



Broad-Based Black Economic Empowerment (B-BBEE) in Relation to Fronting

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As part of its own commitment to the transformation of South Africa's economy through, among others, the principles of the B-BBEE framework, Sun International expects its South African suppliers who equally subscribe to the principles of the Act to operate in accordance with the spirit of the Codes of Good Practice.

In accordance with the group's Supplier Code of Conduct, Sun International does not tolerate any form of fronting as envisaged in the Broad Based Black Economic Empowerment Act, No. 53 of 2003, as amended ("the BBBEE Act"). The group reserves the right to, in its sole discretion, call upon a Supplier to provide details regarding its shareholding, management, and related information in order to verify that the Supplier is not engaging in fronting practices or other practices that are designed to circumvent the BBBEE Act and South African dti Codes of Good Practice.

To this end, Sun International applies a substance over form approach upon review of any requested information provided by a supplier in this regard. The Supplier shall ensure that its sub-contractors or agents will not engage in any fronting practices.

In relation to Fronting practices which come to the attention of Sun International, the group commits to act as a responsible corporate citizen in supporting the objectives of the Act, by

- applying reasonable measures to identify potential fronting indicators at the point of new supplier on-boarding.
- applying reasonable measures to identify potential fronting indicators through changes in supplier's B-BBEE status.
- addressing any concerns in this regard in a consistent, ethical and confidential manner.

Definitions of Fronting

- **The Broad-Based Black Economic Empowerment Amendment Act, 2013** defines fronting as "*a transaction, arrangement or other act or conduct that directly or indirectly undermines or frustrates the achievement of the objectives of this Act or the implementation of any of the provisions of this Act.*"
Source: <http://www.thedti.gov.za/news2014/Act46of2013BBEE.pdf>, page 4, section (e)
- **The Department of Trade and Industry** (the dti) further clarifies Fronting as "*a deliberate circumvention or attempted circumvention of the B-BBEE Act and the Codes.*"

The dti defines fronting practices as including

Window-dressing

This includes cases in which black people are appointed or introduced to an enterprise on the basis of tokenism and may be:

- Discouraged or inhibited from substantially participating in the core activities of an enterprise; and
- Discouraged or inhibited from substantially participating in the stated areas and/or levels of their participation;

Benefit Diversion

This includes initiatives implemented where the economic benefits received as a result of the B-BBEE Status of an enterprise do not flow to black people in the ratio as specified in the relevant legal documentation.

Opportunistic Intermediaries

This includes enterprises that have concluded agreements with other enterprises with a view to leveraging the opportunistic intermediary's favourable B-BBEE status in circumstances where the agreement involves:

- Significant limitations or restrictions upon the identity of the opportunistic intermediary's suppliers, service providers, clients or customers;
- The maintenance of their business operations in a context reasonably considered improbable having regard to resources; and
- Terms and conditions that are not negotiated at arms-length on a fair and reasonable basis.

Key Fronting indicators include

- The black people identified by an enterprise as its shareholders, executives or management are unaware or uncertain of their role within an enterprise;
- The black people identified by an enterprise as its shareholders, executives or management have roles of responsibility that differ significantly from those of their non-black peers;
- 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;
- There is no significant indication of active participation by black people identified as top management at strategic decision making level;
- An enterprise only conducts peripheral functions and does not perform the core functions reasonably expected of other, similar, enterprises;
- An enterprise relies on a third-party to conduct most core functions normally conducted by enterprises similar to it;
- An enterprise cannot operate independently without a third-party, because of contractual obligations or the lack of technical or operational competence;
- The enterprise displays evidence of circumvention or attempted circumvention;
- An enterprise buys goods or services at a significantly different rate than the market from a related person or shareholder;
- An enterprise obtains loans, not linked to the good faith share purchases or enterprise development initiatives, from a related person at an excessive rate; and
- An enterprise shares all premises and infrastructure with a related person, or with a shareholder with no B-BBEE status or a third-party operating in the same industry where the cost of such premises and infrastructure is disproportionate to market-related costs.

Source: https://www.thedti.gov.za/economic_empowerment/fronting.jsp