senior staff, particularly in areas under their influence, e.g. Employment Equity.

THE SCORECARD

The scorecard provides a broad-based set of measurement indicators for measuring B-BBEE progress. It is applied by The East Rand Chamber Of Commerce and will act as a guide and scorecard to divisions and suppliers. Specific terms used are defined in the scorecard explanation and practical examples have been included.

The total score achieved, indicated as a percentage, was rated according to the following scale:

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%
Limited Compliant Contributor	<30 on the Generic Scorecard	0%

The Company will strive to be classified as a Level One Contributor by 2013 and preference in Procurement will be given to suppliers that fall into the higher levels, based on the same Broad-Based evaluation methodology of other companies.

(OWNER)

(JOB FUNCTION, FULL NAME AND SURNAME)

(B-BBEE REPRESENTATIVE)

(JOB FUNCTION, FULL NAME AND SURNAME)