IPO REFERENCE MANUAL

public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

10 YEARS OF FREEDOM
south africa 1994 - 2004

IPO REFERENCE MANUAL

DEPARTMENT OF PUBLIC ENTERPRISES, SOUTH AFRICA

public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

IPO REFERENCE MANUAL

DEPARTMENT OF PUBLIC ENTERPRISES, SOUTH AFRICA

Page	Contents
4	1. How to use this manual
6	2. Introduction
6	3. Overview of Government's role
	PRE-PLANNING AND INITIAL PLANNING – PHASE 1
9	4. Overview of the IPO process
	EXECUTING THE TRANSACTION – PHASE 2(A)
	Setting up the Government team
33	5. IPO Structure
34	6. Interministerial committee
35	7. Steering committee
36	8. Management committee
38	9. IPO Project Team
44	10. Approvals
	EXECUTING THE TRANSACTION – PHASE 2(B)
	Interaction with the state owned enterprise
47	11. SOE liaison and objectives
49	12. SOE involvement
54	13. Integrated SOE and Government structure
57	14. Strategic equity partner issues
	EXECUTING THE TRANSACTION – PHASE 2(C)
	Appointing advisers and service providers
61	15. Appointment of key Government advisers – RFPs
64	16. Appointment of Consortia as key Government advisers
69	17. Evaluation of written proposals
70	18. Interview and selection process
72	19. Preferred supplier and contract negotiations
73	20. Empowerment

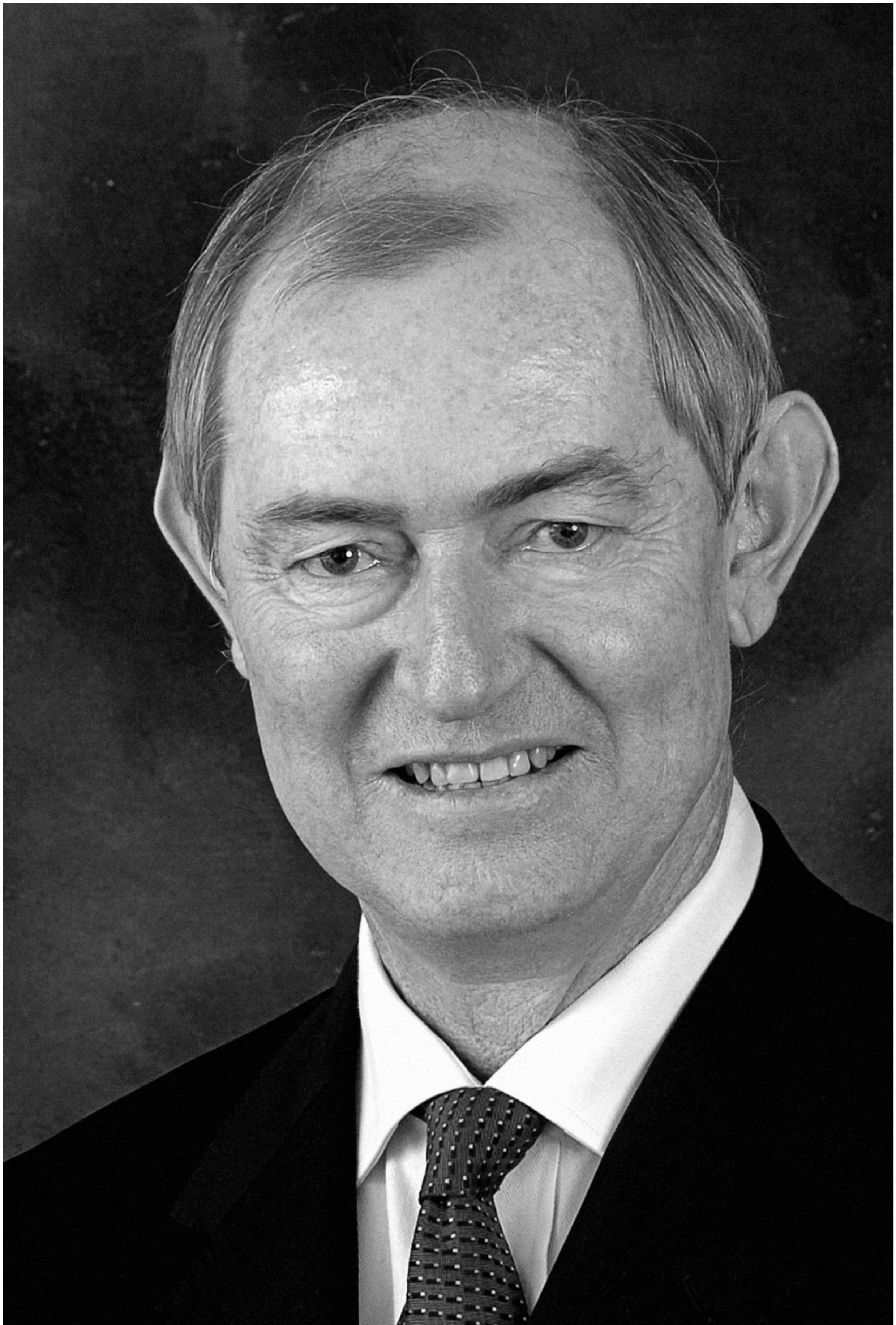
Page	Contents
	DETAILED PLANNING – PHASE 3
	Detailed planning
77	21. Detailed planning and timetable
79	22. Further budget analysis and cost control mechanism
84	23. Cost sharing arrangements
85	24. Working groups
89	25. Due diligence
94	26. Legal
96	27. Regulations and policy
99	28. PR, communications and advertising
105	29. Valuation and accountant reports
110	30. Offer structure
116	31. Prospectus drafting
116	32. Institutional marketing
129	33. Retail offer
	EXECUTING THE TRANSACTION – PHASE 4
	Official launch, the share offer and listing
145	34. Decision to launch the share offer
146	35. Pre-marketing period
146	36. Offer period, bookbuilding and pricing
150	37. After market activity
151	38. Telkom IPO key statistics
154	39. Glossary of terms

IPO REFERENCE MANUAL

DEPARTMENT OF PUBLIC ENTERPRISES, SOUTH AFRICA

Page	Contents	
	TABLES	
4	Table 1	Phases of an IPO
14	Table 2	IPO risk factors
28	Table 3	Supplier cost drivers
37	Table 4	Advantages and disadvantages of Manco
65	Table 5	Consortium bid table
67	Table 6	Financial adviser/global coordinator – joint/separate appointment
70	Table 7	Written proposal evaluation criteria
71	Table 8	Presentation evaluation criteria
81	Table 9	Range of service provider fees
82	Table 10	Global coordinator commission
112	Table 11	Advantages and disadvantages of an overseas listing
121	Table 12	Summary of role of global coordinator and syndicate members
125	Table 13	Syndicate fees
149	Table 14	Share allocation example (assuming a share price of R10)

Page	Contents	
	DIAGRAMS	
18	Diagram 1	Government decision making process
34	Diagram 2	Government team IPO reporting structure
40	Diagram 3	IPO Project Team structure
56	Diagram 4	Joint Government and state owned enterprise structure
87	Diagram 5	Government working group structure
	TIMETABLES	
25	Timetable 1	Phases 2(A), 2(B) and 2(C)
26	Timetable 2	Executing the IPO detailed planning
119	Timetable 3	Institutional marketing
124	Timetable 4	Appointment of syndicate bank timetable



MINISTER OF PUBLIC ENTERPRISES

The Telkom SA Limited (Telkom) Initial Public Offer (IPO) was the culmination of a restructuring programme of state-owned enterprises (SOEs) started in 1997 in terms of which 30% of Telkom's equity was sold to Thintana, 2% of Telkom equity was allocated to employees, 3% was sold to Ucingo (a black economic empowerment (BEE) consortium) and 5% to the National Empowerment Fund (NEF). Telkom is now listed and is a public company instead of a proprietary limited company.

The project management and infrastructure roll-out of the successful execution of the Telkom IPO should not be lost, and although no two IPOs are similar, there are certain threads that run through most Government IPOs. The IPO reference manual (the manual) should be read and appreciated with this in mind. This manual has been designed to assist future IPOs. There are a number of considerations that need to be kept in mind while reading it.

Firstly, all IPOs will be different, therefore the manual can only act as a guide. The activities described in the manual will constantly need to be adapted to fit the prevailing circumstances. For example, different timelines and budgets will be appropriate at different times for different SOEs.

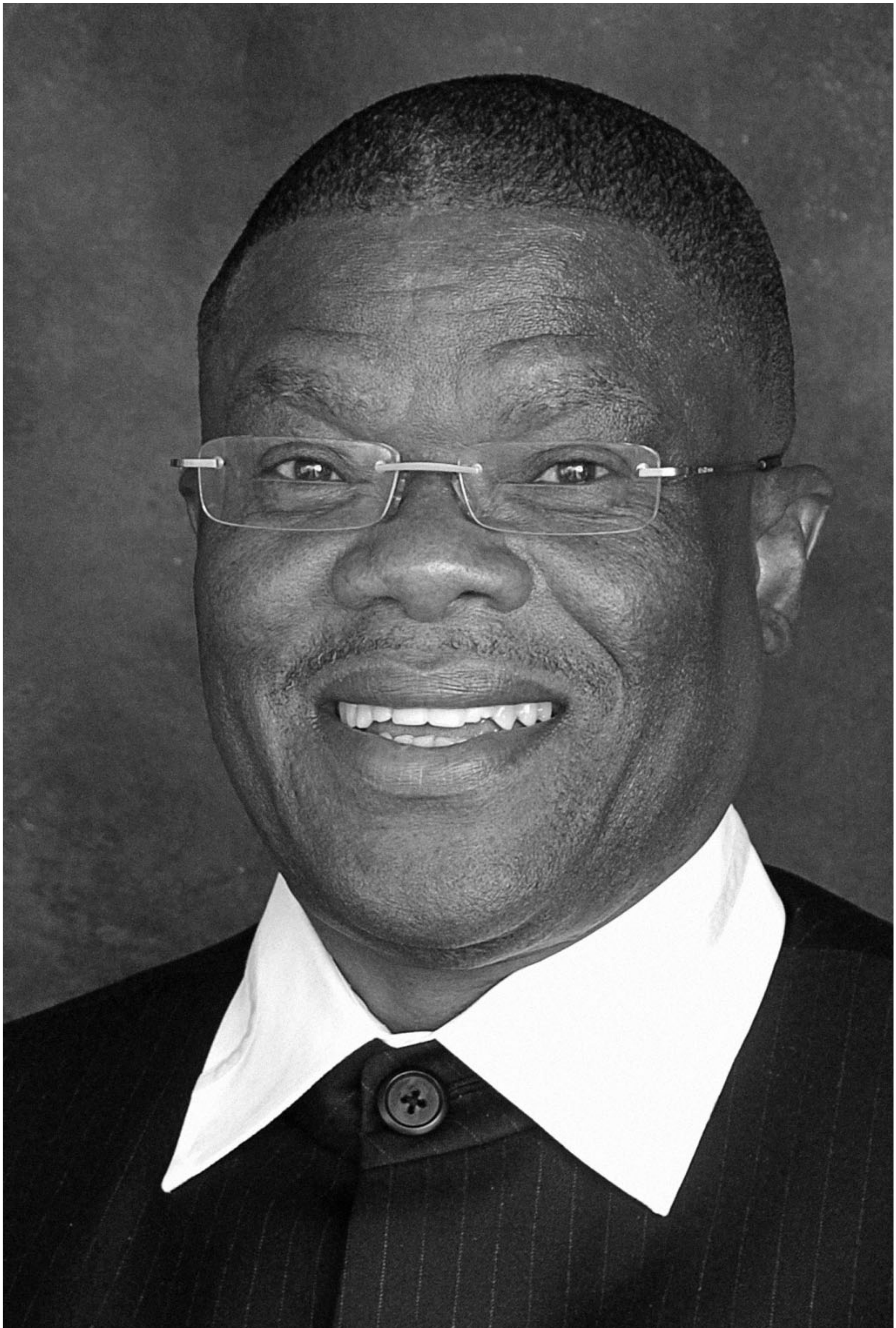
Secondly, the manual cannot dictate how people will behave towards each other and interpersonal relationships will have a significant effect on the IPO process. If the stakeholders have good relationships they will be able to form a cohesive team.

Thirdly, it is likely that as time passes, issues and circumstances that are not discussed will occur given the ever-changing environment in which an IPO will be undertaken. The information supplied in the manual will hopefully give the reader an idea of the right questions to ask. Involvement in any Government IPO is prestigious for all participants who share the common goal of wanting a successful IPO.

This manual is a product of my predecessor, Minister Jeff Radebe (now Minister of Transport) and the department's continuous learning programme and knowledge management. Based on our experiences from the execution of the Telkom IPO, I recommend this manual to: Government, IPO practitioners, South Africa, Africa and the world, as a knowledge base for future Government IPOs.

This manual will be very useful to us all when further restructuring is undertaken by way of an IPO.

MINISTER ALEC ERWIN, MP
MINISTER OF PUBLIC ENTERPRISES



main menu

DIRECTOR GENERAL – DEPARTMENT OF PUBLIC ENTERPRISES

What an astute political eye will discern from the manual is a web of consultative structures that edify the transparency, public accountability and sound governance principles that underpinned the execution of the Telkom IPO by Government of the Republic of South Africa.

A technical analysis will reveal the microscopic attention to detail. Each of the chapters is written such that it captures the activities and associated timelines. At the end of the manual the related activities and timelines are presented in a master project schedule.

When I was appointed to lead the execution of the Telkom IPO in November 2000 I had little idea what was to unfold in the subsequent twenty-seven months and a few days.

As the overall project manager for the Telkom IPO, I am convinced that the manual captures the salient technical and sound governance aspects of rolling out an initial Government issue of shares. Other lessons, including political, environmental and social are the subject of volumes yet to be published.

The restructuring of SOEs is a carefully considered policy approach. Restructuring is based on a case-by-case analysis of the options available to Government. In the case of Telkom, a variety of approaches were consolidated by realising multiple objectives, including the:

- infusion of technological advances
- injection of capital
- dilution of Government shareholding by share allocation made to organised labour
- support of the (NEF).

The IPO of Telkom was one method employed in the restructuring of the state owned enterprise. The size of the offering and the commercial and social objectives of Government allowed for the execution of an IPO of a magnitude and impact never before conducted by the democratic Government of South Africa.

The Government of the Republic of South Africa is made up of talented policy decision makers. It is indeed a pleasure to recognise the many policy decision makers and other non-Government support personnel, including:

- Cabinet under the leadership of President Thabo Mbeki
- Minister Jeff T Radebe for his Political tenacity and executive leadership
- the Interministerial Committee on Restructuring of SOEs
- the IPO Steering Committee, comprising the Directors General of Communications, National Treasury, Public Enterprises and staff of the Department of Public Enterprises (public enterprises)
- the Swedish International Development Agency's (SIDA) Arne Berggren, and the support work of Deloitte Tomatsu and the UK Government's Department for International Development (DFID)
- the Government interdepartmental team from Communications, National Treasury and Public Enterprises who burnt the midnight oil throughout the process
- the Independent Communication Authority of South Africa (ICASA) (the regulatory agency for the responsible judgments and accelerating the program of telecommunications regulatory reform)
- the JSE Securities Exchange South Africa (JSE)
- the IPO Project Team and Executive Assistants
- the Families of all the participants
- all the South Africans who went to great trouble to register their interest in the IPO and their positive public opinion about the Telkom IPO
- the Service Providers who gave selflessly of their time during the interviews and the production of the manual.

DR M. EUGENE MOKEYANE
DIRECTOR GENERAL – DEPARTMENT OF PUBLIC ENTERPRISES

1. HOW TO USE THIS MANUAL

PUBLIC ENTERPRISES DEVELOPED THIS MANUAL TO:

- ensure that lessons learnt from the Telkom IPO are available when future IPOs are contemplated and executed
- assist Government officials who undertake a restructuring of a SOE by way of an IPO or sale of shares (the share offer).

The manual focuses on "how to do a Government-led IPO". Since there is not one specific way of undertaking an IPO process this manual does not give definitive ways in which to do it. Each IPO has had, and will have, different overriding objectives and challenges. Correctly identifying those objectives and managing the tensions created by the challenges, forms an integral element to the success of any IPO. This manual merely sets out some of the available options and how to assess those options.

Where possible the tasks leading up to the listing of a state owned enterprise are set out in chronological order. However, it is important to understand that several of the tasks involved need to be implemented and pursued concurrently and many of them are iterative, therefore it is not possible to achieve a strict chronological order. The tasks are divided into the following phases:

Phase 1 entails the planning process. The second phase entails the setting up of the Government team, interaction with the state owned enterprise and the appointment of advisers and service providers. Phase 3 is detailed planning, and Phase 4 consists of the official launch, the share offer and the listing. These are summarised in table 1 below:

Table 1 – Phases of an IPO

Phase 1	Pre-planning – decision to undertake an IPO
	Initial planning – Government preparation for the IPO
Phase 2	Setting up the Government team
	Interaction with the state owned enterprise
	Appointment of advisers and service providers
Phase 3	Detailed planning
Phase 4	Official launch, share offer and listing

As each phase is discussed in detail, the manual indicates by use of a colour coded flowchart and detailed content page:

- which of the phases is being discussed
- where the phase is in relation to the other phases
- the issues that will be covered in each section.

At the bottom of each page during the execution phases, there is a timeline indicating the anticipated timeframe of the specific activities and processes in each phase. In addition, a foldout timetable of the overall process is attached at the back of the manual. The two timelines should be read together to gain a comprehensive picture.

The execution phase of the IPO process can take a few months in the case of a secondary sale and up to 18 months or more for a complicated primary sale. However, regardless of the timing, the steps that have to be gone through are in general the same. The manual is written assuming an IPO will take 6 months.

The pre-planning and initial planning stages can take a number of years, depending on Governments' decision-making processes. For this reason, the timeline in the manual commences at the execution phases, when it has been decided that the IPO will go ahead.

KEEP IN MIND THAT:

- timelines will vary depending on the circumstances
- the order in which tasks are performed can be changed
- some tasks may be started but cannot be finalised until later tasks are completed
- there are tasks that need to be undertaken concurrently.

Although the manual is based predominantly on the Telkom share offer and includes information specifically relating to the Telkom IPO in 2003, experience and alternative approaches from other restructuring programmes around the world have been incorporated.

Although the reader may want to focus on a particular section of the manual, it is advisable to read the whole document in order to gain a comprehensive understanding of the process.

The manual is not industry specific, and it does not cover the various restructuring options that Government may pursue for SOE prior to, or instead of, an IPO.

It is hoped that, as the Government undertakes further restructuring activities by way of an IPO, the manual will be updated so that there is a constant record of the options and best practice.

2. INTRODUCTION

On 4 March 2003, The Government of South Africa listed Telkom SA (Pty) Limited on the JSE Securities Exchange of South Africa (JSE) and the New York Stock Exchange (NYSE). This was a landmark transaction. Telkom SA Limited became a public company.

When Telkom was listed, it became one of the largest listed companies on the JSE and the largest listing in the Telecommunication sector on the JSE. Many of the potential SOEs that could be restructured by way of a share offer are likely to also be major players on the JSE in their sector. Given the substantial impact of such potential IPOs on the JSE and the country, it is critical that Government takes all measures possible to ensure that the listing of SOEs is successfully planned and executed.

Government sale options, other than an IPO (such as a trade sale and a public private partnership concession), are not discussed in any detail in this document.

The manual aims to:

- identify the necessary steps of an IPO
- identify the challenges that could face the Government in the IPO process
- provide suggestions as to how to address such issues.

3. OVERVIEW OF GOVERNMENT'S ROLE

The Government's primary role during an IPO is to sell the state owned enterprise shares, and to ensure that the process is implemented in line with the Government's stated objectives. In order to list the shares, the normal role and areas of responsibilities for the Government's team and their advisers are to:

- project manage and drive the IPO process
- prepare the investment strategy with the state owned enterprise
- manage the institutional and retail offers
- organise the offer
- successfully list the shares on the appropriate stock exchange.

PHASE 1

1

PRE-PLANNING — SECTION 4

PRELIMINARY WORK BY GOVERNMENT AND STATE OWNED ENTERPRISE, INCLUDING:

Decision to undertake an IPO

- Government sale of shares to SEP and BEE prior to the IPO
- Governments IPO objectives
- IPO risks

PHASE 1 – INITIAL PLANNING — SECTION 4

Internal Government process

- Defining role of Government stakeholders
- Regulatory and industry restructuring completion
- Timetable and budget approval

2

PHASE 2(A) – EXECUTING THE TRANSACTION — SECTIONS 5 TO 10

Setting up the Government team

- Establishing IPO structures such as a Steering Committee and IPO Project Team
- Roles, responsibilities and resources for IPO structures

PHASE 2(B) – EXECUTING THE TRANSACTION — SECTIONS 11 TO 14

Interaction with the state owned enterprise

- State owned enterprise IPO objectives
- Role and responsibilities of the state owned enterprise
- Strategic equity partner

PHASE 2 (C) – EXECUTING THE TRANSACTION — SECTIONS 15 TO 20

Appointing advisers and service providers

- Appointment of advisers, service providers and suppliers
- Invitations to tender and interviews
- Contract negotiations and appointment

3

PHASE 3 – DETAILED PLANNING — SECTIONS 21 TO 33

Detailed planning

- Detailed timetable and budgets
- Setting up of working groups
- Defining roles and responsibilities

4

PHASE 4 -EXECUTING THE TRANSACTION — SECTIONS 34 TO 37

Official launch, the share offer and listing

- Registration and pre-marketing
- The offer period
- Listing
- Post-listing activity

PHASE 1 – PRE-PLANNING, PRELIMINARY WORK BY GOVERNMENT AND STATE OWNED ENTERPRISE AND INITIAL PLANNING

Page	Contents

09 4. Overview of the IPO
09 4.1 IPO steps
10 4.2 Pre-planning – decision to undertake an IPO
10 4.3 Government sale of shares prior to the IPO
4.3.1 Sale of shares to a sep prior to the IPO
4.3.2 Sale of shares to a BEE group prior to the IPO
4.3.2.1 BEE involvement
4.3.2.2 Funder issues
12 4.4 Detailed government IPO objectives
4.4.1 Financial/commercial objectives
4.4.2 Economic/social objectives
4.4.3 Empowerment objectives
4.4.4 Company related objectives
13 4.5 Risks of undertaking an IPO
16 4.6 Initial planning – Government preparation for the IPO
17 4.7 Government stakeholders active in the IPO process
4.7.1 Introduction
4.7.2 Cabinet
4.7.3 Inter ministerial committee (IMC)
4.7.4 Oversight committee
4.7.5 Department of Public Enterprises
4.7.6 National Treasury
4.7.7 Policy department
4.7.8 Department of Trade and Industry
4.7.9 Government communications and information system
4.7.10 Industry regulator
4.7.11 Securities exchange regulator
4.7.12 Labour
22 4.8 Issue RFPs for appropriate Government advisors
22 4.9 Regulatory and policy issues
4.9.1 Regulatory environment
4.9.2 Policy considerations
4.9.3 The industry regulator
24 4.10 IPO overall timetable
4.10.1 Timing
4.10.2 Suggested timetable
4.10.2.1 Timetable for executing the transaction – setting up Government team, interacting with the SOE and appointing advisors
4.10.2.2 Timetable for phase 3 – executing the transaction, detailed planning
27 4.11 IPO budget
4.11.1 Preliminary budget
4.11.2 Budget process
4.11.3 Key cost drivers

PHASE 1 PRE-PLANNING, PRELIMINARY WORK BY GOVERNMENT AND STATE OWNED ENTERPRISE AND INITIAL PLANNING

This section deals with everything that takes place in the pre-planning phase. It entails the decision to undertake an IPO. Government's objectives with the IPO are discussed, the inherent risks of an IPO and how to minimise them also received attention. Government's decision to sell shares to a Strategic Equity Partner (SEP) and/or BEE are highlighted.

In the initial planning phase the focus is on what has to be done and who is going to do it. The timing of an IPO and an initial budget are set out within the regulatory environment within which the IPO will take place.

4. OVERVIEW OF THE IPO

4.1 IPO STEPS

The flowchart below depicts the basic steps of an IPO. Each phase is covered in detail in the relevant sections of the Manual.

1

PRE-PLANNING
Preliminary work by Government and state owned enterprise, including:
Decision to undertake an IPO
- Government sale of shares to SEP and BEE prior to the IPO
- Governments IPO objectives
- IPO risks

PHASE 1 – INITIAL PLANNING
Internal Government process
- Defining role of Government stakeholders
- Regulatory and industry restructuring completion
- Timetable and budget approval

2

PHASE 2(A) – EXECUTING THE TRANSACTION
Setting up the Government team
- Establishing IPO structures such as a Steering Committee and IPO Project Team
- Roles, responsibilities and resources for IPO structures

PHASE 2(B) – EXECUTING THE TRANSACTION
Interaction with the state owned enterprise
- State owned enterprise IPO objectives
- Role and responsibilities of the state owned enterprise
- Strategic equity partner

PHASE 2 (C) – EXECUTING THE TRANSACTION
Appointing advisers and service providers
- Appointment of advisers, service providers and suppliers
- Invitations to tender and interviews
- Contract negotiations and appointment

3

PHASE 3 – DETAILED PLANNING
Detailed planning
- Detailed timetable and budgets
- Setting up of working groups
- Defining roles and responsibilities

4

PHASE 4 – EXECUTING THE TRANSACTION
Official launch, the share offer and listing
- Registration and pre-marketing
- The offer period
- Listing
- Post-listing activity

4.2 PRE-PLANNING – DECISION TO UNDERTAKE AN IPO

This section sets out Government's IPO objectives, as it is important to have a detailed understanding of the reasons that lead Government to undertake an IPO. These objectives will be the subject of lengthy debate by the various Government stakeholders and eventually Cabinet, who decides whether or not to undertake the IPO. These objectives will influence policy decision making throughout the process.

The various potential objectives are classified into:

- financial
- social
- empowerment
- state owned enterprise related objectives.

There are risks associated with undertaking an IPO. In determining whether there is good reason to undertake an IPO, it will be necessary to identify and assess the associated risks, together with a plan for mitigating, monitoring and controlling those risks. Once the IPO decision is taken, risks will need to be constantly monitored and mitigated.

For a successful IPO the state owned enterprise needs to be:

- commercially viable
- operating profitably
- a good investment option for potential investors.

4.3 GOVERNMENT SALE OF SHARES PRIOR TO THE IPO

Before the decision to undertake an IPO is taken, the Government will have explored the various restructuring options for the state owned enterprise. They would have decided that private investment is best achieved by way of a share offer of a portion, or all, of Government shares.

A sale of shares by Government to a SEP and BEE prior to the IPO could have major consequences during the IPO process. As a result the effects of such transactions on the IPO, as well as the effect thereof on the agreements and transaction structures, or such sales of shares need to be taken into account.

4.3.1 SALE OF SHARES TO A SEP PRIOR TO THE IPO

In some instances prior to the IPO, the Government may have sold shares to a SEP. The SEP can be introduced into the state owned enterprise in order to achieve, amongst others:

- capital inflow
- introduction of new technologies
- investment in expansion capital
- introduction of management with specialised skills and experience
- skills transfer.

Prior to introducing the SEP, Government should carefully consider the implications of introducing a SEP into the state owned enterprise that plans to list in the future. The SEP, which normally has significant control in the state owned enterprise, must be consulted before the IPO process commences, because certain agreements entered into between the Government and SEP, could have a material bearing on major decisions during the implementation of an IPO. These agreements and related documents include the:

- shareholders agreement
- state owned enterprise articles of association
- management contracts for senior staff seconded by the SEP and/or appointed by Government to the state owned enterprise
- contracts between the state owned enterprise and SEP subsidiaries.

If it is considered necessary to introduce a SEP into a state owned enterprise for the various strategic reasons listed above, the JSE will need to be consulted before finalisation of any contracts between Government and the SEP or between the state owned enterprise and the SEP. This is to ensure that the terms and conditions in the agreements are in line with JSE listing requirements, and will not give rise to any barriers to listing at a future IPO date.

If a state owned enterprise being considered for an IPO has a SEP investor, agreements that are in place between the Government and the SEP should be reviewed at a very early stage. The JSE should be consulted before any public announcement of the IPO. This will ensure that:

- any clauses that are not in line with JSE listing requirements are addressed at an early stage with the SEP
- there are no barriers to entry for a JSE listing due to non-compliance with their listing requirements.

  Section 14 deals with the key SEP issues that may need to be addressed.

4.3.2 SALE OF SHARES TO A BEE GROUP PRIOR TO THE IPO

4.3.2.1 BEE INVOLVEMENT

As empowerment is a key objective of the South African Government, it is likely that a BEE entity/entities is/are introduced as a shareholder(s) in addition to the SEP. The BEE investor may have also been introduced separately as part of another Government restructuring exercise.

In undertaking an IPO, cognisance must be taken of the BEE shareholding as the IPO could influence a number of factors for the successful outcome of the BEE transaction. This is of particular relevance in instances where:

- financial institutions are likely to fund the BEE stake
- issues around a potential state owned enterprise IPO, such as timing considerations, can significantly impact on the funding structures.

4.3.2.2 FUNDERS' ISSUES

Funding from financial institutions may be contingent on an IPO taking place under certain conditions, such as those listed below.

- **The IPO taking place by a certain date**

Based on an assumption as to when the state owned enterprise IPO will take place, the BEE investor/s may be required to repay the debt (together with accumulated interest and other costs), that was incurred at the time of the initial state owned enterprise share purchase, within a specified timeframe.

If the listing date is a substantial time after the date the shares were initially purchased, the amount due could be considerably higher than the original amount borrowed. This is as a result of the highly leveraged nature of BEE transactions and the high charges and interest rates charged by the banks, resulting in losses for the BEE parties and empowerment objectives not being met.

- **The listing price of the shares at IPO**

If at listing, the value of the BEE shares:

- has increased sufficiently to cover the outstanding debt and the accrued interest and charges, BEE investors will be able to repay the debt by selling the shares
- are less than the amount owing, the lending institutions are likely to take ownership of the shares after the IPO in order to settle a portion of what is due
- exceeds the amount owing, the BEE investor(s) will either be able to sell a portion of their shares to settle the debt, retaining some shares that are now fully paid for, or refinance the shares on more favourable terms.

4.4 DETAILED GOVERNMENT IPO OBJECTIVES

Government will have a number of reasons for undertaking an IPO. The priority of the various objectives, which will sometimes be in conflict, will influence many of the decisions taken during the IPO execution phases.

Clarity with regard to Government's objectives is important in order to:

- secure support for the IPO from stakeholders
- ensure that all Government stakeholders have a common understanding of the objectives and process
- prioritise objectives with a degree of consensus when conflicting objectives require that certain objectives be overridden
- allow for the adoption of appropriate strategies and structures to achieve prioritised objectives
- ensure that the undertaking of an IPO is not perceived as being an objective in itself.

Although each IPO will have a different set of dynamics, Government objectives will generally include financial, social, empowerment and state owned enterprise related objectives. These are listed below.

4.4.1 FINANCIAL/COMMERCIAL OBJECTIVES

- maximising proceeds raised through disposal of state owned enterprise shares held by Government
- reduction of SOE debt using IPO proceeds
- funding of infrastructure investment of the SOE using proceeds
- generating new capital inflow into South Africa
- raising awareness of South Africa amongst global investors
- establishing the Government as a credible and professional vendor in international capital markets
- maximising investor demand for the state owned enterprise shares
- maximising value of shares retained by Government in the state owned enterprise
- generating proceeds for the national fiscus.

4.4.2 ECONOMIC/SOCIAL OBJECTIVES
- undertaking a successful IPO
- increasing confidence in the Government's ongoing restructuring programme
- stimulating the economy
- encouraging foreign direct investment
- broadening share ownership
- meeting Government's empowerment objectives.

4.4.3 EMPOWERMENT OBJECTIVES
- provision of BEE employment and training opportunities
- promoting skills transfer to BEE companies and individuals
- encouraging a culture of share ownership by historically disadvantaged individuals (HDIs)
- securing the participation of BEE financial institutions in the retail offer.

4.4.4 STATE OWNED ENTERPRISE RELATED OBJECTIVES
- creation of a new mindset for the state owned enterprise as a listed entity adhering to international best practice
- promoting the development of the state owned enterprise as a competitive service provider
- establishment of a broad shareholder base for the state owned enterprise
- injection of new commercial and market influences into the state owned enterprise.

4.5 RISKS OF UNDERTAKING AN IPO
There are many risks associated with the IPO process. These risks and mitigation possibilities are categorised in the table below.

Throughout the IPO process these risks must be:

- identified
- measured
- monitored
- mitigated.

Table 2 – IPO Risk Factors

CATEGORY	RISK	MITIGATION
Political	• Restructuring policy not accepted • Country perceived as a poor investment destination	• Clear and ongoing communication of reasons for, and progress of, IPO
Legal	• IPO process challenged • Statutes governing the relevant jurisdiction are violated resulting in inability to list on a particular stock exchange	• Obtain legal advice on all aspects of the programme • Consider an approach to court for a declaratory order, in instances where legal advice is inconclusive • Obtain legal advice on the rules of relevant industry and stock exchange regulators, from inception of the process
Financial	• Insufficient proceeds raised by IPO Process • Costs of IPO exceed budget • Volatile equity markets • Exchange rate movements adversely affect costs of international service providers and quantum of proceeds raised • Global industry and market trends take downward turn as IPO is undertaken • Syndicates not able to distribute the shares	• Accurate predictions of potential IPO valuation when IPO decision is taken • Realistic and reasonable budget set at inception of the project • Timetable monitored and adhered to • Ongoing interaction with National Treasury • Constant monitoring of market conditions • Exchange rate monitoring throughout IPO process • Substantial use of domestic service providers • Constant monitoring of the pricing of market conditions • Experienced institutions with good relationships selected as part of the syndicate
Social/ Economic	• IPO perceived as having been badly executed • Local and international confidence in country • Confidence in Government restructuring programme	• Post IPO communication with stakeholders • Identify all potential investor concerns and put in place a pro-active strategy to address these, such as periodic conference calls and presentations to investors, and dissemination of research pieces • Continuous communication of benefits of restructuring policy

Table 2 – IPO Risk Factors (continued)

CATEGORY	RISK	MITIGATION
Empowerment	• BEE and low income earners participate insufficiently in share scheme as result of lack of awareness and/or lack of funds • BEE participants do not receive skills transfer • BEE service providers get negligible proportion of fee	• An appropriately targeted retail offer • Development of an extensive, focused, educational campaign • Monitor involvement of BEE participants throughout the process • Government measure quantum of BEE fees and award tenders taking quantum into consideration
SOE	• SOE does not buy into IPO and therefore does not cooperate in providing relevant information • Communication between Government and SOE inadequate to enable SOE and its advisers to meet IPO deadlines • SOE not able to develop a good investment case • SEP agreements and requirements unacceptable to the JSE • SOE financial reporting not in accordance with either local or international accounting standards	• Involve SOE from inception • Project manager to ensure at planning phase that there is enough time for the communication of information and outputs required from the state SOE and its advisers • Government consideration of preliminary SOE investment case as part of the decision whether or not to continue with IPO • Consultation with the JSE when contemplating introduction of an SEP and when considering an IPO of a SOE with an existing SEP • Ensure auditors have the relevant local and international experience to (continued) ensure that the state owned enterprise complies with relevant accounting standards and listing and filing requirements with regard to financial information
Completion	• IPO announced but process stopped before completion	• IPO should not be announced until pre-planning issues such as: regulatory environment, timetable, budget and appropriate SEP agreements are in place

CATEGORY	RISK	MITIGATION
Labour	• Labour unions, if not properly consulted • Labour does not accept restructuring policy	• Ongoing discussions under consultative arrangements
Resources	• Insufficient personnel to undertake an IPO • International IPO experts not dedicating sufficient time to the project • Government and stakeholders not able to work as a single Government team • Lack of co-operation between Government departments	• Resources able to dedicate time, identified and deployed from inception • In appointing service providers for specialisation and track records, Government must contractually insist on a predetermined amount of time • Before working on the IPO, roles and responsibilities of each stake-holder should be defined • Objective priority must be jointly debated in early planning stages and agreed so that there is a common IPO vision
Force Majeure	• War • Unnatural disaster	

4.6 INITIAL PLANNING – GOVERNMENT PREPARATION FOR THE IPO

Once the decision to undertake an IPO has been taken, the initial IPO planning will begin. This phase primarily involves the various Government stakeholders in the process, and generally occurs before the appointment of key Government advisers. In this phase it will be important to:

- define and agree the roles and responsibilities of the various Government stakeholders
- confirm Government's objectives with regard to the IPO, and agree on the ranking of such objectives
- agree on an internal and external communication strategy and process for the various Government stakeholders and Government as a whole
- issue request for proposals (RFPs) for appropriate Government advisers
- identify any policy and/or regulatory issues that could have an impact on the IPO
- set a timetable
- develop an initial indicative budget.

Government must be as clear as possible on objectives, timetable, budget, roles and responsibilities before the state owned enterprise and external advisers such as lawyers and accountants become involved. Delays arising while the advisers and service providers wait for key decisions from Government, that should have been taken before the IPO execution stage, could lead to increased costs and some of the risks discussed in Table 2 – IPO Risk Factors above.

4.7 GOVERNMENT STAKEHOLDERS ACTIVE IN THE IPO PROCESS

4.7.1 INTRODUCTION

There are a number of stakeholders that are likely to be involved in every IPO. These include:

- Cabinet and relevant Cabinet Committees
- Inter Ministerial Committee (IMC)
- Oversight Committee (OC)
- Public enterprises
- National Treasury (NT)
- Line/Policy Department
- Department of Trade and Industry (the **dti**)
- Government Communications and Information System (GCIS)
- The Industry Regulator (the Regulator)
- The JSE
- Organised Labour.

The support and buy-in of these role players is critical to an effective, coherent and coordinated IPO process.

Buy-in should be sought, taking into consideration that each stakeholder will have their own objectives during the IPO process.

As an IPO will require a team effort from Government, Cabinet will supply an IPO mandate to each Government stakeholder at the inception of the IPO process. In the interest of clarity such a mandate should set out the roles, responsibilities and resource requirements for each department.

A stakeholder workshop to debate the various roles, responsibilities and key objectives at inception of the process will ensure that all the Government departments are working towards a common goal.

4.7.2 CABINET

The role of Cabinet is to make strategic policy decisions. Most of the policy decisions that will be taken during an IPO are strategic in nature. Cabinet bases its decisions on presentations from various structures. These structures only make their presentations after due consideration of various proposals.

The rationale of Cabinet approving the decision after being debated in many forums during the IPO is that:

- Government works and is driven by consensus
- anything that affects the South African economy has to be viewed with the multiple perspective of different political, social and economic interests

- all Governance Clusters must be taken into account when considering a Government project, as more than one area of Government is affected by decisions made.

The Government's IPO decision-making process is depicted in Diagram 1 below:

4.7.3 INTER MINISTERIAL COMMITTEE (IMC)

The IMC is chaired by the Minister of Public Enterprises and includes other economic ministries affected by Government's restructuring policy.

Throughout the IPO it must be kept in mind that in the latter phase of executing an IPO normal decision-making may be inappropriate due to the time it takes for issues to first go through Oversight, the Ministerial Restructuring Subcommittee, as well as other relevant Cabinet Committees, before reaching a full Cabinet. Towards the end of the execution phase, key decisions must often be taken in a matter of hours. In these instances the IMC may be used. This IMC would then report to the full Cabinet at the first available opportunity.

4.7.4 OVERSIGHT COMMITTEE

The role of Oversight is to give mandates to other IPO committees based on Cabinet decisions. This committee should have considerable authority and approve issues that are referred to Ministers, before going to Cabinet. For Oversight to be effective during an IPO process, all participating Government departments must attend all meetings from the beginning of the process, to ensure that all participants and departments are fully and timely informed of IPO developments.

main menu

4.7.5 DEPARTMENT OF PUBLIC ENTERPRISES

Since public enterprises is responsible for Government's restructuring programme they will manage the project for the IPO. Their responsibilities in this regard include:

- providing and coordinating the IPO service providers
- heading and managing the IPO Project Team that is housed within public enterprises
- chairing the IPO Steering Committee that oversees the IPO process
- financial management of the IPO
- managing the different objectives of the various Government stakeholders
- implementation of a successful IPO.

Public enterprises is likely to dedicate tremendous resources to the IPO and will need to staff the IPO office, which is discussed more fully in section 9.

In managing the IPO, public enterprises will need the support of other Government departments e.g. National Treasury and the Policy Department. From a resource perspective, these other departments must dedicate staff to work with the IPO Project Team.

4.7.6 NATIONAL TREASURY

The role of National Treasury includes:

- financial management of state assets and therefore the state owned enterprise
- maximising and managing the proceeds to be raised
- promoting investor confidence in the country from a financial and economic point of view in order to protect the country's investment rating
- compliance of state assets with statutes, especially the Public Finance Management Act 1 of 1999 (PFMA)
- assisting public enterprises with the IPO budgeting process as discussed in section 4.11 and section 22.

National Treasury resources and financial experience will be critical, as most key issues during the IPO will impact the potential value and attractiveness of the state owned enterprise for potential investors, and therefore, the amount of proceeds to be raised by the IPO. National Treasury should play a key role during valuation and pricing decisions in particular.

4.7.7 POLICY DEPARTMENT

The state owned enterprise reports directly to the Policy or Line Department in terms of statutes governing a particular state owned enterprise. The department's role is to be the policy maker and shareholder for the state owned enterprise. In instances where the SOE reports directly to public enterprises, public enterprises will be both the project manager and the shareholder department.

The Policy Department will be responsible for:

- setting industry policy
- providing shareholder management of the state owned enterprise from a Government perspective
- ensuring that the national interest is protected as the state owned enterprise conducts its business.

The most critical task of the Policy Department from an IPO point of view, will be the formulation of sector policy, as a clear regulatory environment is of paramount importance during an IPO. Consideration should be taken as to whether the policy and regulatory environment, including issues around competition in the sector, are conducive to an IPO before the IPO process commences. The reasons for this are discussed in section 4.9 which deals with regulatory and policy issues.

The Policy Department will be very active in, and dedicate substantial resources to, the IPO process, especially during the initial phases. As the department most closely interacting with the state owned enterprise and sector regulator, the Policy Department will be fully involved in the development and implementation of policy and regulatory certainty. As the department that sets industry policy, the Policy Department will continue its close interaction with the state owned enterprise after the IPO.

4.7.8 DEPARTMENT OF TRADE AND INDUSTRY

The **dti** is responsible for:

- attracting foreign direct investment into South Africa
- promoting South African trade relations
- trade negotiations that create market access to South African products
- the enactment of amendments to the Companies Act of 1963, if any such amendment is required.

In light of these responsibilities, the **dti** will be involved in the marketing of South Africa and the state owned enterprise, to potential international investors during the IPO process.

The **dti** staff based in foreign countries in which investment is sought, can be harnessed to:

- assist in the international roadshows by providing material and personnel with expertise in selling South Africa as an investment destination
- ensure that South Africa is continuously marketed to target investors when an IPO is being contemplated, so that the market and appetite for South African products have already been developed by the time an attempt is made to sell the shares.

4.7.9 GOVERNMENT COMMUNICATIONS AND INFORMATION SYSTEM

GCIS is the Government's communication arm and is an important player in seeking the buy-in and support of the public and affected Government departments for the IPO process.

GCIS is responsible for:

- internal Government communication amongst departments
- keeping the public updated on Government activities.

GCIS can assist the IPO Project Team by ensuring that:

- Government departments are constantly updated on the IPO objectives and process, so that they can be counted upon to support the process and provide resources for the IPO where necessary
- communication from Government (regardless of which department the communication is initiated by), is consistent and that there are pre-agreed messages to the public and the investor community.

GCIS resources can be used by the IPO Project Team in conjunction with the various IPO communication advisers in the implementation of the public education campaign. GCIS can potentially provide Government spokespersons to assist in the education and communication of Government restructuring policy and the IPO in particular.

4.7.10 INDUSTRY REGULATOR

The role of the Regulator is to implement the industry policy that has been set by the Policy Department.

In relation to an IPO, the responsibility of the Regulator is to:

- supervise the industry
- ensure a correct regulatory framework is in place
- provide clarity with regard to competitor and tariff legislation
- review and update relevant regulatory regimes based on relevant Acts and policy directives
- in instances where the Minister has to sign off regulations, to liaise with the Policy Department to ensure regulations are in place
- understand the industry and economic environment for which the regulations are formulated.

The Regulator is likely to be in constant communication with the Policy Department, but during an IPO all Government departments involved in the IPO process will have an interest in the regulatory environment. Clear lines of communication must be set from the outset to ensure effective communication between the Regulator and the Government, during the IPO.

From an investor perspective the Regulator must:

- set clear industry rules before the IPO is executed
- apply the industry rules in a fair manner.

In order to carry out its responsibilities, the Regulator will need to have adequate resources, both in terms of staffing (with appropriate industry experts), and in terms of financial resources. The resource requirement of the Regulator should be assessed upfront and external advisers sourced if necessary.

4.7.11 SECURITIES EXCHANGE REGULATOR

The role of the JSE is to regulate the South African securities exchange.

The responsibility of the JSE is to:

- decide which companies qualify for listing on the exchange
- review and approve listing documentation, including the prospectus
- ensure that companies listed on the exchange adhere to exchange rules
- protect shareholders in listed companies and ensure that shareholders in the same class are treated equally, as far as possible.

Throughout the IPO process, and especially when the prospectus is being drafted, the JSE normally only liaises with the sponsor's brokers and not the state owned enterprise shareholders.

The JSE has additional responsibilities when a Government IPO is being contemplated as the Government will need to consult the JSE:

- before any SEP is introduced into an SOE, to ensure that agreements being entered into by the SEP and Government do not violate JSE principles, and will not create problems when the state owned enterprise seeks a listing at a later date
- if the state owned enterprise has an existing SEP while the IPO is being contemplated, since the JSE must review existing documentation and point out any issues in the agreements that will not be acceptable at the commencement of the process, and discuss solutions to achieve the listing, within the constraints of the existing agreements.

As part of the JSE investor education mandate, the JSE has resources that can be used during the IPO to assist the Government in educating the public on the meaning of a share and the benefits of being a JSE participant. These resources include education officers who can:

- provide investor education programmes
- act as translators of education material into the various languages
- take part in educational roadshows.

4.7.12 LABOUR

Organised labour is one of the key stakeholders in the South African economic and political landscape and should be consulted by Government

4.8 ISSUE RFPs FOR APPROPRIATE GOVERNMENT ADVISERS

At this point Government will need to issue RFPs for the necessary advisers at this stage of the process. Such advisers could include:

- industry restructuring experts
- advisers on policy and regulatory issues that could affect the implementation of the transaction, and could include legal and investment banking advisers
- experts in the restructuring of SOEs.

The issuing of RFPs and appointing advisers are as follows:

- advertise RFP
- send RFP letter with detailed terms of reference and questions to be answered
- companies submit written proposal
- presentation of shortlisted firms
- recommendation and appointment.

4.9 REGULATORY AND POLICY ISSUES

4.9.1 REGULATORY ENVIRONMENT

Clarity on the sector policy and regulatory environment will be of utmost importance to the IPO. In the circumstances it is vital to:

- ensure that any significant changes in the sector policy have been clearly communicated and implemented, especially competition and universal service obligation issues. In many industries the state owned enterprise will have been the sole industry participant, or a significant industry participant. There might be service obligations regarding the roll-out of services to all South Africans. The state owned enterprise may also enjoy regulatory protection from competition. These may need to be reviewed and addressed prior to any IPO, as the policy and regulatory environment will need to be clearly understood by potential investors in order to assess the investment case of the state owned enterprise
- identify during the initial phase, regulatory issues that can have a significant impact on the IPO implementation timetable. This includes universal service obligations, and the continuance and funding thereof, when the state owned enterprise is no longer wholly-owned by the Government
- identify what new regulations or changes to existing regulations are required or anticipated, prior to the IPO, as a result of changes in Government policy within the sector
- ensure a timetable for resolution of the required policy and regulatory changes so these can be clearly communicated to stakeholders, prior to the IPO process.

This task will need to be carried out in conjunction with a number of stakeholders such as: the state owned enterprise, the policy department, the Regulator, industry participants and the relevant stock exchange bodies. Once the regulatory issues are identified they must be resolved, in order to achieve a successful IPO. Agreement must be reached on a plan, the required resources, and a timetable for the resolution of the identified issues.

Regulatory issues could include the following:

- regulations required to give effect to industry restructuring
- the introduction of competition, either directly or through a competitive product offering, and the licensing of competitors, which will have an effect on the state owned enterprise
- tariff certainty in terms of structuring, and any proposed changes
- changes required in terms of existing regulations, imposing onerous obligations on the state owned enterprise, and the impact thereof on a listing, for example universal access/service obligations
- Public Finance Management Act (Act 1 of 1999) exemptions if required, both in the interim process and after listing. It is important to note that National Treasury will only grant exemptions in exceptional circumstances
- legal and financial impact of shareholder and management agreements on all of the above.

4.9.2 POLICY CONSIDERATIONS

The Policy Department must inform the Government team of the industry sector strategy, in order to ensure that IPO decisions do not create situations conflicting with the long-term industry outlook, as determined by the Policy Department.

The Policy Department may need to appoint a policy adviser and strategic adviser to assist in the drawing up, and promulgation of, the required policy. Government may need to appoint regulatory counsel to assist with the drafting of legal amendments, if necessary.

The Policy Department is the policy driver and as such should work closely with the Regulator, to ensure that all broad policies are in place and adequately and appropriately captured in the Acts and policy directives of the Minister so that the Regulator crafts regulations that are in line with policy directives and Acts.

4.9.3 THE INDUSTRY REGULATOR

Investors need confirmation that there is an effective and autonomous Regulator. The role of the Regulator is to ensure that a correct regulatory framework is in place for the IPO. This might mean updating or amending existing regulations to make the IPO viable.

For the IPO to be successful:

- the Regulator should be made aware of a potential IPO months before the IPO is officially announced. This will ensure that all regulations are crafted and approved ahead of the IPO
- required ministerial approval must be obtained when necessary
- the Regulator should be well equipped to deal with regulations both in terms of human resources and financial resources
- there should be regular communication between the Policy Department, the Regulator and public enterprises, to ensure that timelines are jointly set and agreed upon.

4.10 IPO OVERALL TIMETABLE

4.10.1 TIMING

An overall timetable has to be approved by Government in the initial IPO stages. It will be used as a guide by IPO participants in planning the implementation of the IPO. Government's approval of the timetable upfront will prevent:

- time being wasted later on in the process waiting for pertinent decisions
- substantial additional costs being incurred paying advisers, whilst waiting for decisions that should have been taken before their appointment.

In devising a timetable there should be clarity as to what approvals are required from the different levels of Government and state owned enterprise structures at the different stages of the IPO process, before the various activities set out in the timetable can commence. Necessary approvals are discussed in section 10.

As no two IPOs are the same, the timetable below is indicative only, and based on the assumption that the IPO execution process is a period of six months. Execution periods that last longer than a year can be problematic in that:

- critical factors that influenced the decision to proceed with the IPO may have changed
- deviations from the timetable lead to ineffective implementation of the IPO
- time is wasted
- huge costs are incurred
- the potential IPO proceeds can be diminished
- IPO participants deliver lacklustre performances as they perceive a lack of urgency in achieving milestones due to likely postponements.

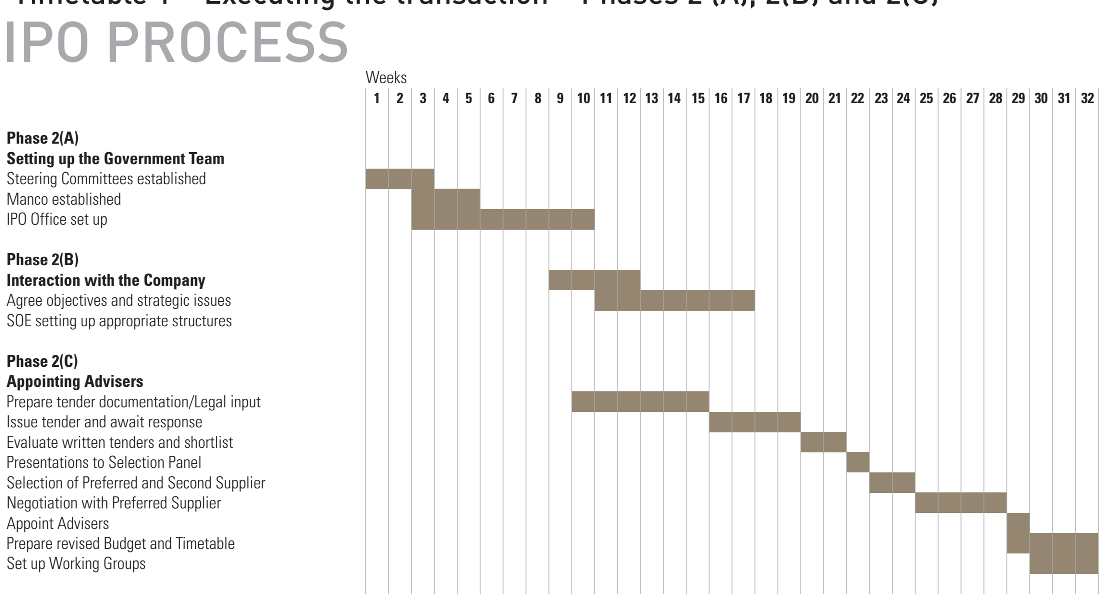
4.10.2 SUGGESTED TIMETABLE

An indicative timetable is set out below depicting the length of time that each of the IPO stages can take. Different SOEs will require different time frames. The timetable should be updated continually once:

- the Government team has been set up (Phase 2(A) – sections 5-10)
- interaction with the state owned enterprise has been determined (Phase 2 (B) – sections 11-14)
- advisers are appointed (Phase 2 (C) – sections 15-20).

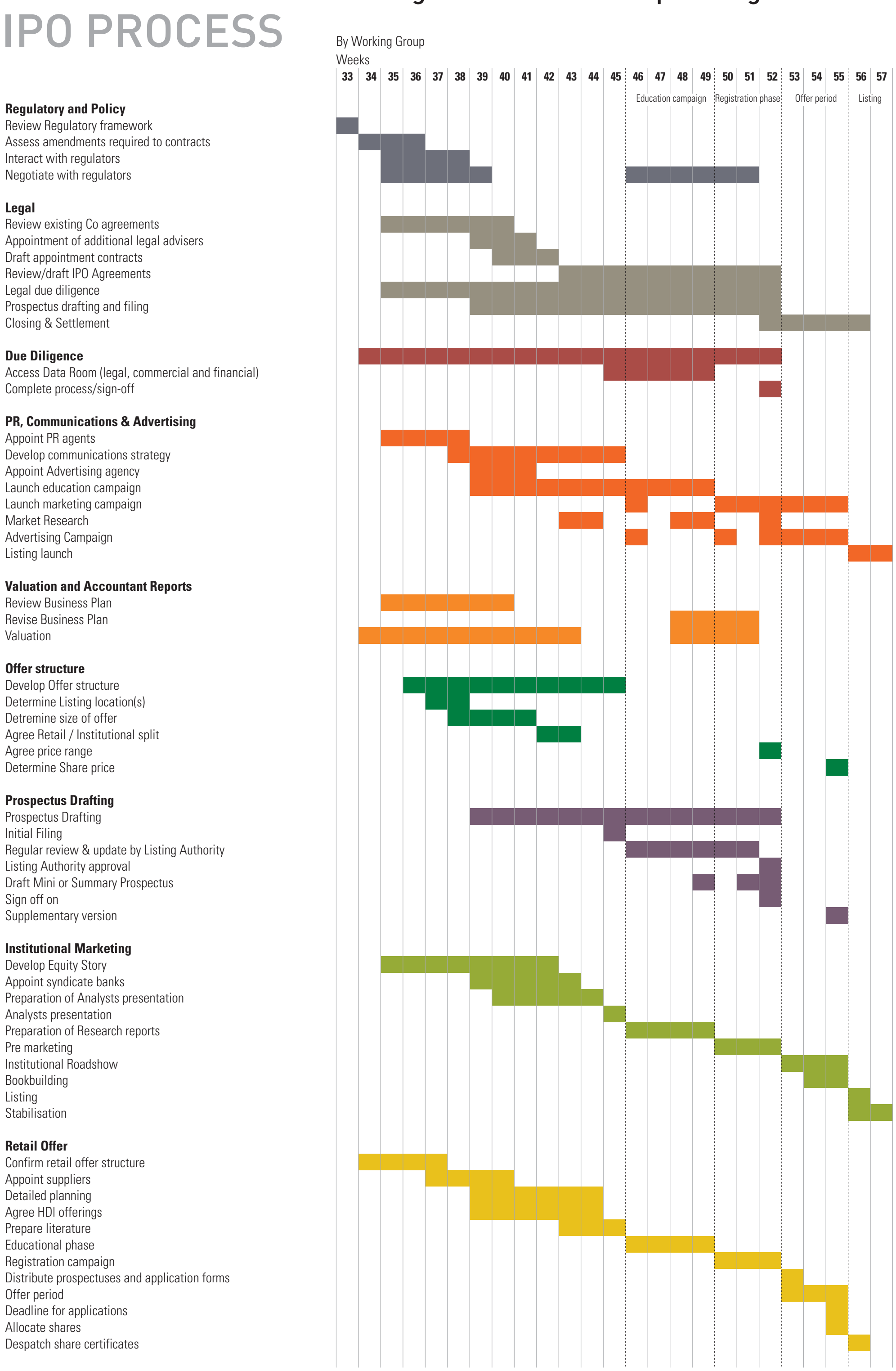
4.10.2.1 Timetable for executing the transaction – Setting up Government team, interacting with the state owned enterprise and appointing advisers

Timetable 1 – Executing the transaction – Phases 2 (A), 2(B) and 2(C)



4.10.2.2 Timetable for Phase 3 – Executing the transaction, detailed planning

Timetable 2 – Phase 3 – Executing the IPO – detailed planning



This table provides estimated timelines for each of the suggested working groups that are discussed in detail in sections 24-33 being:

- due diligence
- institutional marketing
- legal
- offer structure
- PR, communications and advertising
- prospectus drafting
- regulatory
- retail offer
- valuation and accountancy.

4.11 IPO BUDGET

The IPO, depending on the size and complexity, will require a trimmed and cost-effective budget, given the resources that need to be employed. There must be an understanding of the likely budget so that adequate resources can be dedicated to ensure the success of the IPO.

4.11.1 PRELIMINARY BUDGET

The Government team prepares a preliminary budget during the initial planning phase for due consideration and approval by the National Treasury.

4.11.2 BUDGET PROCESS

Given the nature of an IPO the budget process is an iterative process. There are many costs that are dependent on decisions that will, and can only be made, once the IPO process has commenced and some of the processes have yielded sufficient information to allow the Government team to make those decisions. An example of this type of decision is the size of the retail offer, which will probably only be finalised at an advanced stage of the process.

This will have an impact on a number of costs, including the costs of:

- printing materials
- advertising and PR expenditure
- distribution agents.

Given the National Treasury budgeting process and cycles, the IPO Project Team should work closely with the National Treasury in order to ensure that the budgeting process runs smoothly and does not give rise to delays in the process. It is important that at the outset the following is achieved:

- the approval of an initial budget using market-related assumptions and incorporating all the anticipated expenses
- an understanding by all stakeholders that the budget process is iterative and that certain expenses can only be accurately quantified at a later stage in the process. If possible, estimates showing the anticipated minimum and maximum expenses for certain activities can be incorporated into the initial budget. The assumptions used to determine the minimum and maximum payments must be clearly illustrated

- an understanding by all stakeholders that the timing of the claims or payments against the budget are dependent on the service providers deliverables and timing of those deliverables, which are, in turn, dependent on the IPO process proceeding according to the timetable
- Off-shore suppliers should only be appointed on condition that they accept payment in South African currently into a South African bank account, which will ensure that issues of payments do not give rise to delays and additional approval processes
- it is useful to highlight additional financial issues that will also require approvals and collaboration with National Treasury. Some of the service providers, for example the financial advisers and underwriters, might require certain warranties and indemnities in respect of information provided by the Government. These will need to be obtained through National Treasury and those that have an impact on the country's risk weighting, should be identified at an early stage, so a process to deal with such issues can be agreed upon.

4.11.3 KEY COST DRIVERS

The types of suppliers and manner in which they are likely to charge for their services are listed in Table 3 below. Indications of amounts have not been included as this will depend on the transactions, the size of the transaction and the time of implementation.

Key cost drivers for the IPO Project Team are not included in Table 3. Relevant cost drivers would depend on the:

- number of personnel assigned to the IPO Project Team
- seniority of appointees and therefore remuneration
- the required office space, computers and support staff
- the potential to have permanent seconded staff from various Government departments
- the extent to which donor funding can be sourced for some of the IPO Project Team resources.

Table 3 – Supplier cost drivers

Service provider	Cost basis	Additional costs	Total fee primarily a function of:
Financial adviser	Hourly/daily rate Per adviser	Expenses	Duration Complexity Size of IPO Listing locations
Lawyers	Hourly/daily rate Per lawyer	Expenses	Duration Complexity Extent of restructuring Ability to follow precedence
PR agents	Hourly/daily rate Per individual	Expenses	Duration Complexity of programme
Retail	Hourly/daily rate	Expenses	Complexity

Service provider	**Cost basis**	**Additional costs**	**Total fee primarily a function of:**
Logistics	Per individual		Size of retail offer Project duration
Advertising agency	Combination of hourly rate per person Percentage of media spend and production costs	Expenses	Extent to which new "brand" is developed. Amount of advertising e.g. in newspapers, on radio & TV
Printers	Per item printed or mailed Amount of typesetting	Volume of documents printed Delays Wasted time of production facilities	Project management fee Based on % spent does not encourage minimising costs Definitive pricing schedule of all options should be agreed upfront
Call centre	Per call received and/ or operator employed	Small incidental costs	Volume of calls Number of operators
Mail/postage	Number of items mailed and their size/weight	None	Number of items mailed and their size/weight
Distribution agent	Volume of materials to be distributed Diversity of points to which materials need to be distributed	None	Materials should be grouped efficiently so that delivery to points does not need to be unnecessarily repeated
Transfer secretary	Fixed cost for premises, systems and project managers Number of registrants and applicants	Expenses	Anticipated number of registrants and applicants (they will prepare their facilities based on anticipated numbers – due to time constraints they cannot base their plans on actual volume)
Domestic roadshow	Number of venues and extent of programme	Expenses, venue rental etc	Extent and location of roadshow
International roadshow	Number of venues and extent of programme	Expenses, venue rental etc	Extent and location of roadshow
Listing fees	Set by listing authority	None	Number of listing authorities
Market research	Per wave of research	None	Number of waves of research Size of qualitative and quantitative samples required

Table 3 – Supplier cost drivers

Service provider	Cost basis	Additional costs	Total fee primarily a function of:
IPO launch events	Range of items such as catering, venues, technology requirements	Extent to which guest artists are required	Size and profile of the event Use of existing Government resources such as use of presidential guest house as venue will lower costs
Website	For setting up the site, number of pages and number of times pages are updated	Extent to which back-end work can be done by existing Government IT teams	Volume of material that needs to be incorporated into the site. Complexity of site functionalities

PHASE 2(A)

1

PRE-PLANNING — SECTION 4

PRELIMINARY WORK BY GOVERNMENT AND STATE OWNED ENTERPRISE, INCLUDING:

Decision to undertake an IPO

- Government sale of shares to SEP and BEE prior to the IPO
- Government IPO objectives
- IPO risks

PHASE 1 – INITIAL PLANNING — SECTION 4

Internal Government process

- Defining role of Government stakeholders
- Regulatory and industry restructuring completed
- Timetable and budget approval

2

PHASE 2(A) – EXECUTING THE TRANSACTION — SECTIONS 5 TO 10

Setting up the Government team

- Establishing IPO structures such as a Steering Committee and IPO Project Team
- Roles, responsibilities and resources for IPO structures

PHASE 2(B) – EXECUTING THE TRANSACTION — SECTIONS 11 TO 14

Interaction with the state owned enterprise

- State owned enterprise IPO objectives
- Role and responsibilities of the state owned enterprise
- Strategic equity partner

PHASE 2 (C) – EXECUTING THE TRANSACTION — SECTIONS 15 TO 20

Appointing advisers and service providers

- Appointment of advisers, service providers and suppliers
- Invitations to tender and interviews
- Contract negotiations and appointment

3

PHASE 3 – DETAILED PLANNING — SECTIONS 21 TO 33

Detailed planning

- Detailed timetable and budgets
- Setting up of working groups
- Defining roles and responsibilities

4

PHASE 4 -EXECUTING THE TRANSACTION — SECTIONS 34 TO 37

Official launch, the share offer and listing

- Registration and pre-marketing
- The offer period
- Listing
- Post-listing activity

PHASE 2(A) – SETTING UP THE GOVERNMENT TEAM

Page	Contents
33	5. IPO structure
33	5.1 Overview
33	5.2 Structures
34	5.3 Reporting line
34	6. Interministerial committee
34	6.1 Role
35	6.2 Interministerial committee
35	7. Steering committee
35	7.1 Role
35	7.2 Responsibilities
35	7.3 Resources
36	8. Management committee
36	8.1 Role
37	8.2 Responsibilities
37	8.3 Resources

Page	Contents
38	9. IPO project team
38	9.1 Role
38	9.2 Responsibilities
39	9.3 Resources
39	9.4 Structure
	9.4.1 Leader: IPO project team
	9.4.2 IPO coordinator
	9.4.3 Transaction managers
	9.4.4 IPO data room
	9.4.5 Communication management
	9.4.6 Budget
44	10. Approvals
44	10.1 Initial approvals
44	10.2 Delegated authority

PHASE 2(A) | SETTING UP THE GOVERNMENT TEAM

The execution of the IPO transaction is divided into steps that involve:

- setting up of the Government team
- interaction with the state owned enterprise
- appointment of advisers and service providers.

The structures that are set up specifically for the IPO are set out in these sections.

A possible structure for the IPO office is presented by way of a diagram and discussed in more detail. The importance of initial approval and authority in making this structure an effective vehicle is also depicted.

5. IPO STRUCTURE

5.1 OVERVIEW

This phase will require the various Government stakeholders involved in the IPO to set up various IPO decision-making structures which will be represented by the Government team, as well as the state owned enterprise, and various advisers as is appropriate.

Each of the structures will have different roles, responsibilities and resources.

5.2 STRUCTURES

The Government departments involved in the IPO will set up structures to deal with various aspects of the IPO in an integrated fashion. The roles, responsibilities and reporting lines of these structures should be defined upfront.

The structures that could be set up specifically for the IPO and exist only for the duration of the IPO depending on the size and complexity of the IPO, include:

- Inter Ministerial Committee (IMC) (see section 4.7.3 and 6)
- Steering Committee (see section 7)
- Management Committee (Manco) (see section 8)
- IPO Project Team (see section 9)
- Working Groups (see section 24-33).

The working groups will be resourced by the various Government advisers as well as the Government team who will need to play a lead role in the working groups.

5.3 REPORTING LINE

The Government team should have clear reporting lines as depicted in Diagram 2 below.

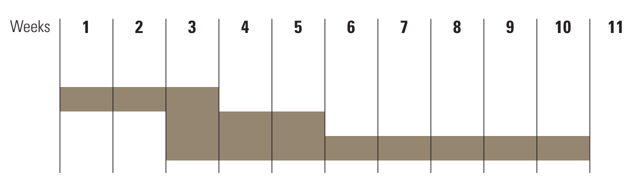
6. INTERMINISTERIAL COMMITTEE

6.1 ROLE

The role of the IMC is to:

- make strategic IPO decisions
- provide decisive leadership throughout the IPO process

Phase 2(A)
Setting up the Government Team
Steering Committees established
Manco established
IPO Office set up



- ensure that the national interest is always paramount, by making decisions after the consideration of the impact of the IPO on all Government policies and programmes
- report to the Cabinet Committees and Cabinet for consideration and approval.

6.2 INTERMINISTERIAL COMMITTEE

During the IPO execution stage, in particular, Phase 4 – official launch, the share offer and listing period, decisions need to be made extremely quickly, sometimes in a matter of days or hours. The IMC plays a very important role in this stage.

Such a committee is likely to comprise the ministers in the economic cluster ministries.

7. STEERING COMMITTEE

7.1 ROLE

A Steering Committee with representation from key stakeholders is to:

- provide strategic leadership to all stakeholders
- give strategic direction to the process
- delegate decision-making powers to the IPO Project Team where appropriate.

7.2 RESPONSIBILITIES

The members of the Steering Committee have to:

- attend regular meetings
- make strategic decisions
- discuss and resolve interdepartmental issues and competing interests
- communicate IPO issues to the various stakeholders as necessary.

7.3 RESOURCES

The Steering Committee is a key decision-making body in the IPO process.

The Steering Committee should include the following individuals:

- DGs of key departments as well as the relevant Deputy Directors General (DDGs) who should be empowered to make decisions in the absence of the DG. The chair of the Steering Committee is DG of public enterprises as it is responsible for the project management of the IPO and also Chairs the Oversight Committee
- the GCIS should have an attendee who is able to ensure effective communication of what is happening in the IPO to the relevant Government structures
- Government service providers in terms of the financial adviser, global coordinators and legal counsel that could be invited to serve on the Steering Committee meetings when necessary, in order to advise the Steering Committee on the various issues that require decisions. It is important that senior members of the service provider teams attend these meetings given the seniority of the Government committee members, and importance of the issues.

The state owned enterprise must occasionally be represented on the Steering Committee. In these instances:

- senior decision makers such as the chief executive officer and/or the chief operating officer should be the representatives
- the corresponding advisers of the state owned enterprise will also want to attend the Steering Committee meetings when Government, advisers are in attendance.

The Government may need to excuse the state owned enterprise from meetings where issues that are purely the prerogative of Government, are being discussed.

Keeping in mind the need to balance stakeholder representation and stakeholder consultation, the smaller the number of members on the Steering Committee the easier it will be to create a well-focused team, capable of speedy resolution of issues.

When time is of the essence for certain decisions, there must be individuals within the Steering Committee empowered by Cabinet, to make certain decisions quickly and unilaterally.

8. MANAGEMENT COMMITTEE

8.1 ROLE

The Steering Committee may delegate power to a Manco. The role of Manco would be to:

- provide operational leadership for the working groups
- take administrative decisions
- report IPO progress to the Steering Committee.

There are different considerations to be reviewed concerning the necessity of a Manco. As each IPO is undertaken, the size and complexity will determine whether or not a Manco should be instituted. Some of the advantages and disadvantages are set out below.

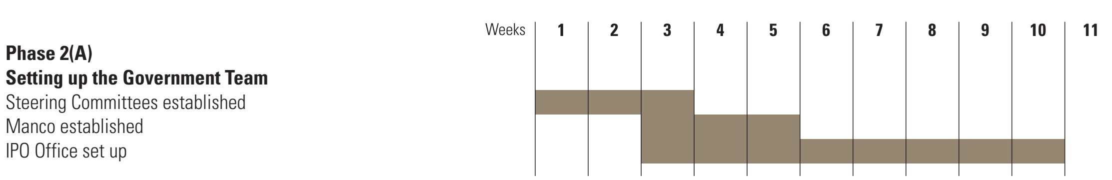


Table 4 – Advantages and disadvantages of Manco

Advantages	Disadvantages
Lessens load of Steering Committee members	Includes many of the members of the Steering Committee and therefore duplicates their work load
Focuses on operational issues versus strategic issues handled by the Steering Committee	On a complex IPO the operational issues are of such importance that Steering Committee sign-off is required in any event
Makes the process more transparent	Adds an extra layer of decision-making when fast turnaround is required
Reduces number of issues that need to be discussed at Steering Committee	There is duplication of discussions
Assists in reaching consensus decisions	Consensus takes time, which is sometimes impractical and impossible
With proper delegation of authority from the Steering Committee it is able to take many decisions	

8.2 RESPONSIBILITIES

If it is decided that a Manco is necessary, the members of Manco will:

- attend regular Manco meetings
- make decisions as delegated by the Steering Committee
- discuss and resolve interdepartmental issues and competing interests.

8.3 RESOURCES

Manco could include the following:

- the project leader of the IPO
- DDGs of relevant Government departments
- the relevant chief director of the Government departments
- the convenor of each of the global coordinator (GC) working groups.

Manco, in a similar fashion to the Steering Committee, must balance the need for broad representation with effective representation in terms of meeting size and time taken for decisions.

9. IPO PROJECT TEAM

9.1 ROLE

The IPO Project Team, which is responsible for the successful implementation of the IPO, is located in public enterprises as the department responsible for the project management of the IPO.

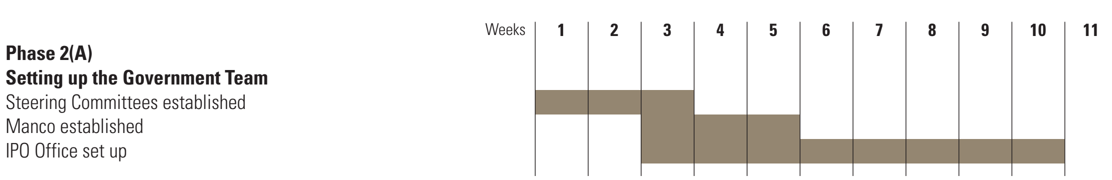
The project management of the IPO process entails that the IPO Project Team:

- ensures that all Government objectives are achieved
- coordinates all IPO activities
- monitors and controls the IPO timetable
- prepares, monitors and controls the IPO budget.

9.2 RESPONSIBILITIES

The IPO Project Team is responsible for:

- day-to-day involvement in IPO activities
- coordination of the activities of service providers and Government departments
- recommendations to the Steering Committee and Cabinet on IPO issues
- the implementation of Steering Committee and Cabinet recommendations
- the management and overseeing of service providers
- overseeing IPO working group structures
- deciding which advice from service providers should be adopted, and which should be discarded, in Government interest
- the continuous monitoring of project progress against agreed project target objectives and dates
- the updating of project time schedule to take variances into account
- the formulation of clear procedures for interaction with stakeholders
- the establishment and maintaining of the data room
- communication with stakeholders on IPO matters.



9.3 RESOURCES

The tasks that need to be carried out by the IPO Project Team are vast and need sufficient resources for efficient execution. In securing appropriate resources it should be ensured that the IPO office team:

- has the right skill base with people competent to take decisions in their respective areas on the various IPO structures
- is empowered to make decisions at appropriate levels
- has the necessary budget to carry out its tasks.

The IPO Project Team could constitute:

- existing government employees at public enterprises and secondees from other departments
- consultants seconded to the IPO Project Team to whom some activities are outsourced.

As capacity building, skills transfer and training are social objectives of the Government in the IPO process, it is recommended that Government harness and develop internal IPO project management skills.

Secondees should have the time and skill to attend meetings and add value to the process. The secondees should also be responsible for information flow to their departments.

Consideration should be given to permanent and part-time staff. Full time staff should be able to focus on the IPO, as dealing with non-related issues at the same time lowers production.

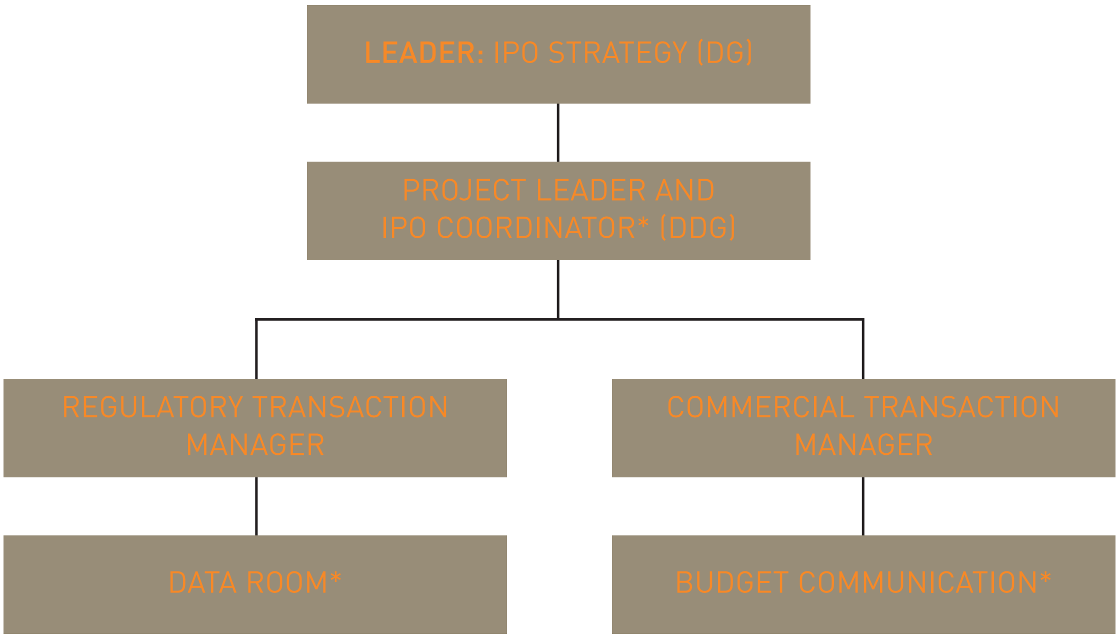
If the Government does not have available resources and/or resources with suitable experience, consideration should be given to bringing in external consultants. These consultants must:

- have relevant experience and skills
- have experience in implementing a restructuring programme by way of an IPO
- be familiar with the particular nuances of restructuring activities in the South African economic and political landscape.

9.4 STRUCTURE

A suggested structure for the IPO Project Team is depicted in the diagram below. The size and complexity of the share offer will determine the number of people needed and ability to combine different roles.

The diagram below illustrates a possible structure for the IPO Project Team.



*Depending on the size of the IPO these functions can be combined with another role or it may require a dedicated resource.

Leader: IPO Strategy is the responsibility of the public enterprises Director General , who provides strategic guidance to the Project leader and IPO Coordinator (DDG)

9.4.1 LEADER: IPO PROJECT TEAM

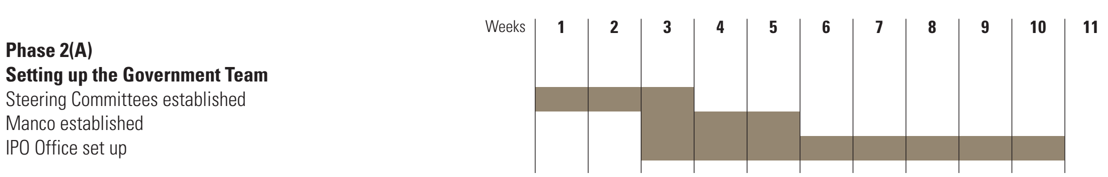
The leader of the IPO Project Team must take responsibility for the project management of the IPO Project Team. The leader of the IPO Project Team reports directly to the DG of public enterprises, although he/she is responsible to all departments involved in the IPO. He/she is a DDG at public enterprises.

The leader of the IPO Project Team must provide:

- strategic and administrative leadership to all IPO structures during the IPO process
- ensure decisions of the Steering Committee and Manco are correctly and timeously implemented
- lead the IPO Project Team as well as all IPO service providers.

9.4.2 IPO COORDINATOR

Depending on the size of the IPO, the leader and coordinator of the IPO Project Team may need assistance. It is suggested that an IPO coordinator, who is effectively a deputy leader of the IPO Project Team at chief director level, can also be appointed to:



- provide day-to-day administrative management of the IPO Project Team
- provide strategic direction and delegate authority to transaction officers
- monitor and update the IPO timetable and IPO logistics
- coordinate the service providers.

9.4.3 TRANSACTION MANAGERS

Depending on the size of an IPO a number of transaction managers will work in the IPO Project Team on a full-time basis. These transaction managers will be responsible for:

- the technical aspects of IPO implementation including regulatory, commercial, communication, financial and industry specific aspects of the IPO
- attending working group meetings
- reporting to Manco and the Steering Committee
- drafting Cabinet memoranda.

It is suggested that the transaction managers are given specific focus areas in order to:

- allow individuals sufficient time to deal with specific activities as opposed to dealing with every IPO issue
- give individuals ownership of issues regarding the relevant focus areas
- allow effective skills transfer and the development of specialisation.

In order to be an effective part of the working groups, the transaction managers must be empowered to make certain decisions in terms of authority, delegated to the IPO office, by the Steering Committee.

The sector in which the IPO is taking place will determine the required functionalities, experience and skill base of the transaction managers. The likely skill set required will include:

- project management
- IPO and restructuring expertise
- financial acumen
- industry sector specialisation.

9.4.4 IPO DATA ROOM

The IPO will generate enormous physical and electronic data. Therefore a system should be set up from the outset to record all this information, this may include a data room in order to facilitate:

- quick and easy access to information
- the monitoring of information
- the control of information flow.

The data room should be staffed by someone whose responsibility it is to:

- develop and maintain a database of IPO related documents (hard copy and electronic)
- develop a history of documentation in terms of when it was generated, received, and acted upon, by the various IPO structures
- secure and maintain copies of all key documents
- create an efficient filing system for documents, both electronic and hard copies
- cross-reference and index documentation for easy accessibility to information
- constantly monitor and update information
- provide a central place for filing
- work with the public enterprises records manager to ensure that documents are recorded in a manner consistent with how other documents are treated at public enterprises
- transfer the IPO documents to the National Archives (the central Government document registry), once the IPO is executed.

Once established, the data room will need to be strictly controlled, given the confidential nature of the documents it holds. The room might be subject to various security requirements and have restricted access.

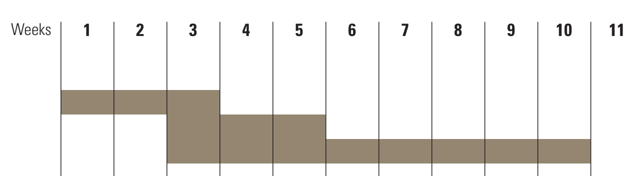
The state owned enterprise will also have a data room. It will probably be impractical to combine the data rooms because:

- the volume of documents will be immense
- there may be documents that the Government does not want the state owned enterprise to see, and vice versa
- the documents may be of such a confidential nature that moving them may be regarded as too risky
- the state owned enterprise is using the documents on a daily basis.

The data room manager must decide which state owned enterprise documents have to be housed at public enterprises, make copies, and take the necessary measures to ensure confidentiality of the documents is not compromised.

It is suggested that the data room manager report to the regulatory transaction manager, or the IPO coordinator.

Phase 2(A)
Setting up the Government Team
Steering Committees established
Manco established
IPO Office set up



9.4.5 COMMUNICATIONS MANAGEMENT

Given the amount of communication with the many stakeholders it might be necessary to appoint a communication manager to:

- develop the IPO communication strategy
- oversee the service providers implementing the communication strategy
- be in liaison with the various IPO spokespersons.

It is critical that the communications manager interacts with the public enterprises communications directorate on a daily basis throughout the process as:

- many of the IPO messages being communicated to the public will be intertwined with Government's general restructuring objectives that this unit is communicating, in any event
- the public enterprises communications division will be in regular contact with the same media and other stakeholders
- additional resources can be harnessed for the IPO in implementing IPO strategies, such as the public education campaign and official launch
- the public enterprises communications division must be up to date with the IPO process to be effective.

It is best to have a dedicated IPO communications resource, as there may be a lack of focus if an individual has a myriad of other transactions to work on. The communications manager could report to the commercial transaction manager, or IPO coordinator, as appropriate.

9.4.6 BUDGET

Budget control is critical throughout the IPO and is likely to require a dedicated resource. In any event there should be someone responsible for:

- development, updating and monitoring of the IPO budget
- approval of the budget
- creation of a detailed spread sheet
- development of control and monitoring system for expenditure
- monitoring and approval of any variances to budget
- signing of approved expenditure
- timely payment of service providers
- liaison with National Treasury when necessary.

It is suggested that the budget manager reports to the commercial transaction manager or the chief director coordinating the IPO, as appropriate.

10. APPROVALS

10.1 INITIAL APPROVALS

Each of the Government structures set up for the IPO, must have the authority to make certain decisions. Before the IPO execution stage, Government approval of key strategic areas is necessary. Key strategic approvals pertain to:

- any restructuring required prior to listing
- regulatory issues (see section 4.9)
- the overall timetable (see section 4.10)
- the overall budget (see section 4.11)
- the range and size of the IPO
- possible listing locations.

The initial timetable and the indicative budget will be refined as interaction with the state owned enterprise progresses, and as advisers are appointed, to assist in the IPO process. All these strategic areas will require ongoing approval during the IPO execution stage.

10.2 DELEGATED AUTHORITY

Throughout the IPO process, approvals will need to take place relating to the key strategic areas, such as the timetable, budget and regulatory issues referred to above. These decisions need to be delegated to the various IPO structures.

It has been suggested that Cabinet, at the inception of the IPO process, delegate authority by setting out which decisions can be taken by which structure, during the IPO, as part of the IPO Project Charter.

Delegating levels of authority will ensure that:

- decisions that can be delegated to particular structures are so delegated
- subdelegates be empowered to make certain decisions where necessary
- the IPO process is implemented within pre-agreed parameters and time frames.

Delegated levels of authority may be based on:

- policy import and impact of the delegation
- monetary amounts of expenditure
- whether or not the decision has an effect on another department or workstream
- whether or not specialised knowledge is vested within a particular structure
- whether or not another department should be entitled to comment on such a decision.

If the policy and regulatory issues have been dealt with before the IPO, as is recommended, there should be few decisions that need to be referred to Cabinet.

PHASE 2(B)

1

PRE-PLANNING SECTION 4

PRELIMINARY WORK BY GOVERNMENT AND STATE OWNED ENTERPRISE, INCLUDING:

Decision to undertake an IPO
- Government sale of shares to SEP and BEE prior to the IPO
- Government IPO objectives
- IPO risks

PHASE 1 – INITIAL PLANNING SECTION 4

Internal Government process
- Defining role of Government stakeholders
- Regulatory and industry restructuring completed
- Timetable and budget approval

2

PHASE 2(A) – EXECUTING THE TRANSACTION SECTIONS 5 TO 10

Setting up the Government team
- Establishing IPO structures such as a Steering Committee and IPO Project Team
- Roles, responsibilities and resources for IPO structures

PHASE 2(B) – EXECUTING THE TRANSACTION SECTIONS 11 TO 14

Interaction with the state owned enterprise
- State owned enterprise IPO objectives
- Role and responsibilities of the state owned enterprise
- Strategic equity partner

PHASE 2 (C) – EXECUTING THE TRANSACTION SECTIONS 15 TO 20

Appointing advisers and service providers
- Appointment of advisers, service providers and suppliers
- Invitations to tender and interviews
- Contract negotiations and appointment

3

PHASE 3 – DETAILED PLANNING SECTIONS 21 TO 33

Detailed planning
- Detailed timetable and budgets
- Setting up of working groups
- Defining roles and responsibilities

4

PHASE 4 -EXECUTING THE TRANSACTION SECTIONS 34 TO 37

Official launch, the share offer and listing
- Registration and pre-marketing
- The offer period
- Listing
- Post-listing activity

PHASE 2(B) – EXECUTING THE TRANSACTION INTERACTION WITH THE STATE OWNED ENTERPRISE

Page Contents

47 11. SOE liaison and objectives
47 11.1 Overview
47 11.2 SOE liaison
48 11.3 SOE objectives

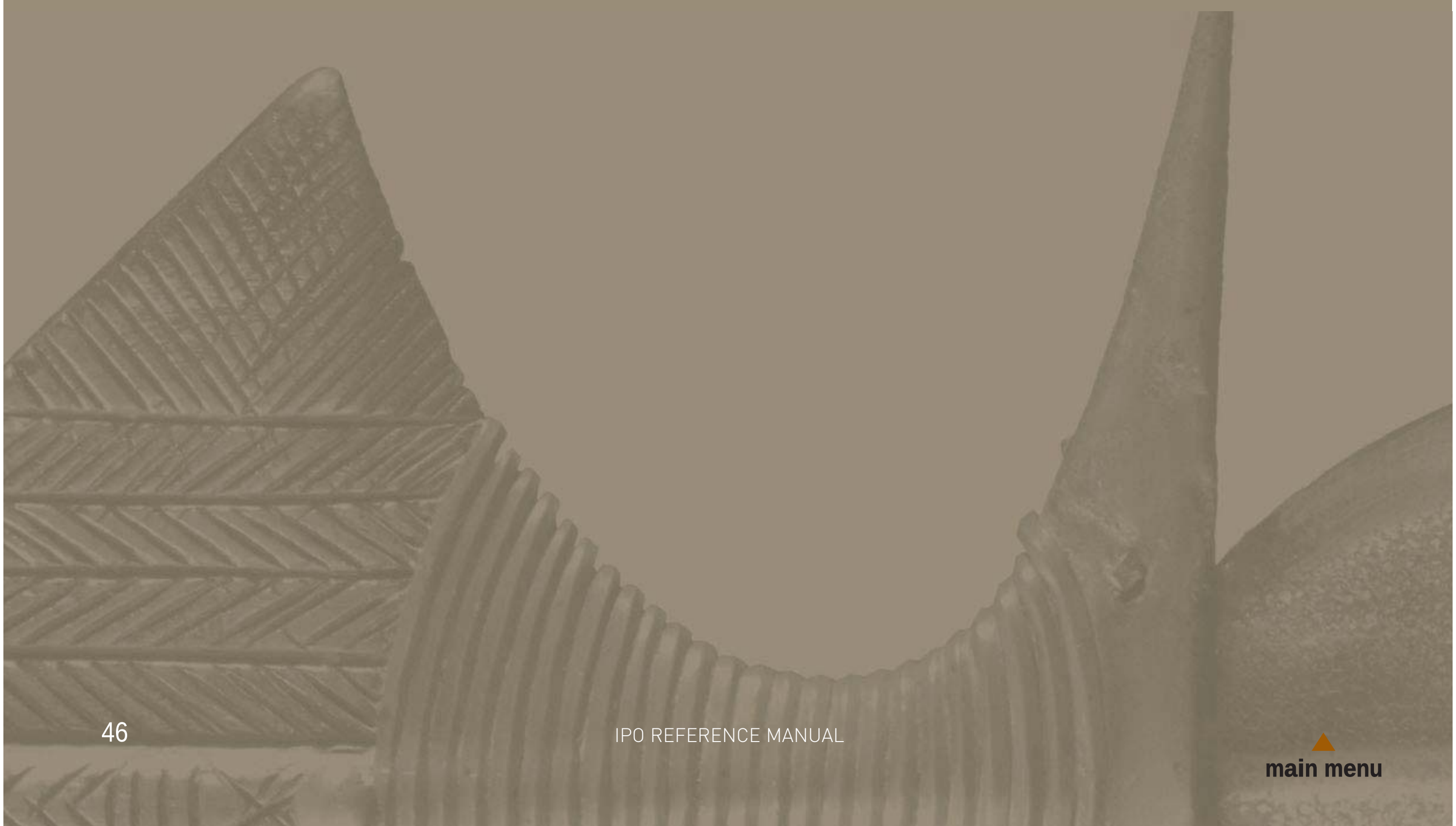
49 12. SOE involvement
49 12.1 Role and responsibilities
50 12.2 SOE support for the transaction
50 12.3 Resources
51 12.4 Key SOE information
52 12.5 Cost sharing
53 12.6 IPO communication
53 12.7 Employee share option programme
54 12.8 SOE recapitalisation

54 13. Integrated soe and government structure

Page Contents

54 13.1 Participation in ipo structures
54 13.2 SOE and government ipo structure
13.2.1 IPO coordinating council
13.2.2 Working groups

57 14. Strategic equity partner issues
57 14.1 Strategic equity partner role
57 14.2 Key strategic equity partner issues
14.2.1 Terms and conditions of key agreements
14.2.2 SEP placement of shares
14.2.3 SEP listing considerations
14.2.4 Industry restructuring and regulatory issues



main menu

PHASE 2(B) EXECUTING THE TRANSACTION INTERACTION WITH THE STATE OWNED ENTERPRISE

On the second level of executing the transaction, attention is paid to the interaction with the state owned enterprise. The focus is on liaising with the state owned enterprise in order to determine the state owned enterprise's objectives, role and responsibility in the IPO process in order to obtain the state owned enterprise's support. The state owned enterprise's support for the transaction is critical, to ensure support with regard to resources, important information, cost-sharing possibilities, communication and employee share option programmes, as well as the recapitalisation of the state owned enterprise.

It is important to decide on the state owned enterprise and IPO structure, as this will ensure the smooth implementation of the IPO.

The importance of a strategic equity partner from a state owned enterprise perspective also receives attention.

11. SOE LIAISON AND OBJECTIVES

11.1 OVERVIEW

The state owned enterprise that is to be listed will have a substantial role to play during the IPO. It is assumed that communication and consultation with the state owned enterprise took place before the IPO decision was made. However, at this stage communication and consultation should be escalated as the Government begins to execute the IPO.

This phase of the Manual discusses the interaction with the state owned enterprise in executing the IPO in relation to:

- state owned enterprise IPO objectives
- state owned enterprise roles
- state owned enterprise responsibilities
- SEP issues where applicable.

11.2 STATE OWNED ENTERPRISE LIAISON

As the Government is the owner of the state owned enterprise's shares, it decides whether or not to sell the shares, but without the support of the board of directors (the board), management and staff of the state owned enterprise, it will be difficult for Government to sell the shares. Government will therefore need to interact extensively with the state owned enterprise during the IPO process.

The main reasons for liaison with the state owned enterprise are:

- to ensure that the board, management and the SEP as shareholder, together with any other stakeholders, including the state owned enterprise's advisers and shareholders and the boards, management and advisers of significant subsidiaries, understand the IPO timetable, and what they need to do to keep to such a timetable

- to ensure that Government understands what the state owned enterprise needs to keep to the timetable
- to agree on the appointment of service providers, who will appoint which service providers, and whether any service providers will be jointly appointed by Government and the state owned enterprise
- to agree on the allocation and payment of costs associated with the IPO (see section 4.11.3)
- to agree on a joint working structure (see section 13)
- to develop the state owned enterprise's investment case.

The state owned enterprise's assistance will be needed with regard to the issues listed below, in order to develop the investment case. They are all discussed in this manual, in particular the regulatory, due diligence and valuation sections:

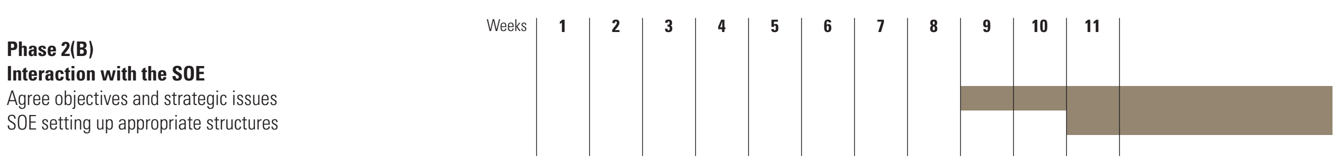
- the development of a business plan
- preparation of budgets
- preparation of financial information (historic and projected) that conforms with the local and international accounting standards required by each listing jurisdiction
- preparation of the prospectus and sign-off by the state owned enterprise and it auditors, for those areas for which they are responsible
- necessary restructuring including adopting of local or international accounting standards
- identification and resolution of regulatory issues
- identification of SEP issues
- management buy-in
- employee or management share option programme
- marketing the offering to investors.

11.3 STATE OWNED ENTERPRISE OBJECTIVES

Government should keep in mind that the state owned enterprise has objectives, influenced by its shareholders and in some instances an SEP and BEE groupings. Potential differences between state owned enterprise and Government objectives are discussed in greater detail below.

The state owned enterprise and its shareholders must respect each other's objectives if they are to work together in implementing a successful IPO. Government and other shareholders should avoid a situation where the state owned enterprise is caught between the conflicting objectives of the different shareholders.

The state owned enterprise will have the following objectives. The possible tension between the objectives of the state owned enterprise and the Government is discussed.



- optimisation of the valuation of the state owned enterprise shares – the Government wants to maximise the proceeds of the IPO, whereas the state owned enterprise has an interest in the price of the remaining shares
- development of relationships with stakeholders such as research analysts – the Government only needs to nurture the relationship up to the listing, and the state owned enterprise wants strong relationships going forward
- an ability to facilitate future fund raising if a need to recapitalise the state owned enterprise arises – There will be a tension between need to raise money for the fiscus and the need for capital injection into the state owned enterprise
- broad trading of state owned enterprise shares – Government wants as broad-based a shareholder base as possible, the state owned enterprise may feel the ongoing cost of a huge retail base is not commercially viable
- attraction of shareholders with a long-term commitment to the state owned enterprise – Government will want to sell as many shares as possible
- creation of an employee share option scheme, as well as management participation – Long-term employee satisfaction is not necessarily a key priority of Government if they are not retaining shares in the state owned enterprise
- creation and enhanced awareness of the state owned enterprise locally and internationally by raising the state owned enterprise profile – Government's focus will be on raising the profile of South Africa as a whole.

It is recommended that the state owned enterprise and Government discuss their understanding of each others' objectives, roles and responsibilities during the initial phase, and that the full scope of the state owned enterprise's involvement in the IPO is determined upfront.

12. STATE OWNED ENTERPRISE INVOLVEMENT

12.1 ROLE AND RESPONSIBILITIES

The normal role and areas of responsibilities for the state owned enterprise's team and advisers is as follows:

- ensuring that the state owned enterprise is successfully listed and that there is healthy after-market for the shares
- implementing any required restructuring of the state owned enterprise to ensure a successful listing
- providing the necessary strategic and financial information to formulate an investment case, including the preparation of the operating budget and the business plans, to assist in the valuation process

- adaptation to local or international accounting standards for public listed entities if necessary
- identification of and involvement in, the tariff setting rules, and their impact on the state owned enterprise's revenue generating activities
- clearly understanding the impact of competitor strategy in the industry, which could include the introduction of competition into what has been a monopolistic market
- coordination of key IPO messages, with Government in IPO communication with the media and the public
- identification of relevant PFMA obligations and recommendations to the state owned enterprise, or other regulatory issues that may require exemption
- preparation of the prospectus in conjunction with Government and their advisers
- ensuring that appropriate resources to undertake the various IPO activities are identified, including personnel with experience in conducting IPOs, where possible
- the immediate appointment of a dedicated investment office is recommended
- to reach agreement on a timetable and cost-sharing
- work with Government in developing an appropriate employee share option programme (ESOP) or management share option programme (MSOP), if any.

12.2 STATE OWNED ENTERPRISE SUPPORT FOR THE TRANSACTION

It is important for Government and the state owned enterprise to reach agreement on the following aspects as soon as possible:

- who has primary responsibility for the IPO
- joint or separate advisers for the various advisory roles.

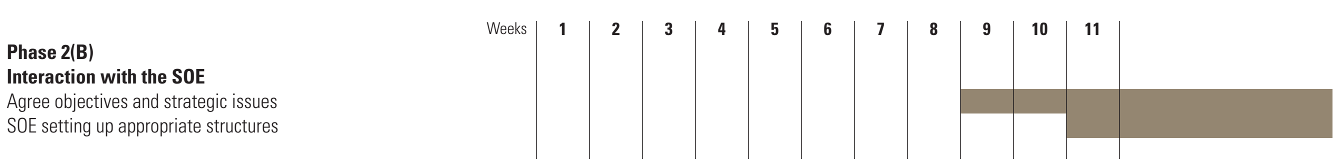
The involvement of the state owned enterprise at early stages whilst still contemplating an IPO is recommended in order to:

- secure that the state owned enterprise buy into the IPO process
- get early cooperation of state owned enterprise management
- prepare the state owned enterprise for the IPO, which could involve undertaking some restructuring before the state owned enterprise can become a public listed entity.

Government could consider signing a memorandum of understanding with the state owned enterprise, that sets out the role and responsibilities of the state owned enterprise, and the objectives of the IPO, so that the state owned enterprise is committed upfront to providing the necessary cooperation in the determination of the state owned enterprise investment case.

12.3 RESOURCES

In order to be successfully listed, the state owned enterprise should have resources dedicated to the IPO, as well as a number of external advisers. Given the intensive process and the volume of



main menu

information the state owned enterprise has to generate for the IPO, it is recommended they consider the appointment of additional resources as soon as possible, to ensure that management does not forsake current operational issues as a result of the IPO. Dedicated resources in the following areas will be necessary:

- investment case and business planning
- accounting and finance
- investor relations
- legal
- prospectus drafting
- communication.

The members of the state owned enterprise team that is most likely to interact with the Government team and their advisers and service providers are the:

- board of directors
- chief executive officer
- chief operating officer
- chief financial officer
- chief of strategy
- financial controller of the state owned enterprise and its main subsidiaries
- legal representative
- investor relations officer
- communications director
- state owned enterprise IPO office representative (if not one of the above).

Section 13 discusses the interaction of state owned enterprise resources with Government structures. The key state owned enterprise advisers and service providers are the:

- state owned enterprise financial advisers
- state owned enterprise auditors (local, international)
- state owned enterprise lawyers (local and international).

12.4 KEY STATE OWNED ENTERPRISE INFORMATION

The state owned enterprise and their advisers will be required to create a data room of information relevant to the IPO. This will include at least the following information:

- Financial – including audited financial statements for the past five years, management accounts for the current year, forecasts and business plans and adjusted management accounts to comply with reporting requirements of listing venues
- Legal – major or significant contracts including shareholders' agreements, memorandum and articles of association, licences, arrangements with trade unions and employees, long-term contracts that have a material impact on the state owned enterprise

- Other – any other relevant information including employee, customer, competitor and supplier information and industry analysis.

The state owned enterprise auditors and lawyers will be key in providing some of the information, in particular the information and sign-offs required by the JSE and other stock exchanges, where the decision has been taken to list in another venue. It is important to ensure at an early stage in the process (and where possible, in anticipation of a listing), that the state owned enterprise's auditors and lawyers have the necessary local and international experience to provide the deliverables required of them. The lawyers and auditors will need to work closely together, as the lawyers will require sign-off by the auditors for various of the filing requirements of the listing venue regulators, and will need to ensure that the information is available when required.

The state owned enterprise will need to ensure that its auditors have, in particular:

- the international experience and capability to interpret the local and international accounting standards in each listing jurisdiction
- the local and international credibility to sign off on the Prospectus.

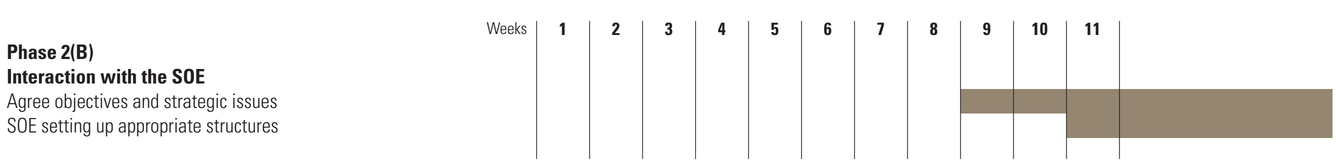
Where the state owned enterprise has more than one firm of auditors (as is sometimes the case with SOEs in South Africa), it is important to ensure that:

- each auditing firm understands its role and deliverables
- adequate time is provided to allow each auditing firm to obtain the local and international sign-off required to comply with their internal approval processes
- responsibility is given to the appropriate firm to lead the process (for example, the international listing requirements will need to be led by an international auditing firm with the necessary capacity)
- adequate time is provided to allow the auditors to communicate the findings of the areas audited by them to the other auditors, in order to ensure that the joint auditors can jointly sign off on the prospectus and financial information
- the international lawyers and regulators have been advised of the fact that there are joint auditors, and the role of each auditor. This should be done at an early stage, as many jurisdictions do not understand the concept of joint auditors and joint sign-off (for the prospectus and other filings required).

Where the state owned enterprise has a significant subsidiary that will be separately dealt with in the prospectus, it is important to involve the shareholders, board management and their advisers at the same stage as the state owned enterprise, in order to ensure that deadlines are met and deliverables are delivered on time. The state owned enterprise's auditors will need to liaise with the auditors of the significant subsidiary with regard to the timetable, and adequate time must be allocated to allow each auditing firm to comply with their internal sign-off procedures.

12.5 COST-SHARING

The question of cost-sharing should be determined prior to the IPO, so that costs can be budgeted for. The state owned enterprise and Government should enter into an agreement setting out



which IPO activities the state owned enterprise should pay for, so that there is clarity and commitment throughout the process.

The state owned enterprise is likely to see the IPO as mainly the Government's responsibility as the seller, but is likely to agree to pay for:

- state owned enterprise IPO advisers
- items in which the state owned enterprise can derive a direct benefit after the IPO
- tasks that the state owned enterprise requests (for example overseas listings).

Possible cost sharing arrangements between Government and the state owned enterprise are discussed in greater detail in section 23.

12.6 IPO COMMUNICATION

Given the number of stakeholders involved in the IPO, effective communication throughout the process is critical. Government and the state owned enterprise need to decide on key messages to be communicated at the various stages of the process. It should be decided upfront:

- what information is relayed to the public by Government, and by state owned enterprise spokesperson
- who will be the IPO spokespersons in Government and the state owned enterprise
- the communication strategy
- coordination of key messages and stakeholder communication, in particular media liaison.

12.7 EMPLOYEE SHARE OPTION PROGRAMME

An ESOP/MSOP may be a necessary part of the IPO. The purpose of the ESOP/MSOP could be to:

- motivate employees
- reward employees
- improve employees' productivity
- retain key, experienced, and skilled staff
- encourage greater employee participation in the workplace
- illustrate to investors that employees have confidence in the state owned enterprise.

The state owned enterprise should be engaged in the determination of an appropriate ESOP/MSOP because the state owned enterprise should be involved in:

- communication with state owned enterprise employees and organised labour throughout the process
- determination of issues, such as the scheme rules, trustees, documentation, and administration.

These steps will avoid dissatisfaction arising from misunderstanding the objectives and likely outcomes of the ESOP/MSOP. Issues such as the following need to be clarified:

- whether or not the shares are to be acquired free of charge
- when the shares vest
- the class of employees that qualify.

12.8 STATE OWNED ENTERPRISE RECAPITALISATION

The state owned enterprise may need to recapitalise prior to the listing, in order to improve its balance sheet. This includes the improvement of gearing, and the removal of risk elements.

The state owned enterprise can opt to recapitalise by:

- selling non-core assets
- utilising the proceeds raised as part of the IPO
- raising funds.

If the state owned enterprise is to recapitalise, this should be decided early on in the process, as it will have consequences on the offer structure. For example, if the state owned enterprise proposes to raise substantial capital the Government may decide not to sell its entire holding in the state owned enterprise, as it could result in the offer size being too large.

13. INTEGRATED SOE AND GOVERNMENT STRUCTURE

13.1 PARTICIPATION IN IPO STRUCTURES

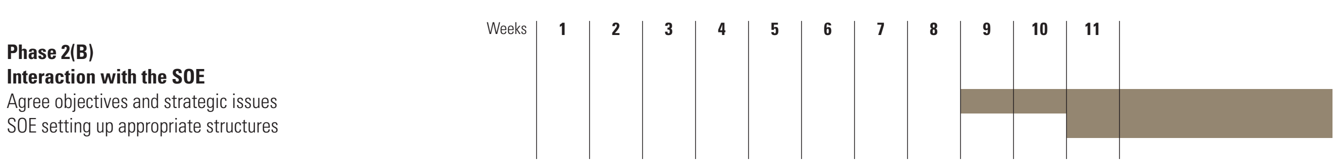
It is important to agree at a high level, how the state owned enterprise will interact with Government. This could be achieved in several ways:

- they could agree on similar working structures where they can effectively match roles in a parallel structure. This should create a strong interface and forums in which decisions can be taken quickly
- the state owned enterprise will ordinarily communicate to Government via the department to whom the state owned enterprise reports. During the IPO process other Government departments (such as public enterprises and National Treasury) may also need to liaise with the state owned enterprise. Government will need to set out clear lines of communication in these instances.

13.2 STATE OWNED ENTERPRISE AND GOVERNMENT IPO STRUCTURE

The joint state owned enterprise/Government IPO structure will be set up keeping in mind that:

- the Government Team needs state owned enterprise representation on many of the Government structures as state owned enterprise input is necessary before certain decisions can be made



- the state owned enterprise also needs a specific internal IPO structure during the IPO
- the Government and state owned enterprise joint structure is likely to mirror the Government structure to facilitate easy input into decision-making processes.

A potential joint structure is discussed in Diagram 4 in section 13.2.2. From a state owned enterprise perspective these structures include:

- an IPO coordinating council
- state owned enterprise working groups.

13.2.1 IPO COORDINATING COUNCIL

The IPO coordinating council will be staffed by senior members of the state owned enterprise. These members are likely to be part of the state owned enterprise's executive committee and responsible for the day-to-day running of the state owned enterprise.

As senior state owned enterprise members, the IPO coordinating council is likely to have delegated authority from the board of directors of the state owned enterprise to make many of the key IPO decisions. Likely members of the IPO coordinating council are the:

- chief executive officer
- chief operating officer
- group executives of various state owned enterprise departments, for example strategy, legal, accounting and finance.

Members of the IPO coordinating council are likely to resource the joint Manco and Steering Committee. Government attendees at Manco and Steering Committee level are discussed in Sections 7 and 8.

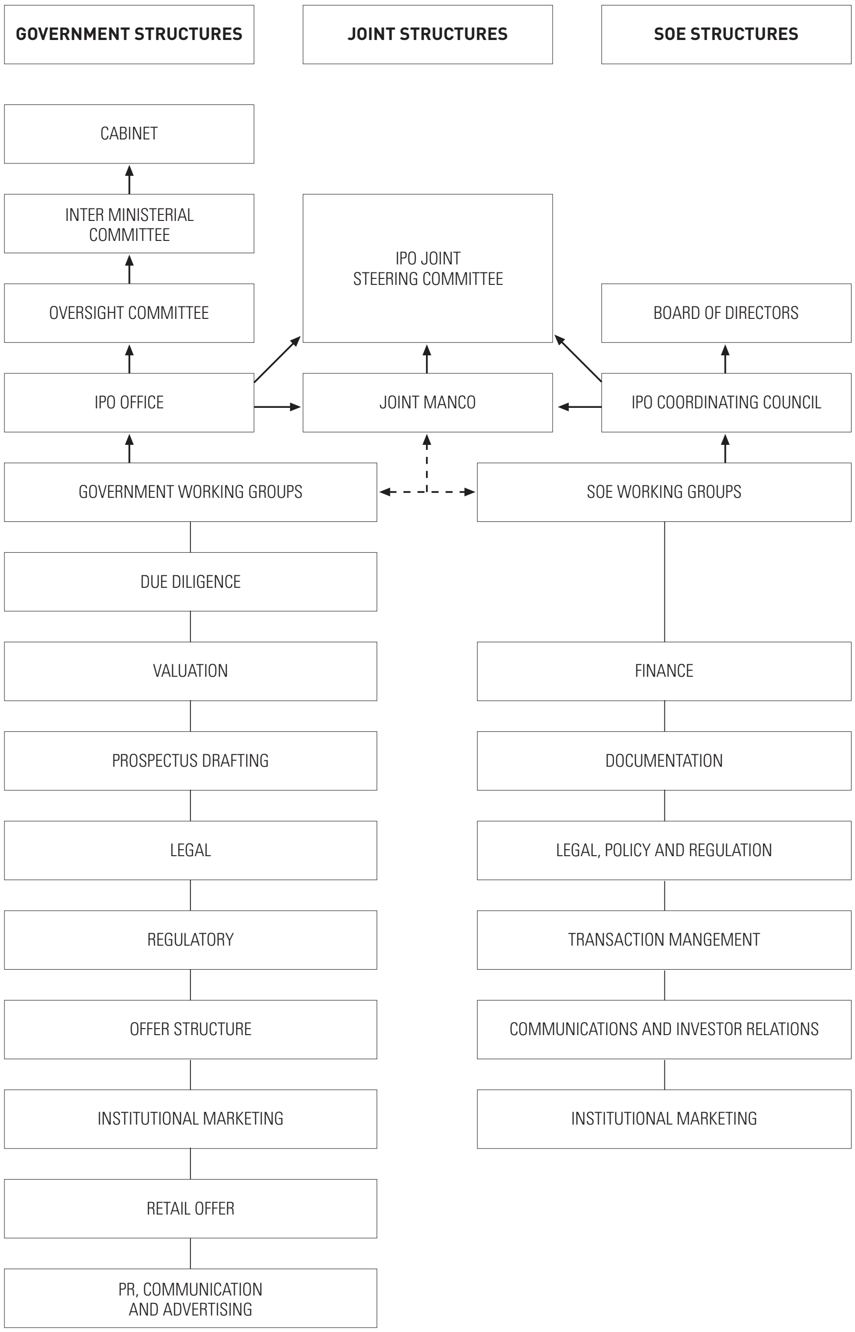
13.2.2 WORKING GROUPS

The state owned enterprise working groups that will interact with the Government team may be less than those set-up by Government, as many people on the team will have overlapping functions and roles. For example, the state owned enterprise legal team will work on legal and regulatory matters, therefore these working groups are likely to be combined.

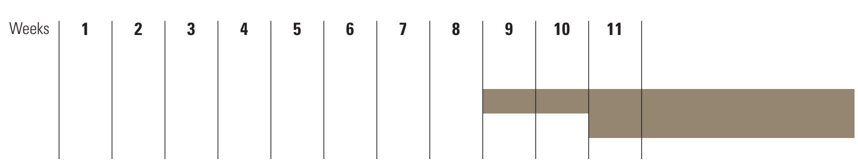
Working groups that are very similar to those suggested during the Telkom IPO are:

- accounting and finance
- documentation
- legal, policy and regulation
- transaction management
- communications and investor relations
- valuation.

Diagram 4 – Joint Government and State Owned Enterprise Structure



Phase 2(B)
Interaction with the SOE
Agree objectives and strategic issues
SOE setting up appropriate structures



14. STRATEGIC EQUITY PARTNER ISSUES

14.1 STRATEGIC EQUITY PARTNER ROLE

The SEP is a enterprise shareholder like the Government, and will therefore have a substantial interest in the IPO. The conduct of the SEP will be influenced by a desire to protect existing SEP rights. At times this may be in conflict with other parties, for example the JSE will seek to ensure that all shareholders of a similar class have the same rights, whereas the SEP could want greater rights.

The Government will need to play a role in negotiating an outcome that is acceptable to all parties. The JSE should be involved in SEP negotiations over the SEP rights in the following manner:

- when an SEP is introduced into any state owned enterprise in South Africa after October 2004, it is recommended that SEP rights that could affect the potential IPO are discussed with the JSE
- SEP agreements now entered into must have a clause stipulating that the agreement is subject to compliance with the prevailing South African regulatory environment, in the instance of a state owned enterprise IPO. The provisions that conflict with regulatory principles will be changed in order for the IPO to continue
- existing SEP agreements should be reviewed by the JSE whilst an IPO is being considered. It will be vital to identify issues and develop a plan and timetable to address the issues at the right time, being the pre-planning and initial planning stages, before bringing in the appropriate advisers, as these can significantly affect the process, timetable, valuation and ability to list.

During the process, Government and the SEP will need to decide which issues are specifically shareholder issues and which issues are state owned enterprise issues, and treat them as such. In discussions, Government will be seeking to ensure:

- support for the IPO process from the SEP and SEP appointed management in the state owned enterprise
- assurance that the SEP will not use the IPO as a bargaining tool to seek certain concessions from Government
- a properly defined relationship with respect for Government as co-shareholder of the state owned enterprise.

14.2 KEY STRATEGIC EQUITY PARTNER ISSUES

SEP issues that may arise at this stage and that could impact on the success of the IPO could include the following:

14.2.1 TERMS AND CONDITIONS OF KEY AGREEMENTS

The key agreements with relation to SEP participation in the IPO are:

- shareholders' agreements
- service level agreements

- management contracts
- the state owned enterprise articles of association in as far as shareholder rights are embedded.

The clauses contained in the above documents could impact on the state owned enterprise's ability to list on a stock exchange in terms of compliance with the JSE or another stock exchange. Every listing and state owned enterprise will have its own issues to negotiate with the JSE, but examples of rights that could be an issue include:

- veto rights
- appointment of directors
- appointment of senior management
- any other arrangements that conflict with normal conditions for a publicly listed entity.

Given the complications of dealing with a SEP it is preferable that the Government should not introduce a SEP to any entity that is earmarked for listing. If it is necessary to bring in a SEP prior to listing, the JSE should be involved.

14.2.2 SEP PLACEMENT OF SHARES

There may be instances in which the SEP wants to sell shares during an IPO, as a result of share placement rights within the shareholders' agreement.

The advisers to Government, the SEP and the state owned enterprise will have to work in concert, as they will need to be in agreement on the IPO execution, with particular reference to:

- overall timetable
- timing – the listing date in particular
- valuation of the state owned enterprise
- the listing price.

14.2.3 SEP LISTING CONSIDERATIONS

The shareholders agreement between the SEP and Government may give the SEP certain rights as to where the state owned enterprise should be listed, which Government will have to take cognisance of in choosing a listing venue or venue/s.

In the event that the agreement indicates a listing venue is not appropriate for Government, negotiations for SEP waiver of this right should be entered into as soon as possible, to avoid delaying the IPO.

Considerations in choice of listing venues are discussed in greater detail in Table 11 – Advantages and disadvantages of an overseas listing.

14.2.4 INDUSTRY RESTRUCTURING AND REGULATORY ISSUES

The regulatory environment has a bearing on the conduct of the IPO for the following reasons:

- the SEP could seek to ensure that the environment is favourable for optimal state owned enterprise profitability as a shareholder, which may not be the optimal competitive regulatory regime for South Africa
- the SEP could make support of the IPO contingent on being satisfied with the policy and regulatory environment.

PHASE 2(C)

1

PRE-PLANNING — SECTION 4

PRELIMINARY WORK BY GOVERNMENT AND STATE OWNED ENTERPRISE, INCLUDING:

Decision to undertake an IPO

- Government sale of shares to SEP and BEE prior to the IPO
- Government IPO objectives
- IPO risks

PHASE 1 – INITIAL PLANNING — SECTION 4

Internal Government process

- Defining role of Government stakeholders
- Regulatory and industry restructuring completed
- Timetable and budget approval

2

PHASE 2(A) – EXECUTING THE TRANSACTION — SECTIONS 5 TO 10

Setting up the Government team

- Establishing IPO structures such as a Steering Committee and IPO Project Team
- Roles, responsibilities and resources for IPO structures

PHASE 2(B) – EXECUTING THE TRANSACTION — SECTIONS 11 TO 14

Interaction with the state owned enterprise

- state owned enterprise IPO objectives
- Role and responsibilities of the state owned enterprise
- Strategic equity partner

PHASE 2 (C) – EXECUTING THE TRANSACTION — SECTIONS 15 TO 20

Appointing advisers and service providers

- Appointment of advisers, service providers and suppliers
- Invitations to tender and interviews
- Contract negotiations and appointment

3

PHASE 3 – DETAILED PLANNING — SECTIONS 21 TO 33

Detailed planning

- Detailed timetable and budgets
- Setting up of working groups
- Defining roles and responsibilities

4

PHASE 4 -EXECUTING THE TRANSACTION — SECTIONS 34 TO 37

Official launch, the share offer and listing

- Registration and pre-marketing
- The offer period
- Listing
- Post-listing activity

PHASE 2(C) – EXECUTING THE TRANSACTION
APPOINTING ADVISERS AND SERVICE PROVIDERS

Page Contents

Page	Contents
61	15. Appointment of key government advisers – RFPs
61	15.1 Overview
62	15.2 RFP process
	15.2.1 RFP letter
	15.2.2 Written proposal
	15.2.3 Global coordinator
	15.2.4 Presentation
	15.2.5 Basis of remuneration – investment banks
	15.2.6 Basis of remuneration – lawyers
	15.2.7 Appointment
64	15.3 Communication protocols
64	16. Appointment of consortia as key government advisers
64	16.1 Consortia
	16.1.1 Advantages and disadvantages of a consortium
	16.1.2 Appointment of two sets of consortia
66	16.2 Financial adviser/global coordinator
	16.2.1 Other combinations
68	16.3 Lawyers
	16.3.1 Legal advisers to government and the SOE
	16.3.2 Legal adviser to underwriter and global coordinator
69	16.4 Independent adviser/assessor
69	17. Evaluation of written proposals
69	17.1 Evaluation of written proposals
70	17.2 Evaluation criteria
70	18. Interview and selection process
70	18.1 Interview and selection process
71	18.2 Evaluation criteria
72	19. Preferred supplier and contract negotiations
72	19.1 Further selection processes
72	19.2 Draft contract and service agreements
72	19.3 Supplier appointment
73	19.4 Appointment of further advisers
73	20. Empowerment
73	20.1 Empowerment objectives
73	20.2 Empowerment request for proposals
74	20.3 Monitoring empowerment involvement
74	20.4 BEE skills base

PHASE 2(C) EXECUTING THE TRANSACTION APPOINTING ADVISERS AND SERVICE PROVIDERS

This stage in the execution of the transaction focuses on the appointment of key government advisers (usually financial and legal advisers). The advantages and disadvantages of appointing a consortium are set out. The roles of the advisers are explained.

The three phases in selecting the advisers are also discussed, namely, the evaluation of proposals, invitation to present and the eventual appointment of advisers. The importance of empowerment in the whole process is also discussed.

15. APPOINTMENT OF KEY GOVERNMENT ADVISERS – RFPs

15.1 OVERVIEW

During this phase the key advisers should be appointed. The key advisers are the financial advisers (investment banks) and lawyers.

Depending on the Government's resources at this time, assistance may be required from an external adviser to assist with the appointment process and to ensure impartiality.

In appointing service providers the following activities will need to be undertaken:

- RFPs will be sent out
- briefing sessions held
- an interview selection panel set-up
- contracts negotiated with successful advisers and service providers
- appointment of advisers and service providers.

The advisers should not be appointed without the completion by Government of the initial planning of key issues which include: timetable, regulatory issues, state owned enterprise structure and the market conditions discussed in the initial planning stage. Without clarity on these issues, advisers and service providers should not be appointed, as unnecessary costs will be incurred.

The Government will usually require advice on:

- preparatory issues for the IPO such as the restructuring of the state owned enterprise, corporate governance and SEP issues
- the structure and organisation of the offer
- valuation and pricing
- organising the distribution of the shares domestically and globally to institutional investors
- organising the distribution of the shares domestically to retail investors
- legal issues
- accountancy
- PR and media relations
- industry specific issues.

It is advisable to appoint at least the financial adviser and the lawyer in the early stages of the IPO. Government leads the process for IPOs.

15.2 RFP PROCESS

15.2.1 RFP LETTER

The Government and state owned enterprise will each send out the RFP letter with detailed terms of reference and questions to be answered. The letter will indicate the elements of the IPO, offering objectives, process, conditions of the offer, and a request to treat the RFP as confidential.

15.2.2 WRITTEN PROPOSAL

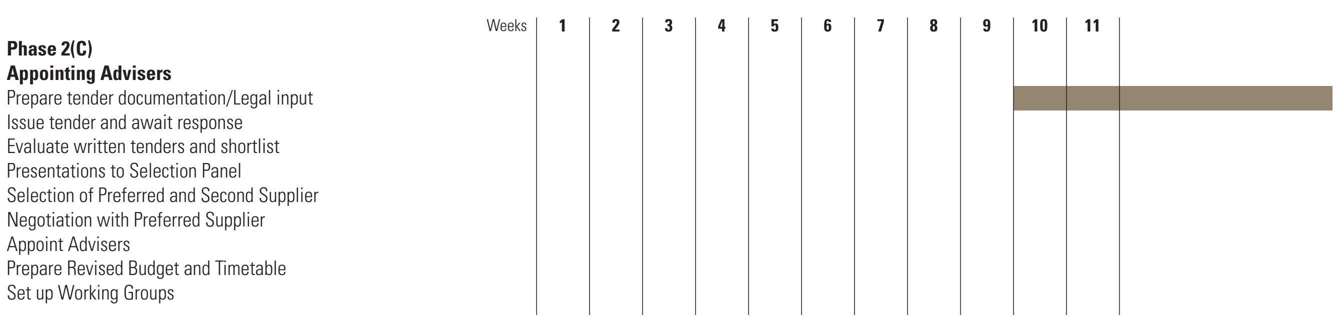
Information to be provided by investment banks in the proposal include the following:

- market conditions
- sector analysis
- positioning the state owned enterprise and country
- estimated valuation of the state owned enterprise
- financial performance and how it compares to peers
- demand and supply analysis
- fees and fee structure
- indicative budget for the whole IPO process and criteria used to determine budget
- timetable
- proposed team and institutional credentials
- BEE
- skills transfer
- conflict of interest.

15.2.3 GLOBAL COORDINATOR (GC)

In addition to the items listed above, applicants for the role of GC should also provide the following information:

- their recommendations on syndicate structure, offer size, listing locations and pricing and allocation strategies
- their estimated valuation of the state owned enterprise



- their proposed fee structure if appointed as GC only. If this includes a success fee element they must specify the criteria for payment of the success fee
- their experience of major IPOs
- details of the core members of their team and their experience
- their approach to after-market trading.

For the legal firm or lawyer, the following information should be provided in the proposal:

- relevant experience
- understanding of current legal, regulatory and state owned enterprise specific issues and how they will affect the IPO
- opinion on legal issues
- BEE
- skills transfer
- fee structure including charge out fees.

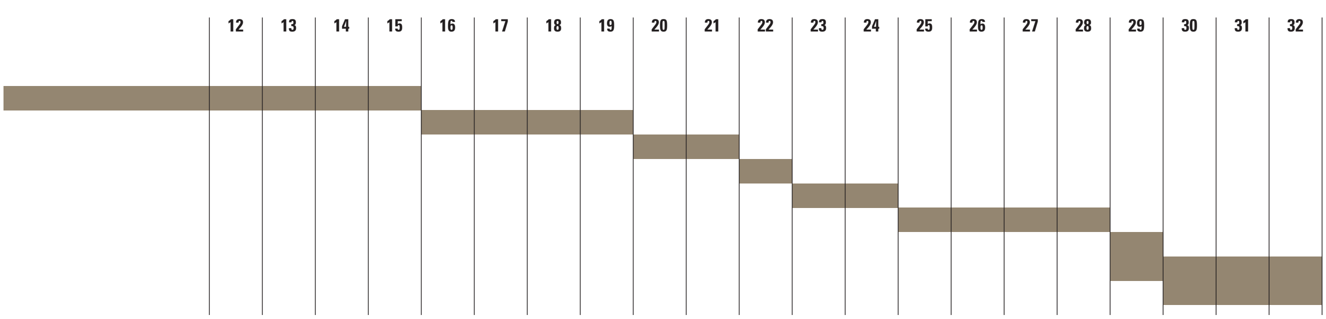
15.2.4 PRESENTATION

After evaluating the written proposals, the Government and state owned enterprise will invite the selected banks and lawyers to make oral presentation and answer questions where necessary. The presentation is limited to one hour. Presentation is limited to 30 minutes and the remaining time is reserved for questions.

15.2.5 BASIS OF REMUNERATION- INVESTMENT BANKS

The basis of remuneration for the investment banks can be based on a monthly fee, or a success fee on completion of the project, or a combination of both. The rationale for each type of fee is as follows:

- monthly fees – monthly fees aid the bank's cash flow, especially if the project is over many months, and if the project is extended or cancelled the costs to the Government are known. It does assume that the workload is even, which is not the case, as the amount of work generally increases as the project progresses
- success fees – properly set-up success fees incentivise the bank to do the best for the Government. The criteria under which they are paid must be quantifiably measurable, with no room for ambiguity, and agreed, before any work is undertaken. The fee should be based on agreed parameters, and should not just be for completing the project. Success fees should avoid a conflict of interest, for example, they should not be based on the



value of the sale proceeds as that depends on how many shares are sold, and that is a subject on which you would expect them to give impartial advice

- combination – whether a monthly fee, a success fee, or a combination of both, a fixed fee cap should be agreed. If the project is delayed outside the control of the adviser then this cap may be reconsidered.

15.2.6 BASIS OF REMUNERATION- LAWYERS

The normal basis for charging of fees by lawyers is on an hourly basis or as otherwise agreed with the client. It is common for the client to negotiate a cap on the fees, which is recommended, and to agree a specific basis for invoicing, be it against deliverables or on a monthly basis.

Whether the actual invoicing is done monthly or against deliverables, it is important to ensure that the terms of the appointment and the expected deliverables are clearly laid out in the contract.

15.2.7 APPOINTMENT

After presentation of shortlisted companies, the adjudicating team will score and recommend the best performer. A submission for approval will be sent to the Interministerial Committee (IMC) through the Steering Committee.

15.3 COMMUNICATION PROTOCOLS

- Throughout the whole selection process roles and communication protocols must be agreed. Communication protocol includes communication with the media, the firms tendering, as well as interdepartmental communication.

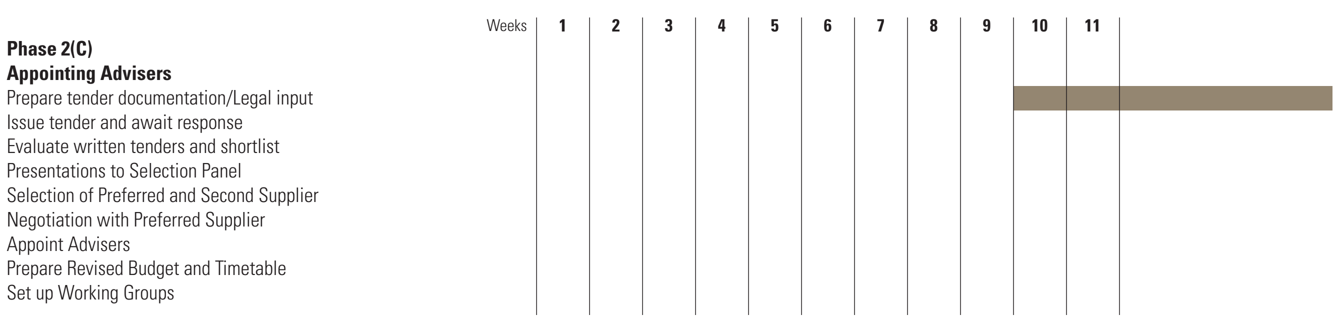
These protocols are vital to ensure that at all times no one firm is at an advantage or disadvantage.

16. APPOINTMENT OF CONSORTIA AS KEY GOVERNMENT ADVISERS

16.1 CONSORTIA

The Government may appoint advisers, be they advisers or other service providers as a consortium. A consortium can provide:

- a wider field of expertise to the transaction
- international expertise from a global bank



- local knowledge
- BEE credentials.

16.1.1 ADVANTAGES AND DISADVANTAGES OF A CONSORTIUM

The potential disadvantages of a consortium, as opposed to a single firm, are that:

- costs will be greater as there will be a certain amount of duplication of roles and responsibilities
- there may also be double the number of representatives at the various committees and working groups. This could make the meetings unwieldy and impractical.

In some cases:

- the advisers will form themselves into a consortium and pitch for the work as one entity; or
- the Government may decide to appoint two or more entities and ask them to work together as a consortium, to handle the share offer.

The advantages of both approaches are set out in the table below.

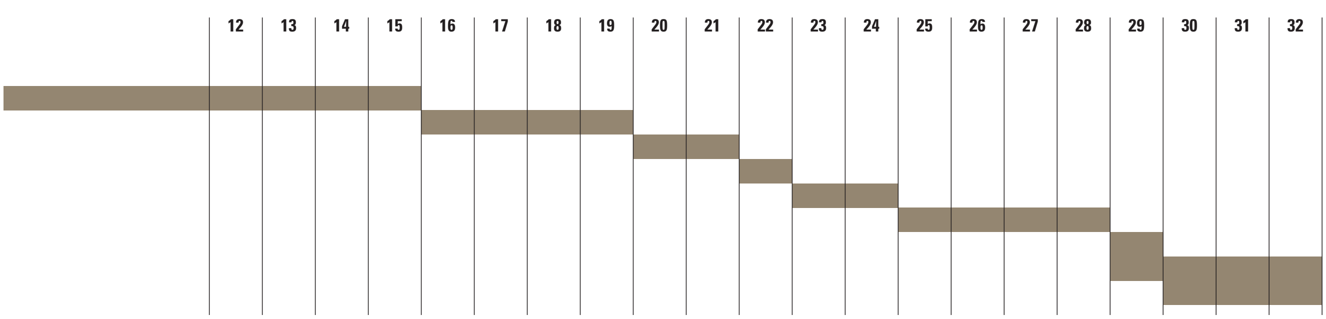
Table 5 – Consortium bid table

Consortia bidding together	Government imposed consortium
They will act as one voice	Government will be able to combine the best international bank with the best domestic bank
The parties will have agreed their roles and responsibilities in advance adviser(s)	The Government will continually be able to test the advice they get from one party with the other
Avoids a situation where the two entities cannot work together	Allows the Government to ensure there is effective skills transfer

Before finalising such a joint appointment, the roles and responsibilities of each bank must be agreed in writing, and both firms must commit to working together.

Any preliminary views of the Government on the above options should be made clear in the RFP, or briefing sessions, so that:

- the banks pitch on a level playing field
- proposals and fees can be appropriately submitted
- government is free to choose their preferred option.



16.1.2 APPOINTMENT OF TWO SETS OF CONSORTIA

It should be noted that the appointment of two consortia as joint advisers may not always be optimal. Although in some instances there will be a good relationship between the two appointees, in other instances there will be:

- conflicting interests
- one party may attempt to dominate the other
- tension between the two teams as each seeks to establish themselves as the most influential with Government
- different work ethics as well as styles
- duplicated resources.

16.2 FINANCIAL ADVISER/GLOBAL COORDINATOR

An investment bank has two primary roles in the implementation of an IPO, these are:

- advising on the sale of the state owned enterprise, normally referred to as the "financial adviser"
- distributing the shares, including marketing and selling the shares, usually referred to as the global coordinator (GC)

Consideration needs to be given as to whether:

- the same firm is appointed at the outset to advise on the sale (i.e. financial adviser) and then organise and lead the distribution of the shares (i.e. GC); or
- different firms are appointed, in which case the appointment of GC can occur at a later stage in the IPO process.

Different Governments around the world have tried different approaches and there is no one correct answer. When considering the appointment of a joint or separate adviser and global coordinator, the advantages of each option should be kept in mind.

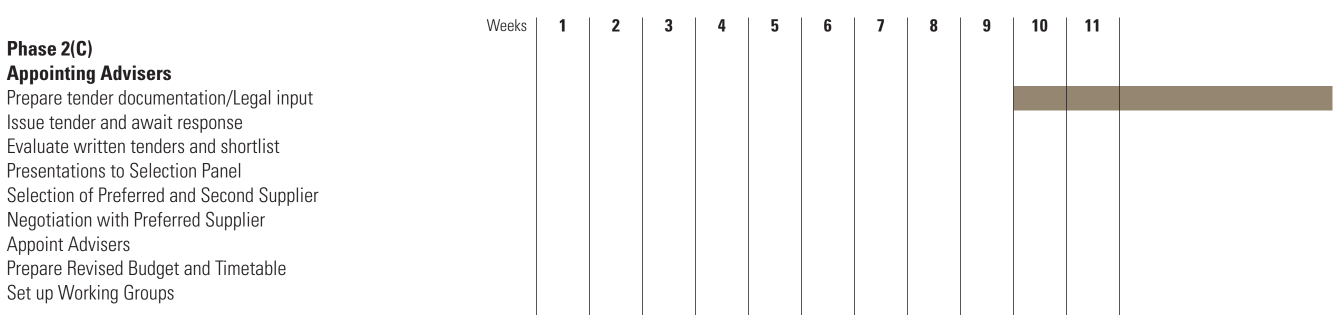
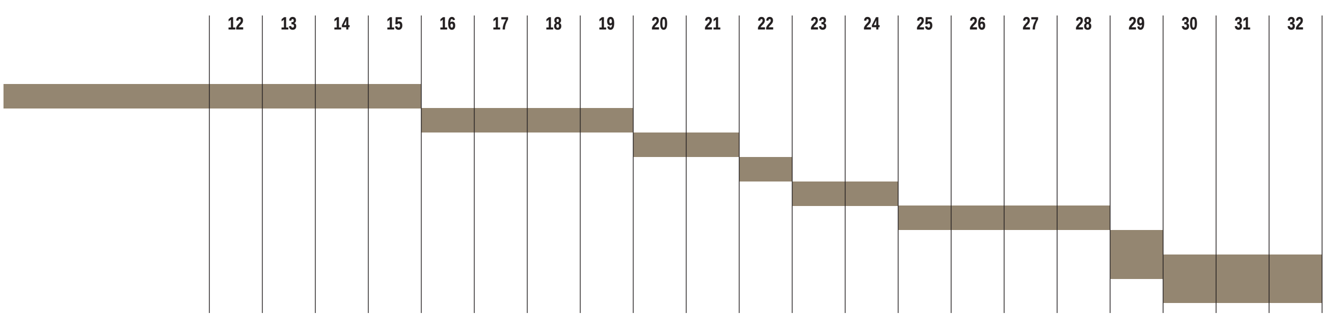


Table 6 – Financial adviser/Global coordinator – Joint/Separate appointment

Joint appointment	Separate appointments
In case of a secondary sale, shares are already listed and there is a limited role for the financial adviser. The main role is marketing of the shares and therefore a joint appointment is appropriate	There is a conflict of interest between the advice offered, and the benefits that may be conferred on the investment bank, in terms of the potential for remuneration (for example the percentage of the state owned enterprise to be sold, the syndicate and the commission structure)
The fees from acting as GC are often used to subsidise being undertaken as financial adviser	The best firm to advise on the sale may not be the best firm to sell the shares
Most banks would prefer to undertake the GC role, therefore if they are separate appointments you may find that the best potential adviser does not tender for the role of financial adviser, in the hope that they win the GC role. This could be overcome if the GC appointment is made first	Certain firms may be well experienced at preparing a sale but do not have the distribution capabilities in the local market
Separate appointments can be more expensive as the investment bank s fee for selling the shares (i.e. commission) will often cover the advisory role. With separate appointments there are two sets of fees, although the cost will not be double, as a lower rate of commission can be paid	If the overall timetable for the IPO is not confirmed it is best not to appoint the GC at the outset, as costs will be incurred before they need be
	By the time the sale occurs, the distribution credentials of the proposed GC may have changed. For example, between being appointed and undertaking the sale, they may no longer have the number one analyst and their placing ability may have been reduced



If separate appointments are to be made, then the financial adviser should:

- be told at the outset the extent to which they can participate in the distribution role as either a GC or as a member of the distribution syndicate
- give an indication to the extent to which their advisory fee can be offset by their distribution commission.

16.2.1 OTHER COMBINATIONS

Hybrid solutions have been tried, for example, one investment bank is appointed at the outset as financial adviser and GC. It may be beneficial if the financial adviser is not allowed to act as sole GC, because of the difficulty of ensuring, and being seen to ensure, that there is a level playing field with the competitors when pitching for the distribution role.

Under this scenario it should be made clear at the outset to the first investment bank that their role as Global Coordinator will be joint with another bank at a later stage as a few months prior to the IPO, a second investment bank is appointed as the other GC. This option partly overcomes the conflict of interest issue referred to above. The total fees and commission are, however, likely to be higher.

16.3 LAWYERS

Lawyers will be required for a variety of roles which are listed and explained in the following paragraphs.

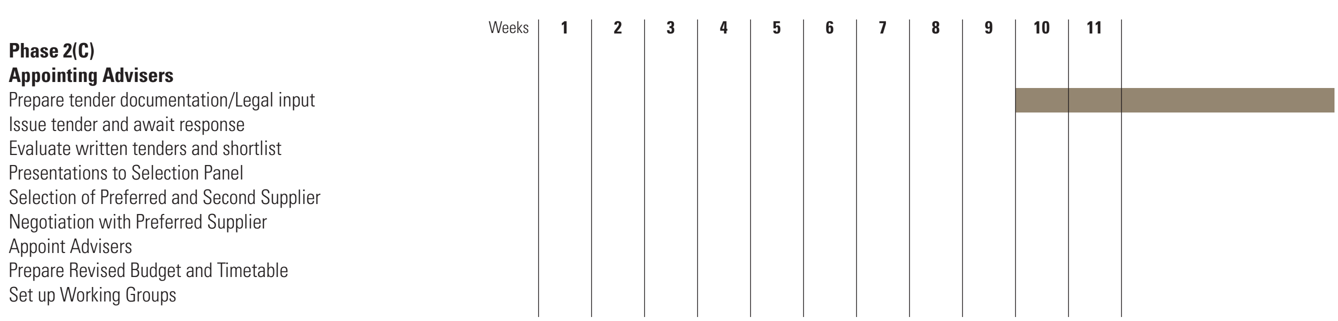
16.3.1 LEGAL ADVISER TO GOVERNMENT AND THE STATE OWNED ENTERPRISE

Initially only the legal adviser to the Government and the legal adviser to the state owned enterprise need to be appointed.

Once a firm decision has been taken with regard to the offer structure and it has been decided that there will be an overseas listing, a set of lawyers will be required for each jurisdiction in which there is a listing.

It is advisable to appoint the domestic law firm first, and that such law firm subcontract to an international law firm as the need arises, since:

- costs are reduced
- a major component of legal fees will then be in local currency (rand)
- South Africa has law firms capable of handling IPOs
- skill base and capacity of local firms is enhanced



- it is made clear that domestic firms are leading the transaction, assisted by the overseas lawyers, rather than the domestic lawyers reporting to the overseas lawyers.

16.3.2 LEGAL ADVISER TO UNDERWRITER AND GLOBAL COORDINATOR

A few months prior to the launch of the offer and after the GC's have been appointed, the legal adviser to the underwriters/GC's should be appointed. This appointment may often be made by the GC's although clarity on who is paying their fees should be sought in advance. If the Government is paying, they should have a say in who is appointed, as well as their remuneration.

16.4 INDEPENDENT ADVISER/ASSESSOR

The Government may consider having an independent adviser with experience of the IPO process as a representative on the selection panel, even if they are subsequently not involved in the detailed implementation of the IPO. The independent adviser would be appointed to assist with the selection and appointment process of the relevant bidding parties.

Examples of such independent advisers include:

- individuals who have worked extensively on restructuring programmes
- a representative from an accountancy firm or management consultancy, with experience of either procurement and/or restructuring programmes.

17. EVALUATION OF WRITTEN PROPOSALS

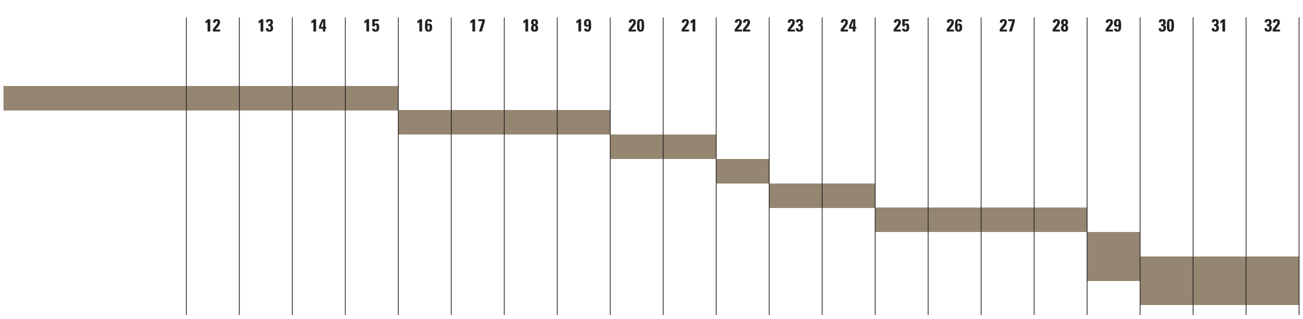
The three phases in selecting advisers are the:

- evaluation of proposals
- interview and selection process (section 18)
- preferred supplier and contract negotiations (section 19).

17.1 EVALUATION OF WRITTEN PROPOSALS

The evaluation of the proposals must be conducted in accordance with Government procedures.

As it is likely that there will be too many firms submitting proposals to interview all of them, part one of the selection process, which is the request for written proposals, is to determine a short list of candidates to take through to the second phase, being the presentations.



The personnel on the selection panel must be chosen to include:

- at least one representative from each Government department involved with the IPO
- an independent adviser/assessor.

17.2 EVALUATION CRITERIA

Before reviewing any of the proposals, the key selection criteria and their weighting of importance must be agreed. An example of the evaluation criteria for the financial adviser on the Telkom IPO is set out in Table 7 below.

Table 7 – Written proposal evaluation criteria

Phase 1: Evaluation Criteria for Financial Adviser	% weighting
1. Knowledge of South African industry sector, and if also tendering for global coordinator, their distribution capabilities	30
2. World-wide experience of restructuring programmes and industry sector	20
3. Capacity to sustain engagement	20
4. Quality of written proposal	10
5. Overall strategy to the assignment	10
6. Transfer of skills and BEE	10

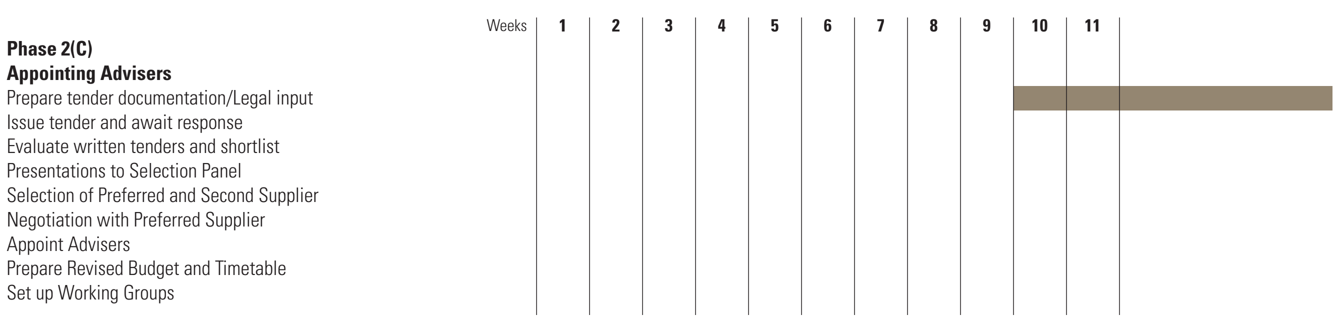
Each person assessing the proposals must score each firm against the evaluation criteria, and at the end the overall scores should be summated. This evaluation process should be completed within a week of the proposals being submitted.

From this selection scoring process a short list of three to five firms should be chosen for the presentations to the selection panel.

18. INTERVIEW AND SELECTION PROCESS

18.1 INTERVIEW AND SELECTION PROCESS

In the second phase, the chosen firms should be asked to make a presentation to the selection panel constituted by the:



main menu

- DGs
- Select senior representatives of the key Government departments involved with the share offer (DDGs and chief directors)
- an independent adviser, if one is appointed.

All firms should be interviewed in one day and a final recommendation made at the end of the day. Each firm must be informed:

- how long the presentation should be (usually 30 minutes presentation/30 minutes questions and answers)
- how many people should attend
- of appropriate issues they may wish to address in their presentation which must be agreed in advance, by all Government representatives, and may for example focus on an area of weakness in their written presentation, or clarification of something.

18.2 EVALUATION CRITERIA

The following gives an indication of the weighting of the evaluation criteria.

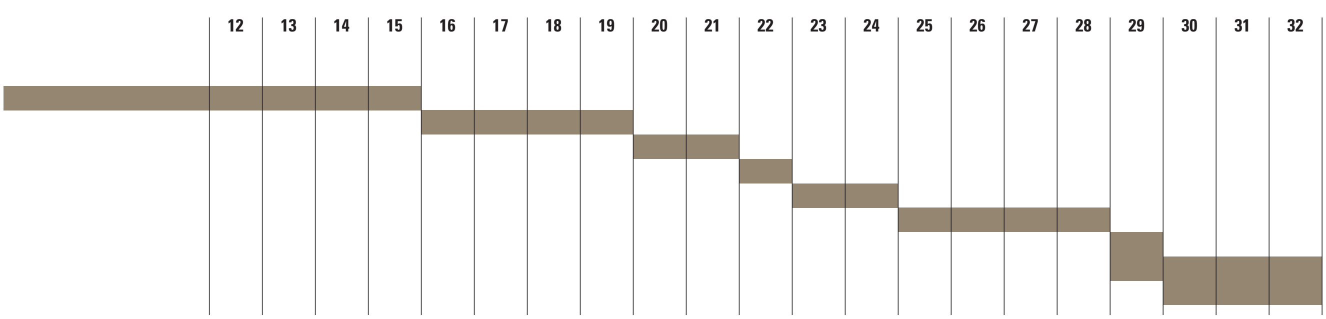
Table 8 – Presentation evaluation criteria

Phase 2: Evaluation Criteria for Financial Adviser	% weighting
1. Price, fee structure and incentive fee	30
2. Ability to execute strategy	30
3. Key personnel skills set and continuous availability	20
4. Project management plans and time frames	5
5. Transfer of skills and BEE	15

Scoring sheets and minutes must be kept.

Pricing and fee structure are the key selection criteria in this phase, and the following should be taken into consideration:

- the basis of fees, if distribution role, this will be based on percentage commission
- element of success fee and how they propose to measure it
- division between different parties
- valuation of the state owned enterprise.



It should be noted that empowerment considerations are important in Government scoring. Empowerment issues are discussed in section 20.

The final recommendation from the selection panel should include a preferred supplier and a second place supplier, so that there is an alternative if negotiations with the preferred supplier are unsuccessful.

19. PREFERRED SUPPLIER AND CONTRACT NEGOTIATIONS

19.1 FURTHER SELECTION PROCESS

Before any appointments and prior to the final ratification by the appropriate authority, (although intermediate authority must be obtained to negotiate with the preferred or reserved bidder where negotiations with preferred bidder fail) detailed negotiations should begin with the preferred supplier on terms and conditions of their appointment.

At this stage suppliers who were not successful will not be involved, in case agreement cannot be reached with the preferred supplier. As a result, the preferred supplier will have to commit to confidentiality about the fact that negotiations are taking place.

19.2 DRAFT CONTRACT AND SERVICE AGREEMENTS

The Government should have already prepared draft contracts and service agreements, either included with the RFP, or just sent to the firms short-listed for interviews for consideration.

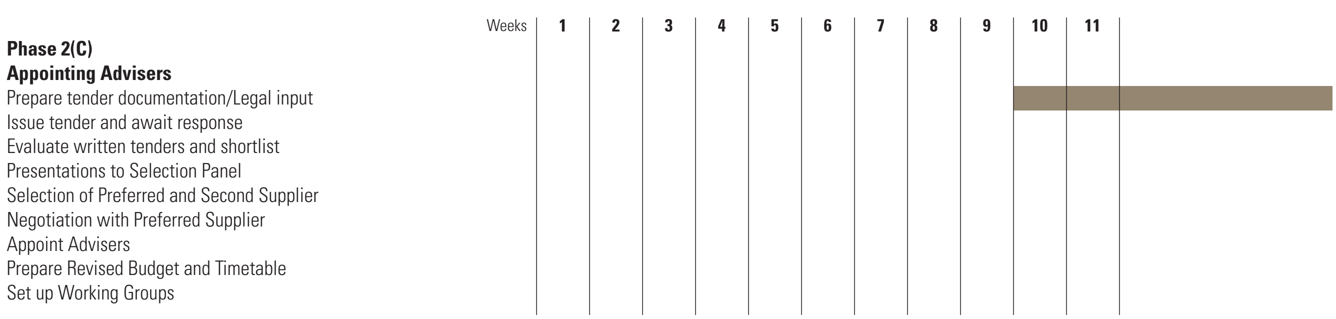
It is important that the proposed firm is shown the full terms and conditions of their appointment prior to being formally appointed, as once a firm has been selected and appointed:

- it is much harder to negotiate their terms
- it is generally too late to impose any stricter terms on them.

19.3 SUPPLIER APPOINTMENT

Once the appointment has been officially approved and the preferred supplier has been appointed, unsuccessful suppliers must be informed that their proposal has been rejected.

The detailed planning and work undertaken by Government, financial advisers (once they are appointed) and the state owned enterprise is discussed in the next phase.



19.4 APPOINTMENT OF FURTHER ADVISERS

Depending on the proposed objectives of the IPO, once the advisers have undergone their detailed planning, further appointments may be made or recommended. This could include:

- PR and communication advisers, as well as retail logistics advisers, if a large retail offer is likely
- overseas legal advisers, to work with the already appointed local legal advisers, if an off-shore listing is likely.

20. EMPOWERMENT

20.1 EMPOWERMENT OBJECTIVES

In the selection of empowerment advisers the Government's empowerment objectives should be kept in mind. These objectives will have been identified and articulated in section 4.4.3.

The common empowerment objectives are:

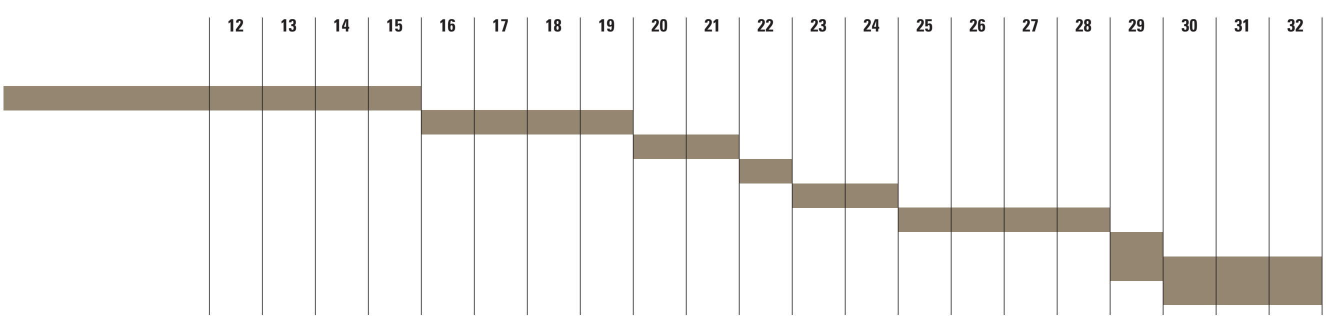
- creating BEE ownership, employment and training opportunities
- advocating skills transfer to BEE
- promoting a culture of share ownership by HDIs
- participation of BEE financial institutions in the retail offer.

20.2 EMPOWERMENT REQUEST FOR PROPOSALS

Government can provide equity employment, training and skills transfer for HDIs through:

- employment of BEE firms as service providers
- skills transfer by international and local long-established service providers to emerging BEE consortia partners
- generation of training opportunities for Government staff as well as BEE firms.

In providing opportunities for BEE service providers, Government must consider the best method of obtaining BEE participation. Government can either appoint BEE service providers separately to the international and established service providers, or the RFP can expect the parties to have paired up on their own.



Government can encourage the active participation of BEE by:

- dividing the fee, and paying BEE directly
- monitoring BEE skills transfer covenants made during the presentation
- ensuring that BEE practitioners attend meetings
- paying BEE directly.

20.3 MONITORING EMPOWERMENT INVOLVEMENT

BEE participants in the IPO transactions are looking for:

- reasonable work allocation and remuneration
- meaningful representation and participation in IPO structures
- participation in discussions of key issues
- maximising skills transfer opportunities.

Government can assist BEE by setting empowerment objectives and targets upfront. These terms should include the desired outputs from the non-BEE and BEE service providers, so that the consortia know what is expected of them from an empowerment point of view. It is also prudent to agree on the provision of meaningful participation and training, in order to achieve these targets.

Performance monitoring strategies must be devised to check BEE participation in the IPO process, against the targets promised in tender documents, signed between service providers and Government.

Monitoring the occurrence of such empowerment could take the form of:

- requesting regular documentary feedback
- engaging non-BEE and BEE service providers on the issue on a constant basis, both informally and in formal IPO structures on the subject.

20.4 BEE SKILLS BASE

Government seeks, as a long-term goal, to transfer skills to BEE service providers, to ensure that over time there is a range of BEE service providers to choose from, with the requisite skills to effectively undertake various aspects of an IPO. If Government is successful in meeting this objective, Government should eventually be able to appoint BEE service providers on their own. It should be noted that there is an existing base of BEE expertise that should be encouraged and nurtured, by being given increasingly meaningful roles in major Government transactions.

PHASE 3

1

PRE-PLANNING — SECTION 4

PRELIMINARY WORK BY GOVERNMENT AND STATE OWNED ENTERPRISE, INCLUDING:

Decision to undertake an IPO

- Government sale of shares to SEP and BEE prior to the IPO
- Government IPO objectives
- IPO risks

PHASE 1 – INITIAL PLANNING — SECTION 4

Internal Government process

- Defining role of Government stakeholders
- Regulatory and industry restructuring completed
- Timetable and budget approval

2

PHASE 2(A) – EXECUTING THE TRANSACTION — SECTIONS 5 TO 10

Setting up the Government team

- Establishing IPO structures such as a Steering Committee and IPO Project Team
- Roles, responsibilities and resources for IPO structures

PHASE 2(B) – EXECUTING THE TRANSACTION — SECTIONS 11 TO 14

Interaction with the state owned enterprise

- State owned enterprise IPO objectives
- Role and responsibilities of the state owned enterprise
- Strategic equity partner

PHASE 2 (C) – EXECUTING THE TRANSACTION — SECTIONS 15 TO 20

Appointing advisers and service providers

- Appointment of advisers, service providers and suppliers
- Invitations to tender and interviews
- Contract negotiations and appointment

3

PHASE 3 – DETAILED PLANNING — SECTIONS 21 TO 33

Detailed planning

- Detailed timetable and budgets
- Setting up of working groups
- Defining roles and responsibilities

4

PHASE 4 -EXECUTING THE TRANSACTION — SECTIONS 34 TO 37

Official launch, the share offer and listing

- Registration and pre-marketing
- The offer period
- Listing
- Post-listing activity

PHASE 3 – DETAILED PLANNING

Page Contents

77 21. Detailed planning and timetable
77 21.1 Overview
77 21.2 Detailed planning
78 21.3 Timetable
79 21.4 Key milestones

79 22. Further budget analysis & cost control mechanism
79 22.1 Budget process
80 22.2 Indicative costs
22.2.1 Global coordinators and syndicate commission
22.2.2 Incentive fee
82 22.3 Key cost drivers
83 22.4 Control and monitoring of costs
83 22.5 Payment terms

84 23. Cost-sharing arrangements
84 23.1 Government and the soe
84 23.2 Government and the global coordinator

85 24. Working groups
85 24.1 Role
85 24.2 Responsibilities
86 24.3 Potential working group model
86 24.4 Structure
88 24.5 Potential subgroups
88 24.6 Resources
89 24.7 Central record keeping
89 24.8 Empowerment

89 25. Due diligence
89 25.1 Objectives
90 25.2 Role and responsibilities
90 25.3 Attendees and meeting schedule
91 25.4 Additional appointments
25.4.1 Government
25.4.2 SOE
25.4.3 Global coordinator
92 25.5 Tasks
93 25.6 Milestones/critical path
93 25.7 SOE information required for due diligence process
93 25.8 Interaction

94 26. Legal
94 26.1 Objectives
94 26.2 Role and responsibilities
94 26.3 Attendees and meetings schedule
95 26.4 Additional appointments
95 26.5 Tasks
96 26.6 Milestones/critical path
96 26.7 Interaction

96 27. Regulations and policy
96 27.1 Objectives
97 27.2 Role and responsibilities
97 27.3 Attendees and meetings schedule
98 27.4 Additional appointments
98 27.5 Tasks
99 27.6 Milestone/critical path
99 27.7 Interaction

Page Contents

99 28. PR, communications and advertising
99 28.1 Objectives
100 28.2 Role and responsibilities
102 28.3 Attendees and meetings schedule
102 28.4 Additional appointments
103 28.5 Tasks
103 28.6 Milestones/critical path
103 28.7 Market research
104 28.8 Advertising
105 28.9 Interaction

105 29. Valuation and accountant reports
105 29.1 Objectives
105 29.2 Role and responsibilities
105 29.3 Attendees and meetings schedule
106 29.4 Additional appointments
106 29.5 Tasks
29.5.1 Valuation methodology
29.5.2 Valuation process
29.5.3 Sign-off procedures
29.5.4 SOE involvement in the valuation
109 29.6 Milestones/critical path
109 29.7 Interaction

110 30. Offer structure
110 30.1 Objectives
110 30.2 Role and responsibilities
111 30.3 Attendees and meetings schedule
111 30.4 Additional appointments
111 30.5 Tasks
111 30.6 Milestones/critical path
112 30.7 Interaction

112 31. Prospectus drafting
112 31.1 Objective
112 31.2 Role and responsibilities
113 31.3 Attendees and meetings schedule
114 31.4 Tasks
31.4.1 The price range
31.4.2 Summary or mini prospectus
31.4.3 Costs
115 31.5 Additional appointments
115 31.6 Milestones/critical path
31.6.1 Filing procedure with relevant exchanges
31.6.2 Sign-off procedures
116 31.7 Interaction

116 32. Institutional marketing
117 32.1 Objectives
117 32.2 Role and responsibilities
117 32.3 Attendees and meetings schedule
117 32.4 Additional appointments
32.4.1 Global coordinator
32.4.2 Roadshow logistics coordinator
32.4.3 Presentation trainer
118 32.5 Tasks
119 32.6 Milestones/critical path
32.6.1 The equity story

Page Contents

120 32.7 Syndicate appointment
32.7.1 Syndicate role
32.7.2 Syndicate structure
32.7.3 Selection process
32.7.4 Selection criteria
32.7.5 Commission
125 32.8 Analyst presentation
126 32.9 Research material
126 32.10 Pre-marketing
127 32.11 Institutional roadshow
129 32.12 Interaction

129 33. Retail offer
129 33.1 Objectives
129 33.2 Telkom ipo retail offer objectives
33.2.1 Phase 1 public education campaign
33.2.2 Phase 2 registration period
33.2.3 Phase 3 offer period
33.2.4 Phase 4 post listing
130 33.3 Role and responsibilities
131 33.4 Attendees and meetings schedule
131 33.5 Tasks
33.5.1 Telkom IPO steps
135 33.6 Milestones/critical path
135 33.7 Additional appointments
33.7.1 Retail logistics adviser
33.7.2 Call centre
33.7.3 Database manager
33.7.4 Distribution agents
33.7.5 Literature designer
33.7.6 Printers and mailing houses
33.7.7 Receiving agent
33.7.8 SA post office
33.7.9 Transfer secretary
33.7.10 Website hosts
138 33.8 Appointment process additional service providers
33.8.1 Issue of requests for proposals
33.8.2 Draft contracts and service agreements
33.8.3 Written responses and evaluation
33.8.4 Interview and selection process
33.8.5 Letters of appointment and agreements
140 33.9 Detailed planning and monitoring
140 33.10 Budget and cost control
141 33.11 Subgroups
141 33.12 HDI participation
33.12.1 Reasons for hdi targeted retail offer
33.12.2 Telkom ipo **HDI** targeted retail offer the khulisa offer
33.12.3 Key issues for retail offer
142 33.13 Interaction

PHASE 3 | DETAILED PLANNING

In this section attention is paid to the refinement of processes that were initiated in the pre-planning phase. The budget is discussed in more detail as well as the implication of cost-sharing arrangements.

The roles and responsibilities of the different working groups are discussed. Attention is also paid to the interdependence of the different groups.

This section also pays attention to the importance of HDI involvement in the IPO process.

21. DETAILED PLANNING AND TIMETABLE

21.1 OVERVIEW

In addition to the pre-planning and initial planning that takes place in the first phase, the detailed planning in this stage includes:

- appointing additional advisers and service providers
- defining and reviewing the key tasks to be undertaken
- budget control and monitoring
- cost sharing agreements
- review of the critical path tasks with a list of those that could jeopardise the process
- detailed timetables and planning
- setting up the various working groups
- defining roles and responsibilities.

21.2 DETAILED PLANNING

Once the high-level decisions have been made and key issues approved by Cabinet, detailed preparation for the IPO should begin. The preparatory work must be thorough, as once the share offer is launched, it will be too late to:

- change course
- unwind a decision
- bring in additional resources.

The financial adviser’s first role should be to focus on:

- identifying the full range of issues to be addressed, and whether those issues can be realistically resolved within the proposed timescale
- reviewing the decisions made to date
- undertaking the next stage of planning including a more detailed timetable
- setting up a decision matrix identifying what critical decisions need to be made, and by when
- considering high-level offer structure issues

- agreeing their team's roles and responsibilities and their corresponding contact at the Government and, if appropriate, the state owned enterprise
- consider what other appointments are required.

A detailed path will need to be devised for each IPO work stream. The potential working groups which are discussed in the following sections are:

- due diligence
- institutional marketing
- legal
- offer structure
- PR, communication and advertising
- prospectus drafting
- regulatory
- retail offer
- valuation and accountancy.

As there will be many work streams involved, coordination will be critical as at some point the output from each of these work streams need to come together. For example, the prospectus will consist of legal, regulatory, financial and offer structure, issues. There is no point in the other work streams progressing if one work stream will not make the critical date.

21.3 TIMETABLE

During the initial planning by the Government and early interaction with the state owned enterprise, timetable discussions and approval are likely to focus on high level timings, such as the month by when the IPO process should be completed. This may be set out in Government policy documents as well as state owned enterprise resolutions. Once an understanding of the issues to be addressed has been compiled and high-level offer structure issues have been decided, a detailed high-level timetable should be drawn up.

Such a timetable should include:

- start and end dates of each phase of the IPO, for example education campaign, pre-marketing and registration phase and offer period
- proposed listing date
- start of the due diligence process
- start of the prospectus drafting process, key listing authority(ies) filing dates and the prospectus sign-off date
- key decision dates for the offer structure
- syndicate appointment and analyst's presentation
- publication of connected research
- advertising campaign
- road show dates.

21.4 KEY MILESTONES

It is imperative that at this stage every issue that could possibly affect the IPO is tabled. From this list of issues a detailed timetable must be derived, and tasks that are on the critical path and key milestones must be identified. This is necessary so that progress over the next few months can be monitored.

Such critical path issues and milestones include:

- appointment of key advisers
- completion of due diligence
- prospectus sign-off
- analysts' briefing
- approval of print retail marketing literature and booking of any advertising space
- launch of share offer
- prospectus launch date
- close of the offer.

In order to drive the process and to ensure the listing date will be met, specific dates should be set for certain key milestones. These dates should only be moved if the overall timetable changes.

In general, the more time spent on detailed planning, the smoother the project will run and the lower the possibility of the project being postponed or derailed.

Weekly consideration of the key milestones and critical path issues can be done by creating and updating a decision matrix, setting out what issues need to be dealt with, by whom, and by when.

22. FURTHER BUDGET ANALYSIS & COST CONTROL MECHANISM

At the outset the indicative costs per adviser, service provider and working group must be agreed. Then, as each adviser and service provider is appointed, the budget for their roles must be updated from the initial budget discussed in section 4.11.

A project accountant, (the budget manager as discussed in section 9.4.6), should be appointed to support the IPO Project Team to run the budget and payment process. This person should have project accounting experience.

If possible an accounting software package or management reporting package should be used, rather than an excel spreadsheet. This will ensure accurate and appropriate accounting.
The package should be integrated with the Basic Accounting System used across Government.

22.1 BUDGET PROCESS

The budget manager needs to devise a framework for the budget, to enable him/her to budget and keep track of the actual expenses against budget. As the project is implemented the budget must be updated and the reason for any change must be recorded. The budget should contain information on:

- the cost consequences of any short-term delay, for example listing a month later
- a range for the costs and the assumptions used when an item is volume dependent

- a breakdown of the costs for tasks and items that may be required, possibly as an optional extra.

As each supplier is appointed, the budget manager must create a file for each customer containing the following:

- supplier name
- physical address
- phone and fax details
- contact person
- bank account details
- written confirmation that these bank account details have been verified directly with the banks in compliance with the PFMA requirements
- a copy of the mandate letter or contract, with a summary of the deliverables and payments to be made against deliverables.

As and when the suppliers submit invoices, the budget manager must confirm that the payment is in accordance with the budget, mandate letter or contract.

The budget manager should check that the service or goods being charged for have in fact been delivered. An authorisation form for the payment must be completed and signed off by the appropriate individuals in the IPO Project Team. For physical goods, if there is an order, the invoice must be matched to the order and delivery note.

In order to ensure that the process is being adhered to, it is vital that there is clarity as to which expenses are to be borne by the Government, the state owned enterprise, and the service providers.

As soon as the requirement for an additional expense not catered for in the budget is brought to the attention of the budget manager, he/she must ensure that the appropriate action is taken to obtain approval of such additional requirement. Amounts invoiced that are not in accordance with the budget or the mandate letter or contract must not be paid.

The budget manager should also keep copies of the invoices for the budget files of the IPO Project Team, as once they have been submitted through for payment, they will become part of the general public enterprises payment files, which will make tracking them complex and time-consuming.

The budget manager will need to ensure that the internal control and approval process is conducted in accordance with acceptable accounting standards, as the auditor general could be required to perform regulatory audits on the IPO Project Team, from time to time.

22.2 INDICATIVE COSTS

The actual total costs will be a function of the:

- size of the offer
- size of the retail offer
- duration for preparing for the offer
- delays or postponements
- listing locations
- complexity of the transaction.

main menu

Indicative costs for the potential range of service providers are shown below as determined by the size of offer.

Table 9 – Range of service provider fees

Adviser/Service Provider	Range	2001 prices
Lawyers (local and international)	R10 million to 25 million	R14 million
Financial advisers' expenses	R8 million to R20 million	R10 million
PR advisers (local and international)	R5 million to R17 million	R11 million
Advertising	R10 million to R60 million	R11 million
Market research	R1 million to R2 million	R1.6 million
Listing events and listing fees	R1 million to R5 million	R2 million
Institutional roadshow	R5 million to R15 million	R10 million
Logistics adviser	R2 million	R2 million
Printers	R15 million to R25 million	R18 million
Postage	R20 million to R25 million	R22 million
Call centre	R10 million to R15 million	R11 million
Transfer secretary	R10 million to R20 million	R20 million
Retail road show	R1.5 million to R5 million	R2.0 million

In addition, certain fees are payable from the proceeds of the offer, these include:

- commission payable to the global coordinators and syndicate members. This is normally based on a percentage of proceeds
- incentive fee payable to global coordinators and syndicate members, if applicable
- selling fee to retail distribution agents such as SA Post Office (SAPO) and banks, which can range from R25 million to R40 million depending, for example, on the level of demand and size of the offering.

22.2.1 GLOBAL COORDINATORS AND SYNDICATE COMMISSION

Usually one overall rate of commission is agreed upon between the Government and the GC's. This commission is then subdivided between the GC and the syndicate members.

Example rates of commission from other restructuring programmes include the ones shown in Table 10.

Table 10 – Global Coordinator Commission (historical)

Year	Share offer	Country	Total offer size	Commission (%)
2003	Telkom	South Africa	US$539 million	1.9
1997	Telstra	Australia	A$14.2 billion (equivalent to US$20bn)	1.75
1997	China Telecom	Hong Kong	US$4.2 billion	3.5
1997	Electricity de Portugal SA	Portugal	US $2.3 billion	2.75
1996	Deutsche Telecom	Germany	US $13 billion	2.5
1996	British Energy	UK	£1.3 billion (equivalent to US$2.3bn)	1.25
1996	Railtrack	UK	£1.9 billion (equivalent to US$3.4bn)	1.5
1995	ENI SpA	Italy	US$4.0 billion	2.8
1995	Usinor Sacilor	France	US$3.0 billion	3.0
1995	National Power & PowerGen	UK	£3.5 billion (equivalent to US$6.3bn)	1.0
1994	KPN	Netherlands	US$3.7 billion	2.9
1994	Tele Danmark A/S	Denmark	US$3.0 billion	3.5
1993	British Telecom (3rd)	UK	£5.1 billion (equivalent to US$9.2bn)	1.0
1993	BNP	France	US$3.0 billion	3.0
1993	YPF SA	Argentina	US$3.0 billion	4.0
1991	British Telecom (2nd)	UK	£5.2 billion (equivalent to US$9.4bn)	1.0

NB: These are indicative figures

22.2.2 INCENTIVE FEE

The GC's remuneration may include an incentive fee, which can be based on an increase in the commission. The incentive fee is normally based on the success of the offer, and the extent to which the objectives have been met. If possible the payment of the incentive should be based on achieving clearly quantifiable objectives about which there is little debate. Incentive fee objectives must not be allowed to influence the advice of the GC, for example, the fee should not be paid based on total proceeds as under that criteria the GC will have a conflict of interest when advising on the amount of equity to be sold.

22.3 KEY COST DRIVERS

In trying to manage the budget, it is essential to minimise the costs through negotiation. The key cost drivers for each adviser and service provider, together with recommendations for minimising the costs are shown in Table3, section 4.11.3

These indicative costs should be communicated as part of the appointment mandate, before the final selection of the contractor is made.

22.4 CONTROL AND MONITORING OF COSTS

Maximising value from advisers and service providers is obtained by focusing on their outputs, and by ensuring that their advice is provided in a timely way. Significant expenditure will be incurred, and therefore specific arrangements must be made to control these costs.

The budgets should be agreed in advance with costs clearly identified as:

- fixed – costs that remain stable throughout the project
- time variable costs – costs incurred during the duration of the project
- variable costs – costs that are dependent on the volume of work and cannot be accurately predicted in advance, e.g. the number of application forms.

It is further suggested that from a cost control perspective:

- each adviser and service provider must provide a budget and cash flow in advance, based on monthly increments
- variable costs must be clearly identified. Such budgets should be provided on a standard multi-column worksheet "Budget model", so that the Government can easily understand and compare the numerous budgets from each adviser and service provider
- each adviser and service provider must report their monthly costs within 10 days of the end of the month, and they must highlight at that time, costs that are not in line with their budget. This must be done regardless of the payment terms, in order to identify possible unreasonable costs, before they are incurred again. It will not be appropriate to argue about a cost at the end of the project, if the service provider was asked to provide such a service, even though the Government was not aware of such a cost.

22.5 PAYMENT TERMS

There are three main sources of funding for the project:

- government funds
- state owned enterprise funds
- proceeds on the sale of shares.

It should be made clear at the outset how each adviser and service provider's fee is going to be funded.

If the work is to be funded by the Government or the state owned enterprise, it is advisable to make payments to the adviser or service provider on a regular basis throughout the project.

If an adviser or service provider is jointly appointed by the Government and the state owned enterprise, for example, the reporting accountants, PR adviser, transfer secretary (see section 23 on cost-sharing), then the cost sharing percentage division must be agreed in advance. The adviser or service provider should then invoice each party separately so as to minimise fund transfers between the Government and the state owned enterprise, which may have value added tax (VAT) consequences.

If the adviser or service provider is to be funded from proceeds of the sale of the shares, then all parties should be aware that such funds will not be available until a week or so after the listing date.

Where an adviser or service provider is funded from the sale proceeds and these proceeds are passing through their accounts, (for example the global coordinator or transfer secretary), consideration should be given as to whether their costs can be netted from the amount that they are due to pay. The advantages of netting costs is that there are fewer fund transfers. However, if there is a dispute it will be more difficult for the Government and/or state owned enterprise to recoup the disputed amount once the adviser or service provider has the funds.

Each contract with a service provider should clearly specify how disputes will be dealt with.

23. COST-SHARING ARRANGEMENTS

23.1 GOVERNMENT AND THE STATE OWNED ENTERPRISE

It is important to agree on the cost-sharing issues between the Government and the state owned enterprise. There are some costs that are clearly the state owned enterprise's responsibility, i.e. the state owned enterprise's auditors, financial advisers and lawyers. Others are not so easy to determine. These types of costs include:

- cost of understanding the issues and obtaining opinions on those issues, that could affect a listing on a stock exchange other than South Africa, if the choice of listing venues is not the state owned enterprise's. These costs could include international lawyers and accountants
- additional costs imposed as a result of meeting the requirements for a listing in another jurisdiction, such as the cost to convert the state owned enterprise's accounts to international accounting standards. These costs could be internal state owned enterprise resources dedicated to the project, independent advisers or external auditors
- costs to list on additional stock exchanges
- additional costs incurred by the state owned enterprise to bring it to a state of readiness for a listing. Given that the asset to be listed was previously an SOE, there are likely to be legacy issues in place. This could include employment issues, structure of the financial and management accounting systems, and segmental reporting, or lack thereof. These costs should be identified before the due diligence process, during the initial phase, but if in the interim they were either not identified nor agreed, they may be raised at a later stage
- costs of additional interim audits required as a result of changes to the timetable outside of the state owned enterprise's control
- costs for undertaking a retail offer and for maintaining a large shareholder register after listing.

The decision on how these costs will be divided is usually based on whose decision gave rise to the additional cost.

23.2 GOVERNMENT AND THE GLOBAL COORDINATOR

The cost-sharing issues between the Government and the GC must also be agreed. This is linked to who the additional suppliers/advisers are acting for. As a general rule, the service providers, other than the GCs own legal advisers should:

- be clearly appointed by the Government
- see the Government as their client, even if their liaison is substantially through the GC.

The GC can assist Government in the selection process by making recommendations regarding criteria required, and even through participation on the selection panel. All payments should be made through the IPO Project Team (budget unit). The mandate or appointment letter must be clear as to the appointment, fees and services to be rendered.

The GC's mandate/appointment letter should clearly indicate whose responsibility the fees for the various advisers and service providers are, so that the costs for the various GC and Government advisers can be treated accordingly.

Should any of the suppliers or advisers not be identified or dealt with in the appointment letter, Government and the GC must negotiate the allocation of costs once the need for the adviser/supplier has been agreed, and the appointment process approved.

Additional advisers and services are the responsibility of the GC and potentially includes:

- roadshow coordinator
- roadshow implementation
- legal counsel to the underwriters
- retail logistics adviser.

24. WORKING GROUPS

24.1 ROLE

As there are many parties involved in preparing for the share offer, it is important that clearly defined working groups are set up. The Telkom IPO had more than 40 entities listed on the list of parties. Each group must have its own roles and responsibilities.

Although working groups rely on information from other working groups, they should be able to drive the project forward pending clarification on final decisions. At times the process will require working groups to work together as decisions from one group affects the next group, making the process iterative as decisions are resolved by various groups.

24.2 RESPONSIBILITIES

Each working group should:

- be in charge of individual aspects of the IPO
- have defined responsibilities
- have a designated person in charge, be it a representative from the Government or an adviser.

The working groups are interdependent, as at times each working group will require input from other working groups. It is recommended that:

- where these links occur frequently (for example between prospectus drafting and legal) there should be representatives who attend both working groups
- where the links are infrequent (for example offer structure and retail offer) agreed communication channels must be set up for a representative from each group to talk with the other member on an ad hoc basis
- it is the responsibility of the chairperson of each working group to ensure that their working group is up to speed with the issues at other working groups.

24.3 POTENTIAL WORKING GROUP MODEL

There is no one model for the working group structure. Different restructuring programs and IPOs have had various approaches. The range of working groups could include:

- capital structure and corporate structure
- due diligence
- institutional marketing
- legal
- offer structure
- PR, communications and advertising
- prospectus drafting
- regulatory and policy
- retail offer
- valuation
- employee issues.

Working groups have been combined when the workload of one group can be easily handled by another group, or the workload is too much for one group.

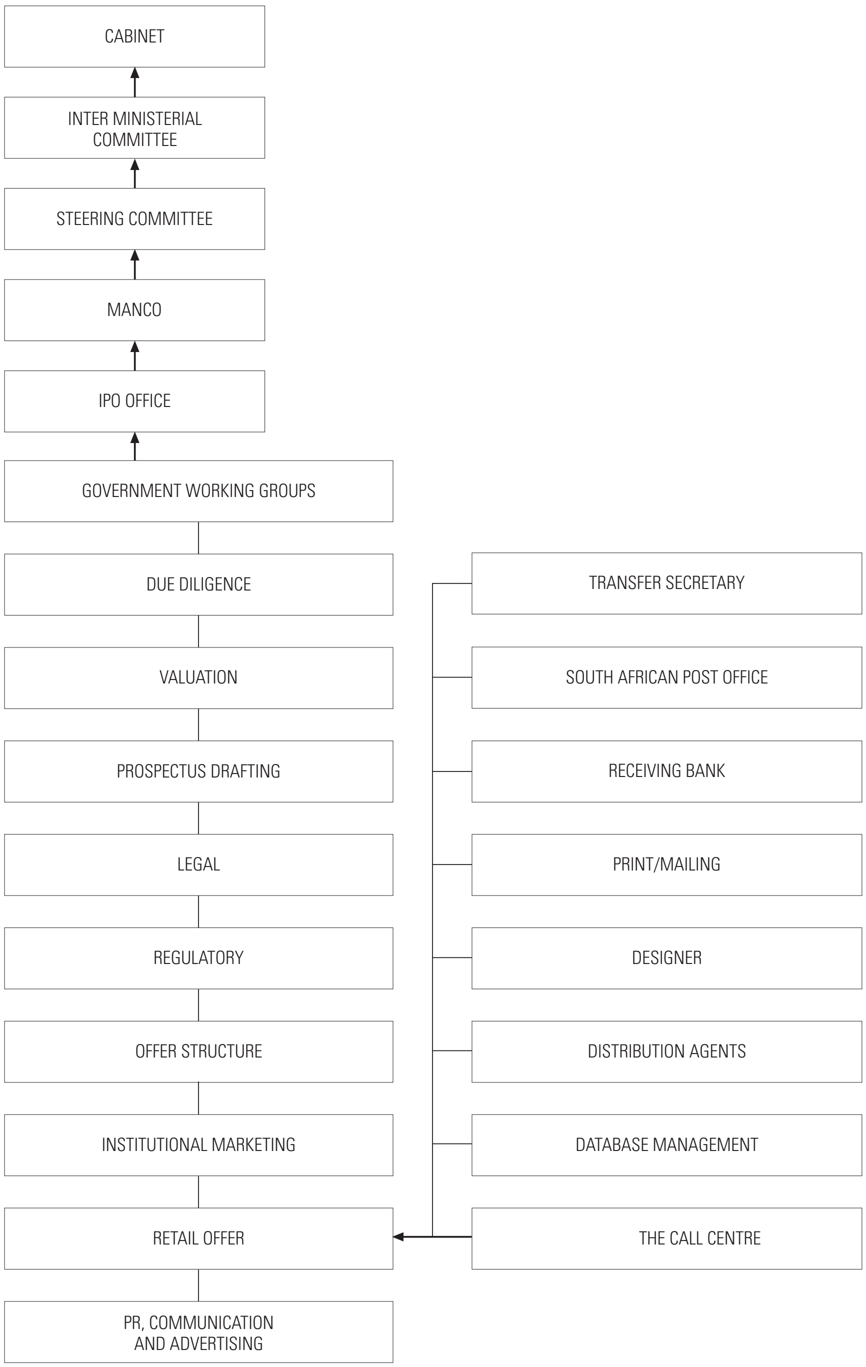
Legal, due diligence and prospectus drafting can be handled by one group. Offer structure, valuation and institutional marketing may, for example, be incorporated with another group.

Groups have been combined in the early stages of the process and then divided as detailed planning starts, for example, retail offer and PR and communications may be one group to start with, but subdivided a few months prior to launch.

24.4 STRUCTURE

The working groups will report to the IPO Project Team and Manco (if one has been formed), or directly to the Steering Committee. The diagram below shows the suggested working group structure for the work streams for an IPO in South Africa. Potential subgroups are discussed in the following diagram:

Diagram 5 – Government working group structure



24.5 POTENTIAL SUBGROUPS

In addition, some working groups may require subgroups, so that the detailed planning required does not waste the time of those not directly involved. This is particularly the case with the Retail Offer Group, which may have a dozen or so suppliers to manage.

The potential subgroups are:

- the call centre
- database management
- distribution agents
- designer
- print/mailing
- receiving bank
- South African Post Office
- transfer secretary.

Each of the subgroups are discussed in further detail in section 33, retail offer.

24.6 RESOURCES

Each working group will have representatives from the relevant advisers. The meetings must be attended, if not chaired, by an official from the IPO Project Team. Where applicable a state owned enterprise representative should also attend. It is recommended that the official:

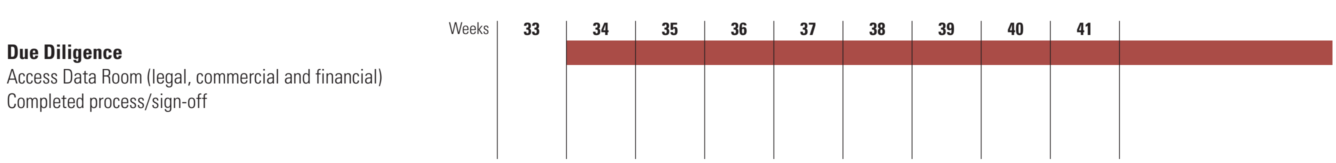
- has defined levels of authority either to approve an issue in the meeting or to submit an issue for approval by a more senior official
- is involved, possibly on a full-time basis, with the day-to-day preparation and implementation of the project.

Working groups should meet on a regular basis, ideally just prior to the Manco or Steering Committee meeting so that issues that cannot be resolved, or require approval, can be raised. The frequency of the meetings should be agreed at the first meeting of the group and will vary as:

- some groups need to meet regularly at the start, for example capital structure, and then less frequently as issues become resolved
- other groups, such as prospectus drafting, will start with infrequent meetings but these will become almost daily closer to the publication thereof.

It must be kept in mind that:

- no working group can work in isolation
- Manco and/or the Steering Committee should not be used as the channel for communications between the various groups, as this will waste time and there will be delays in the relaying of information.



24.7 CENTRAL RECORD KEEPING

The IPO Project Team should appoint a central coordinator of meetings who will maintain a central record of meetings setting out:

- when each working group is scheduled to meet
- who is attending
- where the meeting is being held
- copies of agendas and minutes.

24.8 EMPOWERMENT

Empowerment in the form of skills transfer must be taken into consideration as each working group executes its activities. To ensure that BEE has meaningful participation in, and effective skills transfer during, the IPO Process, Government must monitor the process to ensure that BEE:

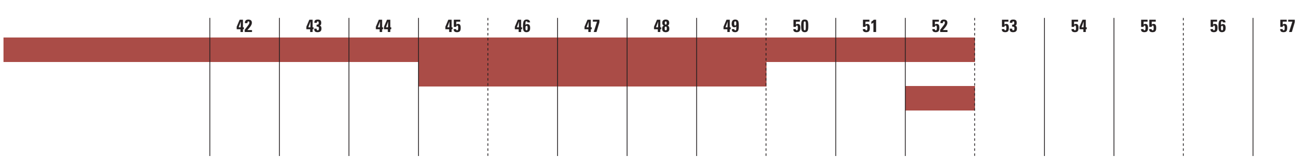
- has representation on all IPO structures which advisers are invited to attend from working groups, to the Steering Committee, to meetings with Ministers and senior state owned enterprise executives
- always has information made available by the international advisers
- representatives are able to attend key meetings
- has significant involvement in key discussions, drafting of documents, local and international roadshows, crisis meetings and negotiations with stakeholders such as a SEP, the JSE and Regulator as well as Government and the state owned enterprise
- Representatives are able to fly to various destinations should it be decided to work on key issues, such as valuation, outside of South Africa if the BEE entity is willing to pay for the flight and accommodation. Since BEE skills transfer is an objective of Government, subsidies for travel and accommodation may be considered. Secondment to international advisers may also be considered.

25. DUE DILIGENCE

25.1 OBJECTIVES

The main objectives of the due diligence working group are:

- to perform an independent review of all operational, strategic, commercial, financial and legal issues that impact on the state owned enterprise, its value and its ability to list on a recognised stock exchange
- to develop the "investment case" by obtaining a thorough understanding of the state owned enterprise and the industry in which it operates
- to identify all issues which require disclosure in the prospectus.



25.2 ROLE AND RESPONSIBILITIES

The role of the due diligence working group is to:

- identify the work streams required for the review e.g. legal, financial, strategic, regulatory
- understand on which stock exchanges the state owned enterprise intends obtaining a listing
- identify which external advisers are required for completion of the review
- liaise with the state owned enterprise in performing the review
- appoint the required external advisers, either on behalf of Government or the GC
- perform a review of all operational, strategic, commercial, financial and legal issues that impact on the state owned enterprise, its value and its ability to list on the identified stock exchanges
- develop the preliminary "investment case" with the management of the state owned enterprise and their advisers
- identify, through the review process, all issues that require disclosure in the prospectus, such as major contracts, golden share issues, etc
- agree responsibility for the various areas of sign-off required for the prospectus
- interact with the other appropriate working groups with regard to their findings and their required inputs
- present their reports to the IPO Project Team, Manco and Steering Committee.

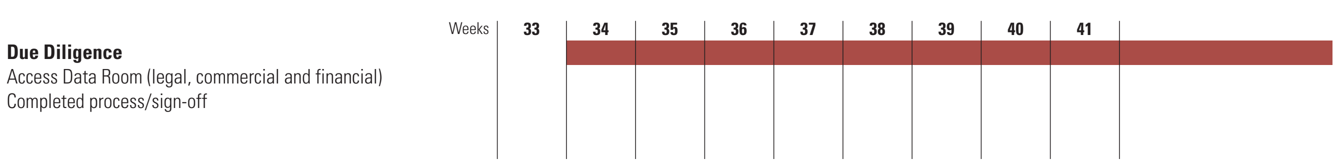
25.3 ATTENDEES AND MEETING SCHEDULE

Attendees should include the following:

- a financial adviser (corporate finance representative)
- state owned enterprise representative (their internal IPO representative for the due diligence team)
- an IPO Project Team representative (e.g. project manager)
- lawyers and financial adviser for the state owned enterprise
- state owned enterprise's auditors (as and when required)
- financial adviser (regulatory group).

The due diligence working group needs to commence meeting as soon as the approval has been granted for the IPO. The timing of the completion of the due diligence phase is a key driver of the IPO process, as this working group will need to work with the:

- valuation working group, by providing the necessary inputs. The valuation team will in turn need to feed into the offer structure, prospectus drafting, institutional marketing and retail working groups



- draft prospectus working group which will need sign-off on the draft prospectus and the issues contained therein by the regulatory bodies, prior to the marketing of the offer, which needs to happen with sufficient time to bookbuild prior to the listing date.

Cooperation and communication are essential, as there is potentially substantial work that the state owned enterprise needs to do in order to prepare itself for the due diligence. This includes the following:

- ensuring that the latest management accounts are prepared by the required date, which will probably be in advance of their usual cycle
- ensuring the auditors prepare audited results for the period subsequent to the year-end
- ensuring that all relevant accounts are available in local accounting standards and relevant international accounting standards
- preparing the state owned enterprise data room.

Meetings will be held as often as required to receive feedback on deliverables from the various working groups and the state owned enterprise representatives.

It is important to ensure that adequate time has been allocated for the collation of information and sign-off of such information, and that deadlines have been communicated to all stakeholders. There may be substantial new information required, such as the restatement of the annual financial statements of the previous five years, in terms of international accounting standards, that will take significant time.

As soon as the state owned enterprise has met their timetable deadlines for provision of the business plans and audited accounts, and confirmed that the data room is ready, the due diligence working group will need to meet more frequently to discuss the findings of the due diligence review and their potential impact on the valuation.

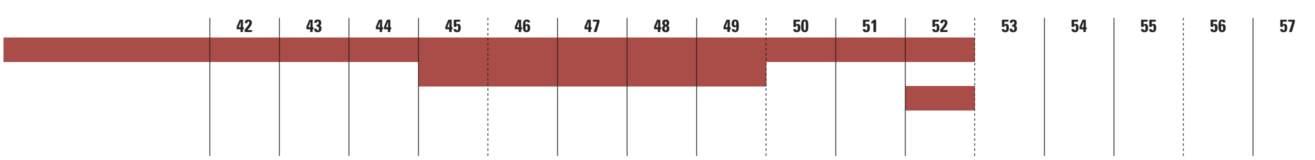
Once the final due diligence report has been completed, there should be no need to meet frequently, but rather to have a process whereby issues subsequently identified are communicated and dealt with by appropriate structures.

If the state owned enterprise has a significant investment that is anticipated to have a substantial impact on the valuation, it may be necessary to perform a separate due diligence investigation into that investment. This will entail the cooperation of the shareholders, board, management and advisers of the significant investment, in much the same way as the state owned enterprise.

25.4 ADDITIONAL APPOINTMENTS

25.4.1 GOVERNMENT

Government should not require additional advisers.



25.4.2 STATE OWNED ENTERPRISE

The state owned enterprise may need to appoint the following:

- lawyers familiar with listing requirements of appropriate bourses
- internal or external consultants to ensure that their management accounts provide the required information (this appointment should have been done prior to the due diligence phase).

25.4.3 GLOBAL COORDINATOR

GC may need to appoint lawyers.

25.5 TASKS

Performance of the due diligence will generally entail a commercial, financial and legal due diligence.

A commercial due diligence will require:

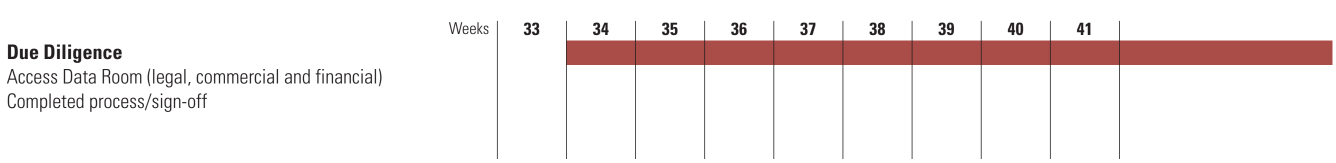
- analysis of market structure and developments, including the impact of industry restructuring and regulatory changes (liaise with regulatory working group)
- review of state owned enterprise's competitive positioning and future strategy, in context of market and developments (liaise with regulatory working group regarding policy issues).

Financial due diligence will require:

- review and analysis of historic annual financial statements
- preparation of the state owned enterprise's business plan and budgets taking into consideration all appropriate industry assumptions and competitor benchmarks
- analysis of operating results subsequent to the last audited annual financial statements. This is usually done by the state owned enterprise and their auditors, depending on whether or not audited interim results need to be included in the current year's forecasts
- restatement of historical results and forecasts in accordance with local and international accounting standards.

The following, which is usually done by the state owned enterprise, will be reviewed, evaluated and interrogated by the GC and advisers:

- revenue segments including subsidiaries
- capital requirements
- infrastructure
- technology
- competition
- legal proceedings



- employees
- properties.

The legal due diligence will require the identification and review of:

- all material contracts that could impact on the state owned enterprise, its ability to list, its financial success and its value (includes shareholders' agreements, share lock-up arrangements, long-term leases/service contracts)
- the impact of any ongoing litigation
- the impact of regulatory changes and tariff structures
- trade union agreements and the NFA.

25.6 MILESTONES/CRITICAL PATH

This working group must comply with the timings and milestones laid down by the prospectus drafting working group, for example filing dates and sign-off date.

25.7 STATE OWNED ENTERPRISE INFORMATION REQUIRED FOR DUE DILIGENCE PROCESS

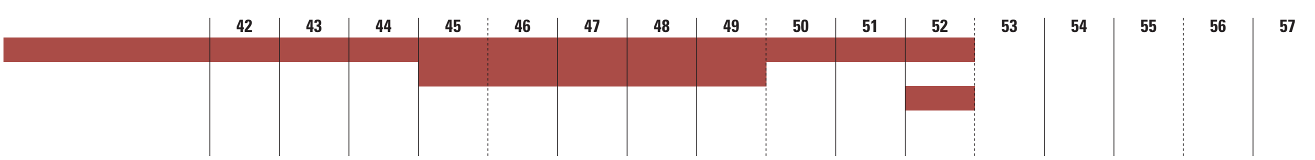
The following information will have to be prepared by the state owned enterprise's management team for the due-diligence process.

- corporate organisation
- ownership structure
- markets and competition
- operations technology
- sales and marketing
- hardware and procurement
- management and human resources
- financial information
- strategy and outlook.

25. 8 INTERACTION

The due diligence working group will need to interact with the following working groups:

- valuation: to give input into the valuation exercise in terms of issues identified that have an impact on the valuation
- legal
- regulatory.



26. LEGAL

26.1 OBJECTIVES

An IPO is a major transaction in which investors, both private and institutional, are buying a stake in the state owned enterprise from the Government. As such the sums of money involved are substantial and any small omission or error could result in one party making a claim against the Government or the state owned enterprise. It is therefore important that the implementation of the IPO is legally thorough and complies with all relevant laws.

In addition, the contracts with service providers and suppliers can also be of substantial value and so all agreements must be thorough.

26.2 ROLE AND RESPONSIBILITIES

This group is responsible for all legal aspects of the IPO process, including:

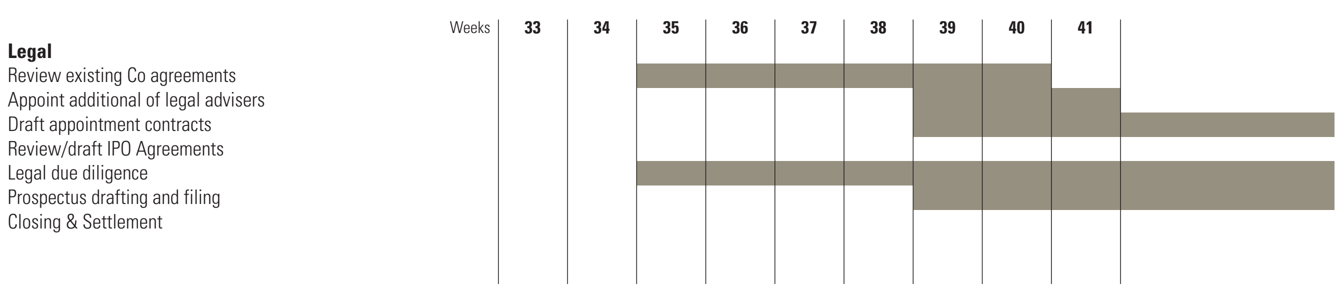
- ensuring compliance with the rules of the listing authority and various Government Acts
- drafting the numerous legal documents required
- compliance with the filing requirements of the regulators of the various stock exchanges
- the prospectus
- compliance with corporate governance best practice
- coordination with due diligence group as they conduct the legal due diligence
- amending existing state owned enterprise documents such as articles of association, third party consents, SEPs shareholder agreements and employee share option plans
- research and publicity guidelines.

All legal documents including suppliers' contracts should pass through the legal working group so that there is a consistent approach on, for example, indemnities.

This group should review agreements which were signed before work started on the IPO, but have an effect on the IPO process, as soon as possible, for example SEP shareholder agreements. This is to check if there are any issues which may be in conflict with the IPO objectives or may not be acceptable to the listing authority.

26.3 ATTENDEES AND MEETING SCHEDULE

Initially the focus of the work of this group will be on South African agreements and legal aspects, in which case most of the work will be handled by the Government and state owned enterprise's lawyers.



If it is agreed that listing is to take place outside South Africa, overseas lawyers will be needed to advise on the listing rules and filing requirements and to coordinate such filings, including the prospectus.

Once the global coordinators have been appointed and distribution of the shares is being considered, lawyers for the global coordinators, often referred to as “legal advisers to the underwriters” must be appointed.

26.4 ADDITIONAL APPOINTMENTS

The range of lawyers required could include:

- South African legal adviser to the Government
- South African legal adviser to the state owned enterprise
- UK or US legal adviser to the Government (in the event of a LSE or NYSE listing respectively)
- UK or US legal adviser to the state owned enterprise (in the event of a LSE or NYSE listing respectively)
- South African adviser to the underwriters (global coordinators)
- UK or US legal adviser to the underwriters (if a LSE or NYSE listing respectively).

If there is a SEP then consideration should be given to appointing separate legal teams for the SEP and for the state owned enterprise, especially if the shareholder agreement needs to be amended.

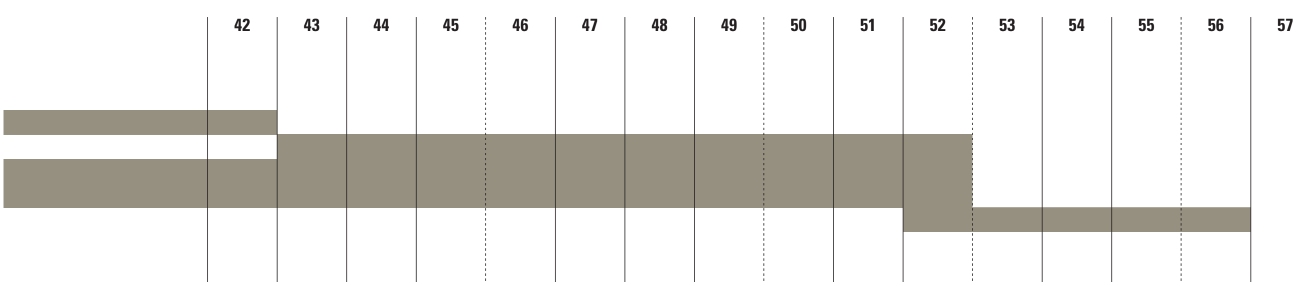
26.5 TASKS

The tasks of the legal working group are as follows:

- to review the proposed transaction and consider any issues that may affect the proposed IPO
- If it is decided to have a listing overseas for example in London or New York, international lawyers will be required.

The lawyers will then:

- draft the agreements with service providers
- advise on legal issues giving rise to potential barriers to listing in any listing jurisdiction, including issues arising out of the shareholders’ agreement and memorandum and articles of association
- undertake the legal due diligence process
- advise on the legal implications of the various offer structures, including in particular any HDI offer structures



- draft the registration and application forms setting out some terms and conditions of the offer
- draft the prospectus
- liaise with the other working groups and stakeholders to coordinate the signoffs required for the prospectus and other filings
- draft the underwriting and other final listing agreements.

26. 6 MILESTONES/CRITICAL PATH

The key milestones for this working group are to complete the due diligence process and sign-off the prospectus by the agreed delivery dates. Failure to do so will mean that the share offer cannot be launched.

26.7 INTERACTION

The legal working group will need to keep close contact with nearly all the other working groups because:

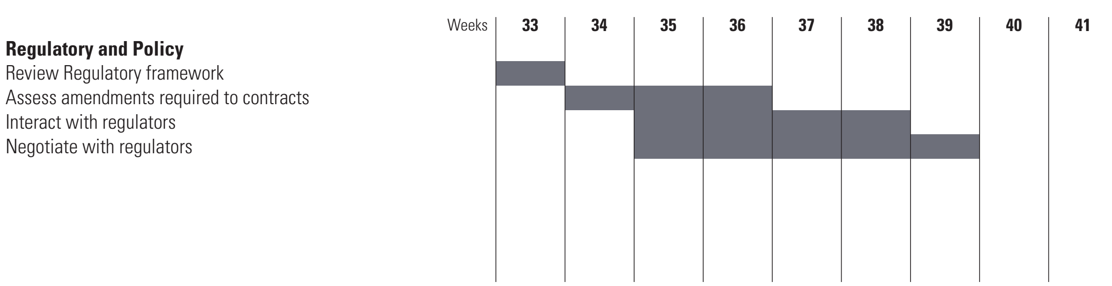
- most working groups will require the appointment of one or more service providers or suppliers for which an agreement will be required
- many of the activities of the other working groups will need to be included in the prospectus, for example, an explanation of the terms and conditions of the retail and institutional offer will need to be drafted for the prospectus and approved by the retail and institutional marketing working group
- the activities of every aspect of the IPO process must fully comply with the listing rules. Even all the communication on roadshows must be legally approved.

27. REGULATIONS AND POLICY

27.1 OBJECTIVES

The objective of the regulatory working group is to ensure that regulatory and policy issues that affect the IPO are identified and dealt with.

Many of the assets owned by Government are in regulated industries and have a monopoly on the business. Depending on whether the industry restructuring and introduction of competition has occurred prior to the IPO decision, or whether it is an ongoing process, the industry restructuring issues can have a significant impact on the feasibility of an IPO, and the successful implementation of the IPO within the agreed timetable. It is therefore vital to understand the industry in which the state owned enterprise operates and the current and anticipated changes to that industry.



To the extent possible, necessary policy and regulatory amendments should be implemented prior to appointment of key advisers, during the pre-planning and initial planning stages. There may however, for reasons not foreseen at the time, be a need for regulatory or policy changes to be implemented during the IPO process.

27.2 ROLE AND RESPONSIBILITIES

The role and responsibilities of the regulatory working group are to:

- identify the regulatory environment of the state owned enterprise
- interact with the Regulator and the JSE
- identify the issues that may impact on the IPO.

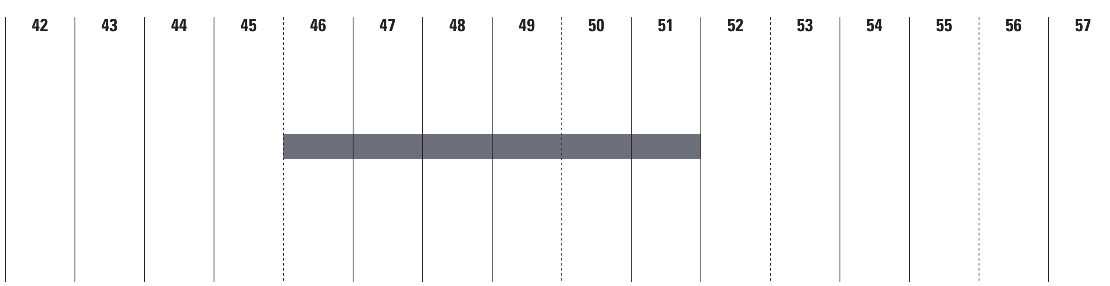
Issues that may impact on the IPO include:

- sector regulations
- tariff setting structures and processes
- Government policy
- local and relevant international securities exchange regulations
- Companies Act
- PFMA
- any other regulations to which the state owned enterprise is subject or may become subject as a result of the IPO
- amendments (actual or proposed) to any of the above.

27.3 ATTENDEES AND MEETING SCHEDULE

Attendees should include the following:

- a financial adviser
- a state owned enterprise representative (their internal IPO representative for the due diligence team)
- a state owned enterprise financial adviser
- an IPO Project Team representative (e.g. transaction manager)
- a representative from the appropriate regulator



- National Treasury representative (PFMA)
- policy department representative
- lawyers – state owned enterprise's, Government's, financial adviser's
- SEP representative.

27.4 ADDITIONAL APPOINTMENTS

There should be no need to make additional appointments at this stage, other than the legal advisers appointed under the earlier phase. If necessary, there may be a requirement to appoint a legal firm to investigate specific issues identified, or to expand the mandate of the existing legal advisers, if special reviews outside of the original scope of work have been identified.

It is important to ensure that it is clear which advisers are representing which party.

27.5 TASKS

The tasks involved should include the identification of the following:

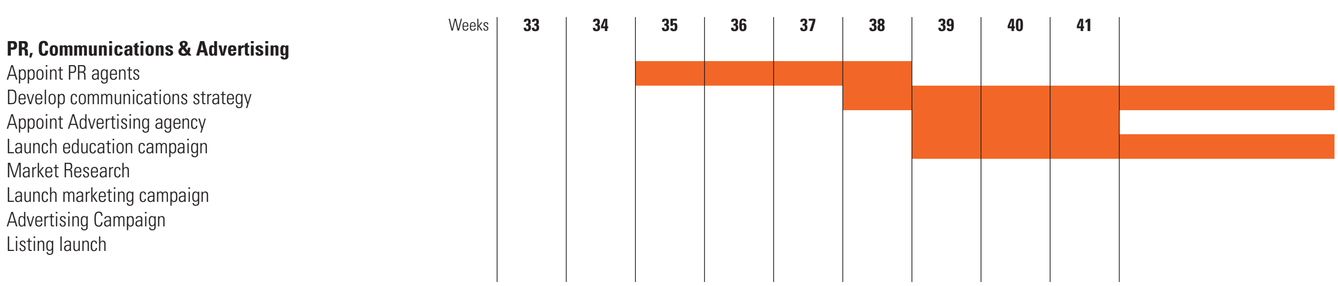
- all regulations to which the state owned enterprise is currently subject
- regulations to which the state owned enterprise will be subject after listing (including securities exchange requirements of various jurisdictions)
- pending amendments to the above.

Identification of regulatory issues to be addressed in order to achieve a successful IPO should include:

- issues on existing legislation that are not acceptable to the securities exchange officials (non-competitive practices, onerous obligations, conflicts with PFMA etc.)
- amendments to the state owned enterprise's articles or business model required in order to comply with new regulations to which they will be subject after listing.

Once the regulatory issues are identified, the working group must prepare an action plan on how to address the issues identified, through:

- interaction with the regulators (securities exchange officials, industry regulators, National Treasury etc.)



- recommendations as to changes required
- application to appropriate authorities/bodies for amendments.

Throughout the IPO process, the regulatory working group will need to understand Government policy, or changes to that policy, that will impact on the state owned enterprise, or will be affected by changes in regulations.

27.6 MILESTONES/CRITICAL PATH

The critical path issues are potentially numerous, as delays in the changing of policy and regulations can have a substantial impact on the timetable, due to the government process that needs to be followed, before affecting changes to policy or regulations.

As already stated, it is preferable that any amendments to policy or regulations be addressed before the execution stages and the financial advisers are appointed. Even if this is done, there are still issues that could impact on the timetable such as:

- terms of identification and rectification of issues in existing legislation
- state owned enterprise practice that will need to be amended, to qualify for the listing requirements.

All regulatory issues need to be identified and rectified early in the process, rather than waiting for the listing date. Engagement with the securities exchanges therefore needs to happen as soon as the decision to list has been made, if not before.

27.7 INTERACTION

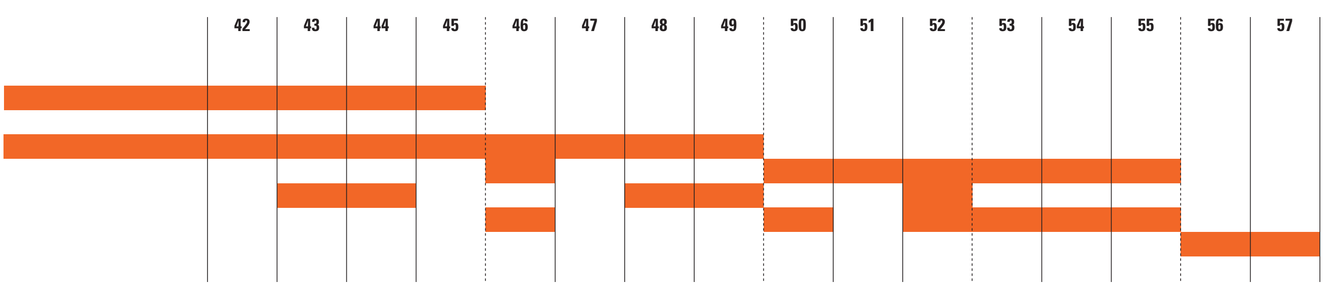
The regulatory working group will need to interact with the:

- legal working group
- due diligence working group
- valuation working group.

28. PR, COMMUNICATIONS AND ADVERTISING

28.1 OBJECTIVES

The objectives of the PR, communication and advertising working group is to ensure that the IPO is communicated to Government stakeholders, including the general public, in a thoroughly considered and coordinated manner, designed to promote interest in the process, and the shares, in order to drive sales.



Good communication and public relations are vital to the success of the process. It is often considered the main driver of the retail offer, and to a lesser extent the institutional offer. The retail working group, for example, can make sure that investors have the means by which to apply e.g. application forms readily available, but potential investors are unlikely to apply if the publicity surrounding the IPO is not positive.

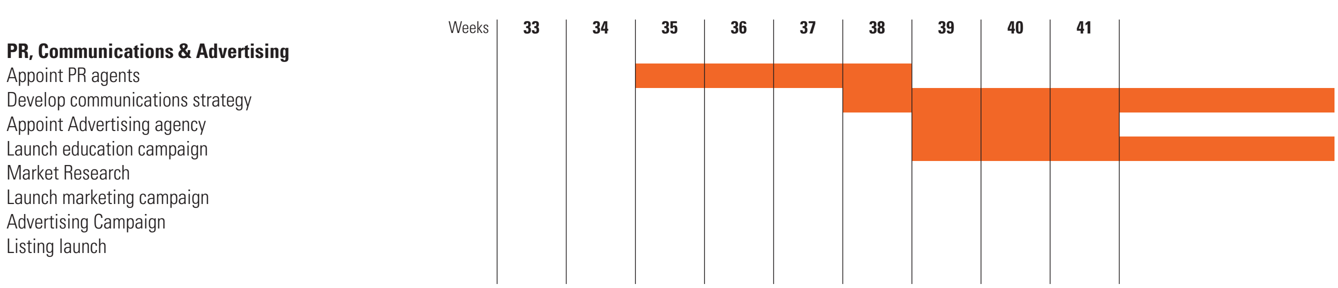
28.2 ROLE AND RESPONSIBILITIES

The role of the working group can include one or more of the following, namely to:

- develop the overall communications campaign concept, approach and strategy
- deliver an input in the offer structure and retail offer structure discussions
- develop, if necessary, draft educational, marketing and advertising material such as leaflets and Q&A brochures
- control the communication with the media ensuring that all media questions are answered fully and without ambiguity
- understand the key investment stories, and how the state owned enterprise has, and will perform, relative to others in the market
- develop a strategy for maintaining media interest in the IPO, especially during the last few weeks of the Offer Period
- prepare press releases, speeches and presentations, set-up and manage press conferences and launch events
- monitor press coverage and prepare suitable responses
- either undertake, or organise, a market research programme.

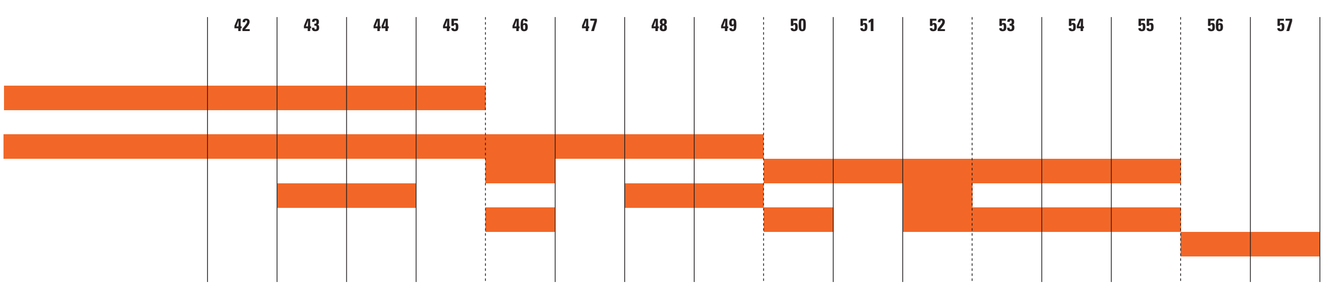
The PR and communications of an IPO is different to a normal campaign, because:

- there are tight restrictions on what can and cannot be said in connection with promoting the offer – Statements such as “the shares are good value. You should buy them” cannot be made directly by the Government, the state owned enterprise or their agents. If there is a US listing, there are strict additional laws from the Securities and Exchange Commission in Washington, D.C. (USA) (SEC) on what can and cannot be said. Failure to comply with these laws can result in heavy fines and/or imprisonment. It is recommended that US counsel issue guidelines to all involved on these laws



- the IPO is likely to be in the public domain for many months – This includes the months before any formal announcements. If not managed properly the media will become bored with the story. This will result in publicity declining just at the time when you want maximum interest, i.e. around the end of the offer period
- there is only a short time-frame during which investors can participate – i.e. apply for shares, even though there has been months of talk about the IPO. It is therefore important that the media creates enough interest during the final days of the offer
- all actions are likely to be heavily scrutinised by the media – When issuing statements great care must be taken, as the media may pick earlier comments and create unnecessary problems. All parties must be aware of what is being released to the media, and if necessary have input.
- all information that is price sensitive must be published in the prospectus – Once issued no further price sensitive information can be released
- the main focus of the communications needs to be on creating positive awareness of the share offer – Independent bodies such as journalists must be encouraged to give positive recommendations
- there is only one opportunity to get the PR right – Once the offer has closed the project ends
- there will be little public clarity on the role of Government and the state owned enterprise – Members of the public will not be aware of the role of the Government and the role of the state owned enterprise, therefore both parties will be under the spotlight, and any publicity will reflect equally on both parties.

The media should not be used by any party to win an argument. Negative stories, for example about negotiation problems between the Government and state owned enterprise which will inevitably occur, should be kept away from the media. One negative story can create a chain of negative press which, once started, is difficult to stop. Such stories can overshadow the IPO completely and dampen investors' enthusiasm, which in turn damages the reputation of both parties (Government and state owned enterprise).



28.3 ATTENDEES AND MEETING SCHEDULE

The working group should also be attended by:

- an IPO Project Team communications manager
- a public enterprises communication department representative
- a representative from GCIS
- a GC representative
- a state owned enterprise representative.

Each Government department, the state owned enterprise and some senior advisers on the project are likely to have their own PR adviser for their normal day-to-day business. If they are all to be involved in the project, this could result in a dozen or so firms being involved. It is advisable that only one PR adviser be appointed jointly by the Government and the state owned enterprise to handle all the PR issues, or there should be just one PR adviser for all Government departments and one for the state owned enterprise.

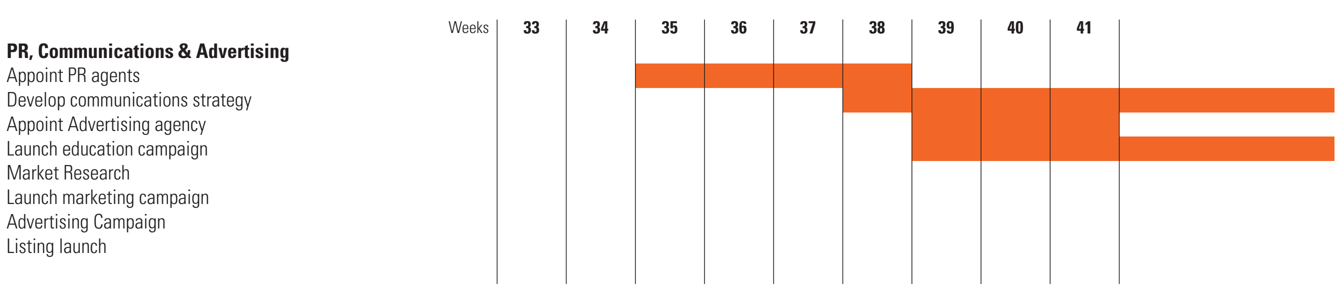
28.4 ADDITIONAL APPOINTMENTS

If the Government and state owned enterprise are going to appoint their own PR adviser, the responsibilities of each party must be made clear. Any questions relating to the IPO process should be handled by the Government's PR agent, and any questions relating to the state owned enterprise should be handled by the state owned enterprise's PR agent.

To create harmony with the various PR advisers, it is recommended that an RFP is issued for the role of PR and communications adviser, to all parties. The tender should also be issued, to those firms that specialise in IPOs.

As the role can range from just liaising with the media to being involved in a wide range of activities discussed above, before issuing the tender, the Government and state owned enterprise, should be clear that if:

- a joint appointment is preferable, the RFP should clarify what role they want the firm to play
- the firm is to advise on media handling during the offer period, then an appointment need not be made until a month or so prior to the official launch of the IPO
- the firm is to be involved in advising on the offer structure, an appointment should be made earlier.



The greater the role, the greater the fee, but if there is not one existing internal resource to handle all activities, the appointment of one firm should avoid conflict of interest between the existing PR advisers, Government departments and the state owned enterprise.

28.5 TASKS

One of the first tasks of the Group is to compile a communications strategy. This must include details on:

- the different elements of the campaign
- how interest will be maintained
- who the target audience is, and how they will be reached
- who can say what and when
- the timetable for release of information.

Ahead of each major press announcement a press release, with detailed questions and answers for the media, must be drafted and approved so that all parties state the same.

28.6 MILESTONES/CRITICAL PATH

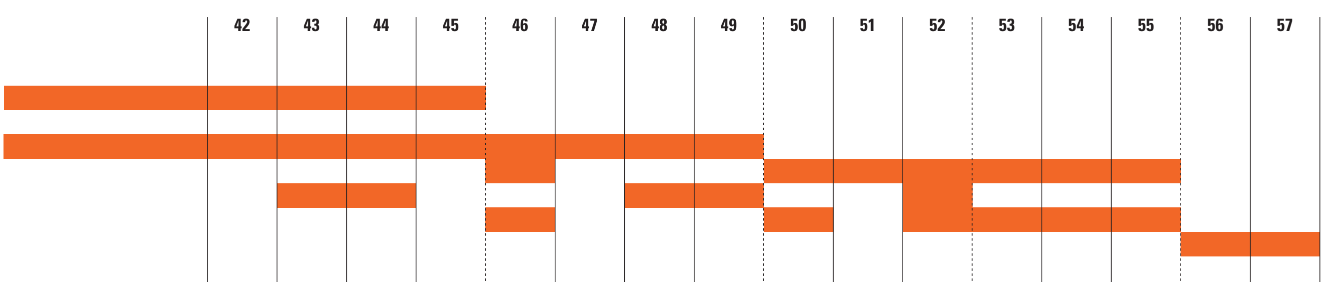
The key milestones are based around the key press announcements, which should include:

- launch of the education campaign
- launch of the marketing phase
- launch of the share offer
- close of the share offer
- listing.

Between these announcements certain issues may be made public via a press announcement and/or press conference.

28.7 MARKET RESEARCH

If there is to be an extensive retail offer encouraging participation by all citizens consideration should be given to obtaining feedback on how the objectives are being met, how members of the public perceive the IPO, and likely levels of demand.



The main objectives of such a market research programme is:

- benchmarking against previous offers and/or against time. For example, it is unlikely to tell how much money will be raised from retail investors, but if surveys are repeated at regular intervals over time, one can tell whether the likelihood of someone buying shares has increased or decreased
- analysing whether the messages being sent are being correctly interpreted. Often those involved in the project are so closely involved that the obvious is overlooked.

Such research is usually undertaken by:

- quantitative fieldwork i.e. interviewing a large number of people by phone and in person, with a small list of questions or
- focus groups, in which a dozen or so people are briefed together on the subject and asked to give feedback. Such sessions can last an hour or more.

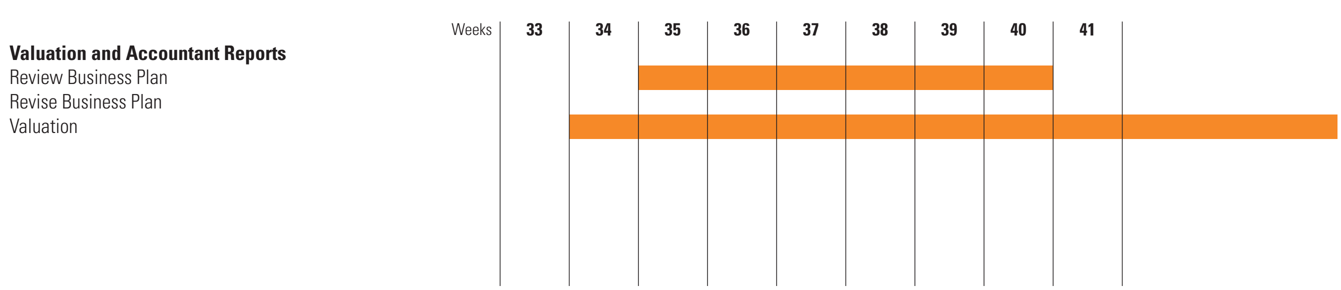
Market research is usually handled by a specialist bureau. Before going out to tender, the PR and communications working group should review whether such a programme is of value, and the extent thereof. There is little point in starting a programme and not completing it, as the reality presents itself later with benchmarking, to see whether the project is gaining awareness and the propensity to buy shares is increasing.

28.8 ADVERTISING

The extent of any advertising will depend primarily on the size of the retail offer.

The state owned enterprise may also wish to use the advertising campaign to create general market awareness of their brand. The role of the advertising agency and size of the budget will be a function of:

- the advertising media to be used – TV advertising being more expensive than newspapers and radio
- the extent of the advertising – e.g. daily inserts in newspapers
- the target audience for the adverts – are the adverts to be aimed at those most likely to buy shares, or to the whole population so as to create maximum awareness
- the method of production of the adverts – for example do they require expensive on-site shooting locations, or can studio or library material be used
- whether a new advertising theme is to be created – the campaign could be based on the state owned enterprise's normal advertising theme.



28.9 INTERACTION

The working group will interact closely with the:

- institutional marketing working group
- retail working group.

29. VALUATION AND ACCOUNTANT REPORTS

29.1 OBJECTIVES

The objective of the valuation working group is to advise Government of the most accurate possible value of the SOE.

If the state owned enterprise is also hoping to raise funds by issuing new shares through the IPO process, the state owned enterprise's role will also include agreement on the valuation.

29.2 ROLE AND RESPONSIBILITIES

The valuation working group's main role is to prepare a valuation of the state owned enterprise, which will be used as the basis for deciding the offer price, by the offer structure working group.

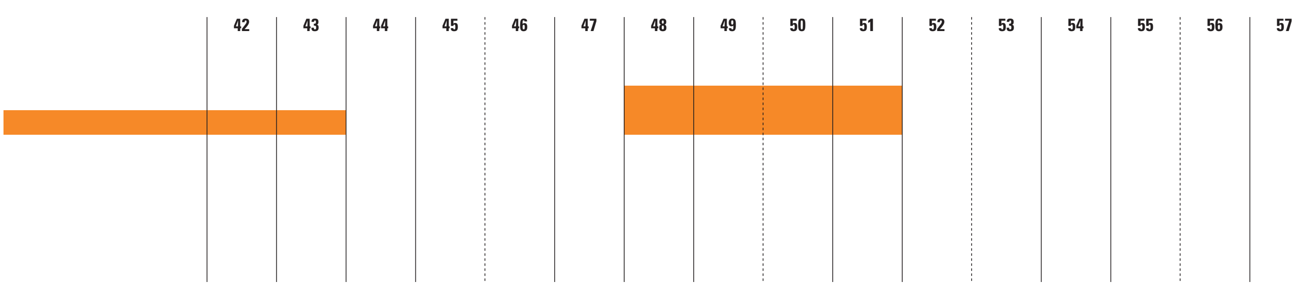
29.3 ATTENDEES AND MEETING SCHEDULE

Attendees should include the following:

- a financial adviser (corporate finance representative)
- GC representatives
- a state owned enterprise representative
- a state owned enterprise financial adviser
- an IPO Project Team representative (e.g. project manager)
- a significant investment representative (e.g. unlisted subsidiary or equity investment)
- a significant investment financial adviser.

The state owned enterprise is important in the valuation process as it generates the business plan and budget, and the adviser will need to interact with management in order to understand and accept the business plan and budgets, and the underlying assumptions in them.

Meetings will be held as often as required during the valuation process, with escalation policies in place, for identification and analysis of internal and external factors affecting the valuation.



29.4 ADDITIONAL APPOINTMENTS

There should be no need for the appointment of additional advisers. However, if the state owned enterprise is also raising funds through the IPO process, they may wish to appoint one or more independent investment banks not involved in the process, to confirm the appropriate valuation methodology.

If there is a significant investment that needs to be separately valued, the entity to be valued may appoint their advisers at this stage, if they have not already done so at the due diligence stage.

29.5 TASKS

The valuation process comprises a number of stages. It requires a number of building blocks, and is generally a process of price discovery, requiring numerous iterations before the final value is decided.

29.5.1 VALUATION METHODOLOGY

At the early stage of valuation, Government may wish for the valuation to be prepared in accordance with more than one methodology, in order to assess the impact of the choice of valuation methodology. The underwriters' equity research teams will provide their valuations and preferred methodologies, at the offer structure stage.

Agreement is required as to which appropriate valuation methodologies to consider. It is important to understand the impact of different valuation methodologies and the factors affecting the decision as to which methodology is most appropriate.

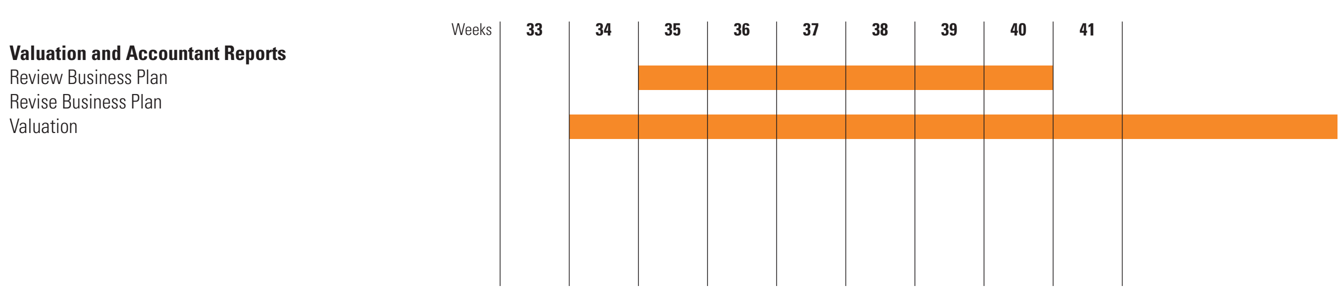
The various methodologies include:

- discounted cash flow
- price-earnings and dividend yield
- sum-of-the-parts.

29.5.2 VALUATION PROCESS

The valuation process includes the following:

- reviewing of state owned enterprise's business plan
- discussions with state owned enterprise management in order to interrogate the business plan and budgets



- reviewing of relevant state owned enterprise information, including significant contracts, initiatives that may impact on the state owned enterprise's value (e.g. trade union negotiations and negotiations with the SEP)
- development of financial models by the financial adviser
- provision of comparisons with relevant local and international listings
- building an investment case from the above processes (covered under offer structure)
- presentations to analysts at the syndicate banks to test the investment case in the market, prior to drafting the research report and commencing the pre-marketing (covered under offer structure).

29.5.3 SIGN-OFF PROCEDURES

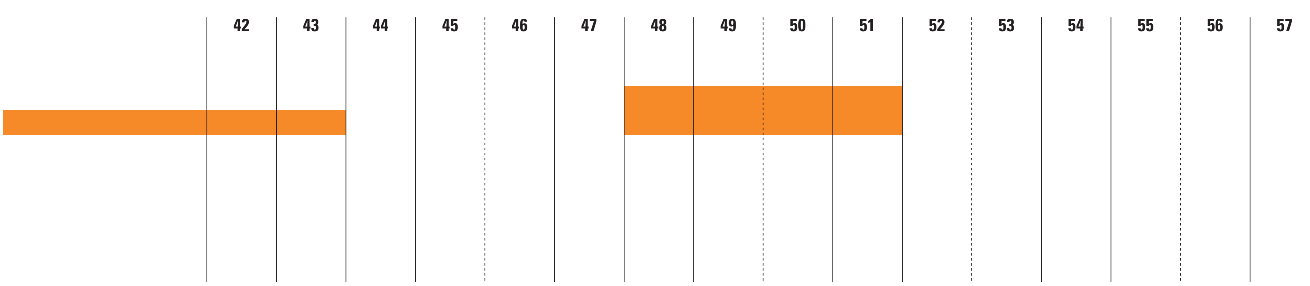
The value may vary significantly depending on external market conditions, and is generally extremely time sensitive. It is likely that there will be a number of valuations presented to the Government team during the process, as the first valuation will be an indicative valuation for Government to assess whether the value considered achievable at this early stage of the process, is acceptable.

It is vital that:

- Government objectives have been clearly established
- buy-in on these objectives have been achieved from all the relevant stakeholders
- government must have identified which objectives are primary, and which are secondary, in order to make the decision as to whether a valuation is adequate in order to achieve its financial and other objectives, and be prepared to approve a price range at the actual listing stage.

There is the potential for the value to vary from the:

- date of the initial decision to proceed with the IPO (although no formal valuation will have been performed at this stage), to
- date of the first indicative valuation, to
- date that the decision is taken on a firm listing date, to



- listing date itself, due to the potential volatility of the domestic and international financial markets.

There needs to be regular interaction between the valuation working group and the IPO Project Team, in order to allow the IPO Project Team to identify and appropriately address issues affecting the valuation, including:

- internal issues (such as negotiations with the SEP, impact of recommended regulatory amendments)
- external issues (market movements).

Government needs to be aware of the impact on value, and therefore potential for fundraising, on a regular basis. Although "formal" valuations using audited results subsequent to year-end are expensive and time-consuming, regular updates on value need to be prepared to the extent that:

- there is a significant delay between preparation of the valuation and the approval of offer date; or
- there are significant internal or external factors affecting the value that arise after the formal valuation has been performed.

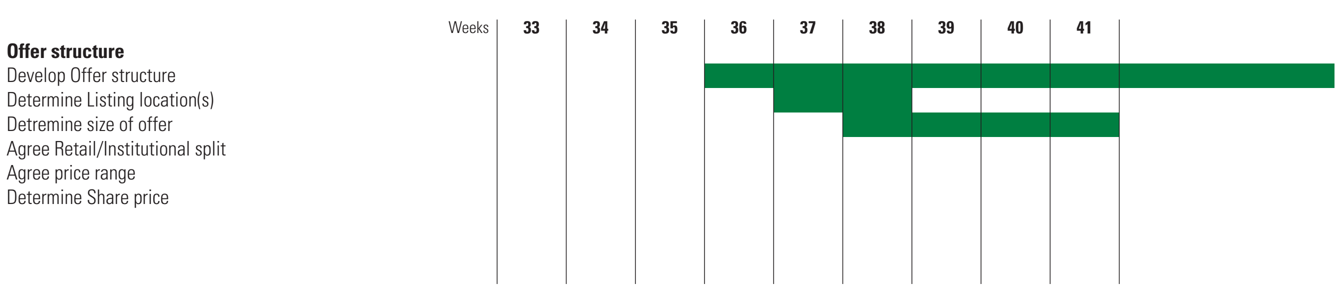
To the extent that the state owned enterprise is also raising capital through the process, there must be a mechanism or forum, where these issues can be discussed with them as well.

29.5.4 STATE OWNED ENTERPRISE INVOLVEMENT IN THE VALUATION

The issue of raising additional capital by the state owned enterprise needs to be addressed at the planning stage of the IPO, as it can have a significant impact on the valuation. If the decision is taken at the planning stage that one of the state owned enterprise's objectives is also to raise capital, a clearly defined process regarding valuation and the valuation process needs to be agreed upfront.

A dispute resolution process, in the event of either different valuations or valuation methodologies being presented by the financial advisers to Government and the state owned enterprise, should also be agreed.

A clearly laid-out process, by which the offer price is to be determined must be defined as Government's objectives differ from the objectives of the state owned enterprise, and the attainment of certain of their social objectives may cause Government to either, offer the



shares at the lower end of the recommended price range, or to list at a price, or a time that is not acceptable to the state owned enterprise.

If the state owned enterprise has significant investments in other unlisted businesses, it is likely that these will need to go through a separate valuation process. Depending on the size and significance of the investment, these will need to be coordinated with the state owned enterprise, and the significant investment entity.

29.6 MILESTONES/CRITICAL PATH

The valuation working group is dependent on the due diligence working group for its input. The valuation process is an iterative process, in that indicative valuations can be performed throughout the process, but the final valuation can only be prepared and approved once the final due diligence report has been presented with all necessary signed-off documentation, including audited results, for the latest six months.

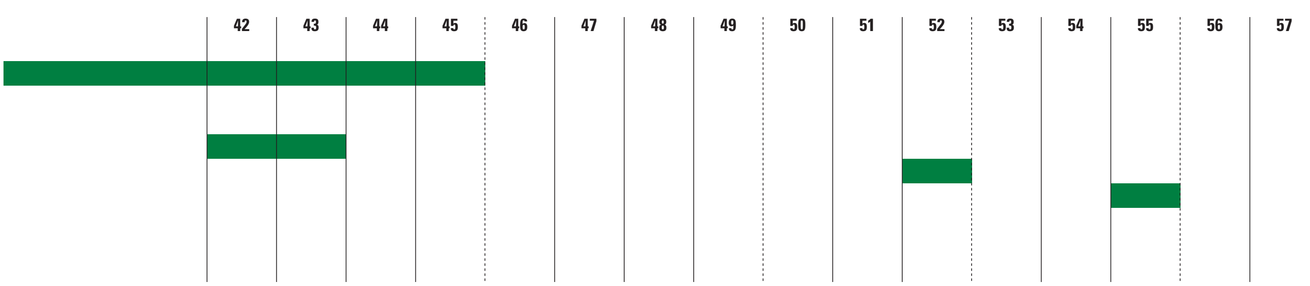
At an early stage in the IPO process, following the appointment of the financial advisers, the financial advisers can present to Government their recommended valuation methodology, and prepare an initial indicative valuation, based on information available at that date for each methodology presented, so that when the final due diligence report is available, the methodology has already been agreed and the financial advisers merely need to prepare the valuation.

If there are delays in the IPO process or the listing date subsequent to the sign-off of the valuation, the valuation may need to be redone as the JSE and other listing regulatory authorities require current information (for example audited results that are not more than six months old), and this may require the due diligence to be updated, which will impact on the valuation.

29.7 INTERACTION

Valuation working group needs to interact with the following groups:

- due diligence
- offer structure
- prospectus drafting.



30. OFFER STRUCTURE

30.1 OBJECTIVES

The objectives of the offer structure working group are to devise the optimum offer structure for the sale, and oversee its implementation.

30.2 ROLE AND RESPONSIBILITIES

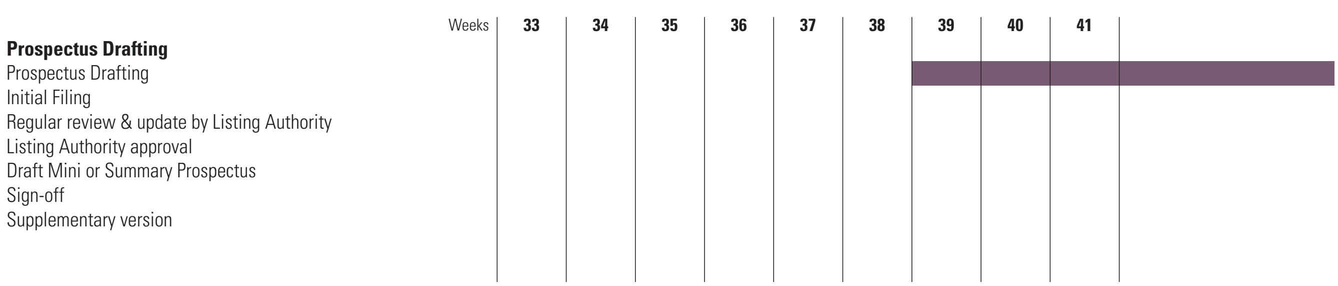
The role of the offer structure group is to determine the optimum way of implementing the IPO. The range of issues to be addressed includes:

- where the shares should be listed i.e. JSE and/or LSE or NYSE
- whether the institutional marketing of the shares should be undertaken globally or domestically
- whether there should be a retail offer, and whether it should be a mass retail offer, or just for a limited number of retail investors
- the likely allocation of shares between retail and institutional investors
- the likely percentage of the state owned enterprise to be sold, and the indicative size of the IPO.

Most of the work of this group is in the early stages of the IPO process. Once most of the key decisions have been taken, the working group will either be disbanded, or be reformatted as the institutional marketing working group, and the retail working group.

Without these key decisions many of the other working groups cannot start detailed planning. For example, the decision on whether to list on the NYSE will affect the work of the legal working group. The size of the intended retail offer will have an impact on the work of the retail working group.

As there is no simple answer to each of these issues, the process can be an interactive one and there may be many cycles, before a decision can be made. For example, the decision to list on the NYSE will partly depend on the legal group's advice on the additional workload, the cost of such a listing, and the corporate structure. The corporate structure cannot be determined until it is known if Securities and Exchange Commission in America (SEC) approval is being sought.



30.3 ATTENDEES AND MEETING SCHEDULE

The following should be represented in this working group:

- Government
- the state owned enterprise
- financial advisers
- global coordinators (if appointed)
- Government's legal adviser.

Initially this group will need to meet frequently, possibly weekly.

30.4 ADDITIONAL APPOINTMENTS

No additional appointments are usually required.

30.5 TASKS

The key tasks are as follows:

- to determine the range and size of offers
- to agree on which stock exchanges the state owned enterprise is to be listed
- to determine the size of the retail offer
- to finalise the offer structure details.

30.6 MILESTONES/CRITICAL PATH

The determination of the exchange in which the state owned enterprise will be listed is determined by a number of considerations as stated above. Table 11 indicates perceived advantages and disadvantages of listing overseas. It is assumed that the JSE will always be considered for a Government of South Africa asset.

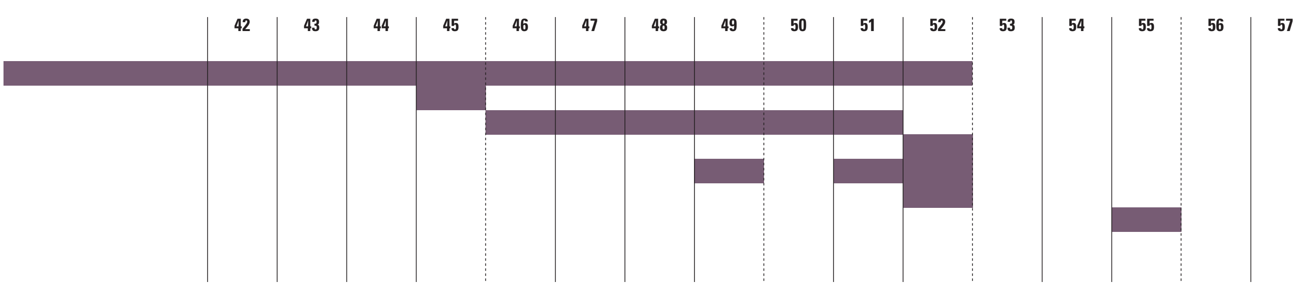


Table 11 – Advantages and disadvantages of an overseas listing

Advantages	Disadvantages
• Additional source of capital for the IPO • Raises the international profile of the state owned enterprise • Raises the profile of South African capital markets • Assists in future fund raising • Requirement of a SEP	• Additional cost, especially to comply with international accounting and disclosure standards • Requires appointment of international advisers, in particular lawyers and investment bankers • International advisers are more expensive and are likely to require payment in foreign currency • More extensive international roadshow required

30.7 INTERACTION

This working group will need to work closely with the:

- retail offer, for example when deciding the size of the retail offer
- institutional marketing group, for example, when deciding the size of the institutional offer
- legal, when considering listing overseas.

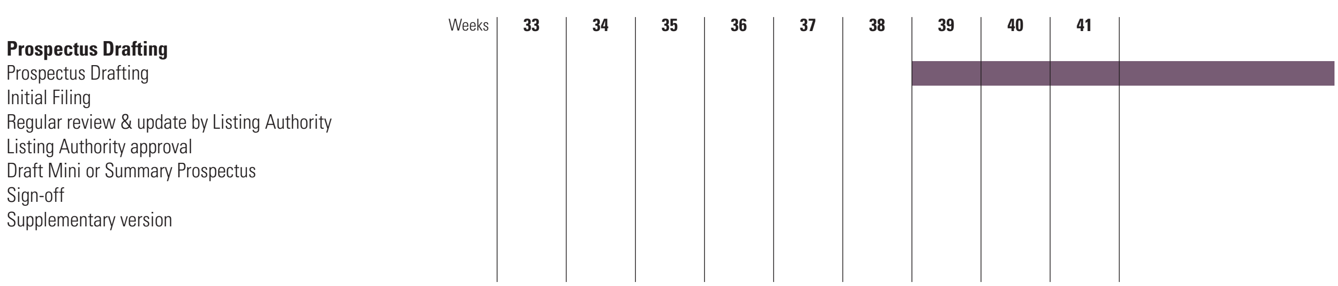
31. PROSPECTUS DRAFTING

31.1 OBJECTIVE

The objective of the prospectus drafting working group is to draft the prospectus, and to ensure that it is 100% accurate. Any investor buying shares in the state owned enterprise is likely to receive an opinion and recommendation on whether to buy from a variety of sources. However, legally, their decision to buy must be based only on the contents of the prospectus, thus it has to be 100% accurate.

31.2 ROLE AND RESPONSIBILITIES

Every IPO requires a prospectus. For a primary sale where the shares are not already trading and listed, the prospectus will act as the listing particulars as well. The contents of the prospectus are clearly set out by the listing authority/ies responsible for the stock exchanges on which the shares are to be listed.



The Prospectus is the definitive sale document and must contain all material information on the state owned enterprise. Typically it will include:

- a description of the business
- three-year accounts
- financial projections including working capital and indebtedness
- a statement on the dividend policy
- company directors and their remuneration
- details of the offer structure and any terms and conditions.

Deciding on which organisation drives the drafting of the prospectus for a Government IPO, depends on the type of sale and the relationship between the Government and the state owned enterprise. For private share offers the document is normally drafted by the state owned enterprise. For a secondary sale it is more likely that the Government will lead the drafting, as the process is mainly a Government initiative.

The drafting of the prospectus is often the main source of conflict between the Government and the state owned enterprise. The Government will want to maximise proceeds and create as positive a view on the state owned enterprise as possible, while the state owned enterprise is likely to take a more cautious approach, so that after listing it can over-achieve, and the shares will perform well.

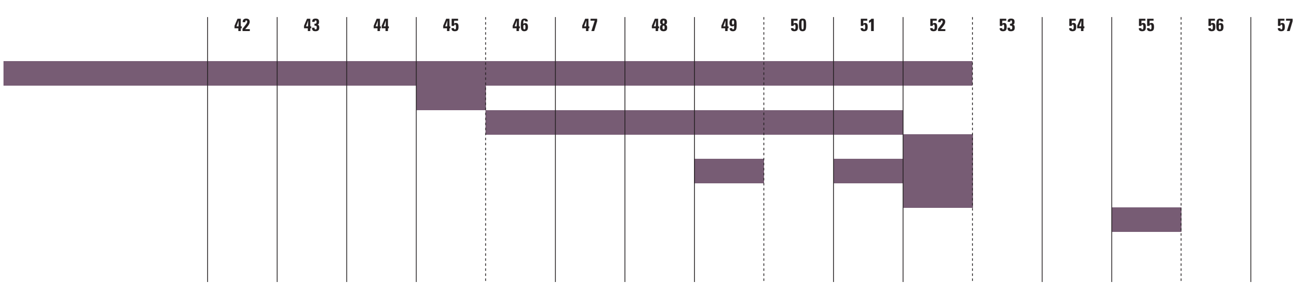
At all times, the view the prospectus creates of the state owned enterprise must be fair and accurate, as it is the investors only source to base their decision on.

31.3 ATTENDEES AND MEETING SCHEDULE

The following should be represented in this working group:

- Government
- state owned enterprise
- financial advisers
- SOE and Government's lawyers
- accountants.

To start with, this working group may meet infrequently, as decisions on offer structure are made. The working group may also be divided according to the sections of the document so that, for example, the accountants will draft the financial section, and the lawyers will draft the terms and



conditions of the offer.

Two or more months prior to publication, the different sections of the document are usually brought together, to create one document. Towards the launch of the offer this working group will be meeting daily.

31.4 TASKS

The key tasks are:

- to agree on which stock exchange(s) the state owned enterprise will be listed
- to have each party draft their own section, for example the accountants should draft the financial section, etc
- to combine all the sections drafted by the various parties into one document
- to file the draft with various listing authorities
- to sign the document off.

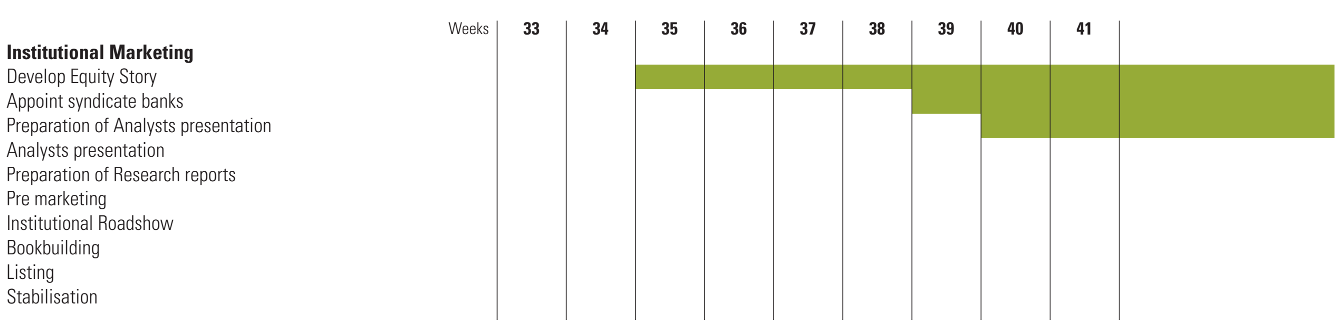
31.4.1 THE PRICE RANGE

The prospectus will usually include a price range for the shares and other key offer-related statistics, such as the size of the offer. As such information is time-sensitive, the price range will depend on the state of the market at the time. It has a “sell by” date. The normal shelf-life for such a document is twenty one days. If the marketing to institutions is likely to last more than three weeks, a version that is not time-sensitive (with the key offer statistics such as the offer price being replaced by a space or symbol) can be published. This is called the pathfinder or red herring prospectus. Apart from key offer statistics, the pathfinder will be the same as the full prospectus in all other respects, and so its publication will be an important milestone.

For the Telkom IPO, special approval was sought from the JSE, which would have allowed for a prospectus to be published without a price range. In the end this dispensation was not used and the prospectus did include a price range. For a US listing, there are rules on the spread of the price range i.e. it cannot be more than 10%.

31.4.2 SUMMARY OR MINI PROSPECTUS

If the offer is to include a large retail tranche, the printing and distribution costs of producing a full prospectus could be prohibitive. A mini or summary prospectus with a maximum of about thirty-two pages, compared to the two hundred pages of a full and pathfinder prospectus should be produced. The summary prospectus will contain:



- details of the offer including the retail tranche
- a summary of the state owned enterprise's business and its key financial information
- key risk factors that affect the state owned enterprise's performance
- how to apply terms and conditions of application, and special rules relating to the retail offer e.g. bonus share rules
- an application form.

It must be produced to the same standard as the full prospectus and, where possible, include cross-references. It is recommended that the full prospectus is drafted first, and that the summary prospectus is extracted from the completed document.

31.4.3 COSTS

The production of a prospectus, especially for a primary offer, is time consuming and expensive. The following guidelines should assist in minimising costs:

- the different sections should be drafted in smaller groups, by key relevant persons
- drafting working groups should have a limited number of attendees. It should be kept in mind that BEE groups will want to, and should be, part of the drafting of the documents, and therefore should not be excluded on the basis of needing to keep the working group small
- comments must be provided to the drafting group by other parties on a timely basis
- proofs should be circulated in accordance with an agreed timetable, so that senior persons who will only read a few drafts, can be booked ahead of time
- the document should not be transferred to the printer's typesetting system until late in the process, as printer's turnaround fees are considerably more than a secretary
- the style, formatting etc. should be agreed in advance so that there is consistency from the start.

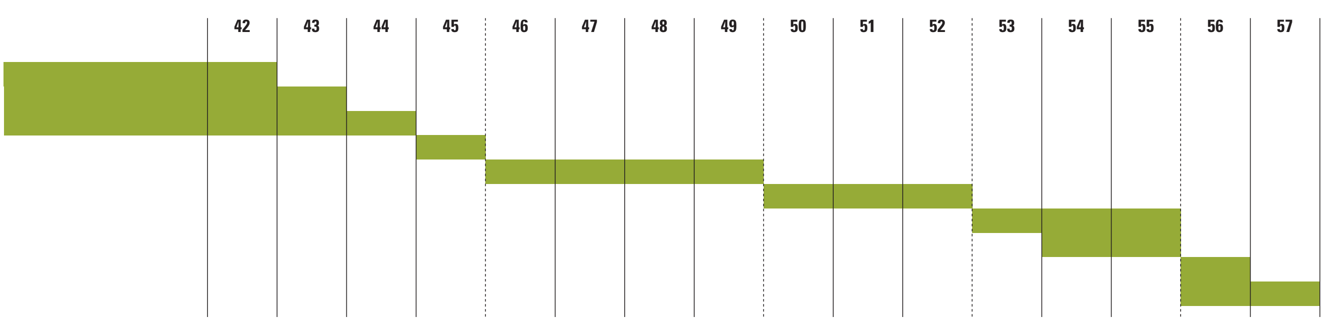
31.5 ADDITIONAL APPOINTMENTS

No additional appointments will be required, however, the parties involved in drafting the document will need to allocate one or more persons full-time, as it will become very labour intensive.

31.6 MILESTONES/CRITICAL PATH

The key time critical tasks are:

- to file the document with the listing authorities by the agreed dates



- to sign the document off a day or so before the launch of the share offer.

31.6.1 FILING PROCEDURE WITH RELEVANT EXCHANGES

The filing procedure will require that drafts of the document be sent to, and approved by, the regulator, or listing authority, on which the shares are being listed.

31.6.2 SIGN-OFF PROCEDURES

All investors, in particular retail investors, are warned that their decision to invest must be based solely on the information contained in the prospectus. It is a legally binding document and the directors of the state owned enterprise, and the Government, are required to take legal responsibility for its contents. The due diligence and verification process in section 25 will make sure that every statement is true, and can be defended.

However, it is important that the final version of every page is signed off by a representative from Government and the state owned enterprise. Each page should be physically signed and timed, confirming that that version is the last one.

31.7 INTERACTION

This working group will need to liaise with:

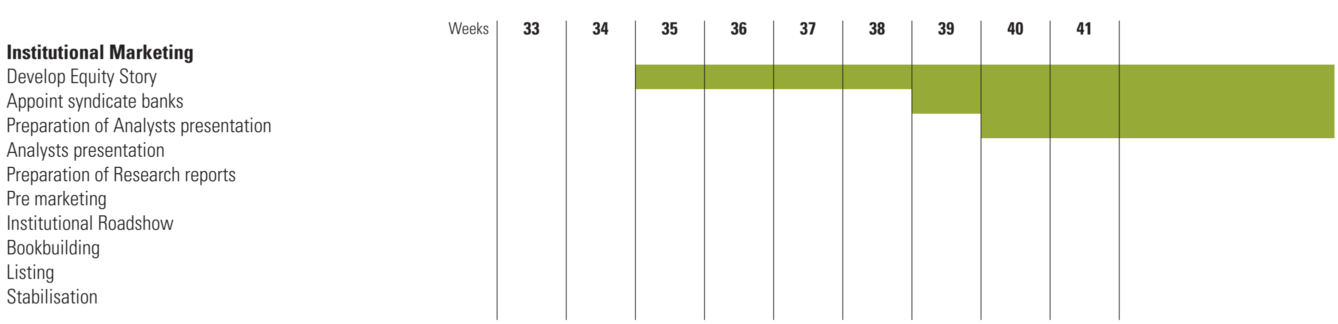
- the retail working group to ensure that the description and terms and conditions of the retail offer are correct
- the institutional marketing working group to ensure that the description of the offer structure is correct
- the legal working group to ensure compliance with all laws
- the due diligence working group to ensure the accuracy of the document.

32. INSTITUTIONAL MARKETING

32.1 OBJECTIVES

The objective of the institutional marketing working group is to market and sell the shares to institutional investors. The two main marketing and selling channels are institutional investors and retail investors.

The two audiences require different marketing programmes. This section discusses the institutional programme only. The retail programme is described in section 33.



32.2 ROLE AND RESPONSIBILITIES

The institutional programme is aimed at large investment and pensions funds, which are managed by a limited number of investment managers (institutional investors).

The objectives of the institutional marketing group are to:

- market and promote the shares to potential institutional investors
- prepare the investment case
- appoint a syndicate of investment banks to assist with the promotion
- undertake a roadshow to key institutional investors
- encourage investors to bid aggressively for the shares i.e. at a high price and for a large number of shares.

32. 3 ATTENDEES AND MEETING SCHEDULE

Attendees will include:

- financial adviser (corporate finance representatives)
- global coordinators (equity capital market representatives)
- Government representative(s)
- a state owned enterprise representative (e.g. investor relations department)
- Government, state owned enterprise and global coordinator lawyers
- possibly roadshow logistics coordinator (later stages).

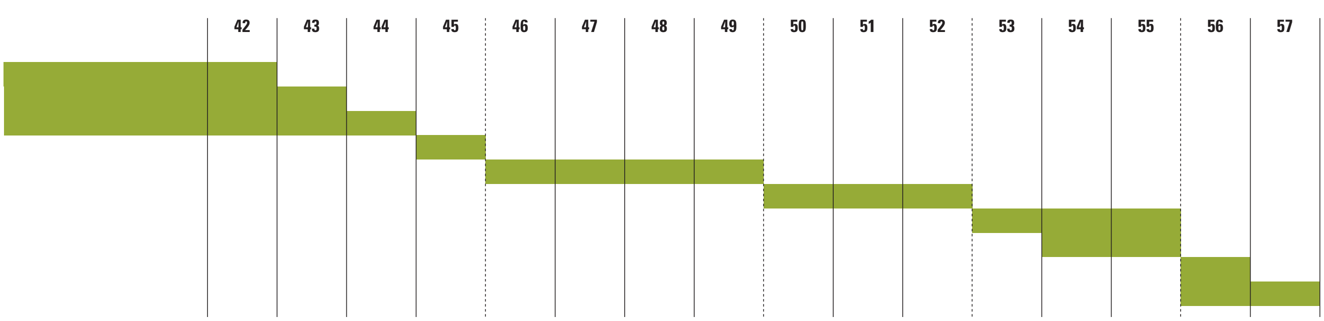
The institutional marketing working group will usually start meeting once the key strategic issues have been decided, such as the corporate and capital structure, the listing locations and regulatory approval. Meetings are likely to be fortnightly to start with, and more frequently at critical times.

32.4 ADDITIONAL APPOINTMENTS

The following additional appointments may be needed:

32.4.1 GLOBAL COORDINATOR

Before the institutional marketing group starts work, the appointment of the GC needs to be made if:



- the financial adviser and global coordinator are being appointed separately (see section 16.2)
- an additional investment bank is to be appointed as the other joint global coordinator (i.e. one investment bank has been appointed as financial adviser and GC), or
- another investment bank is to be appointed just as GC.

The tender process should be similar to that described for the financial adviser, but with more emphasis on the ability to distribute shares and manage a syndicate, than on providing advice and project management capabilities.

32.4.2 ROADSHOW LOGISTICS COORDINATOR

During the offer period senior management of the state owned enterprise and representatives from the state owned enterprise, Government, financial advisers and GC's will undertake a tour of fund managers to promote the shares. Some investment banks have internal personnel who can organise these tours i.e. transport, venues, hotels etc. and this work may be included in their fee.

There may be a requirement to appoint a specialist state owned enterprise to handle the roadshow logistics if:

- more than one investment bank is appointed as GC
- the roadshow is likely to be extensive and include many countries with numerous appointments per day
- the investment bank does not have this facility in-house.

Government official(s) must participate in the briefings during the roadshows.

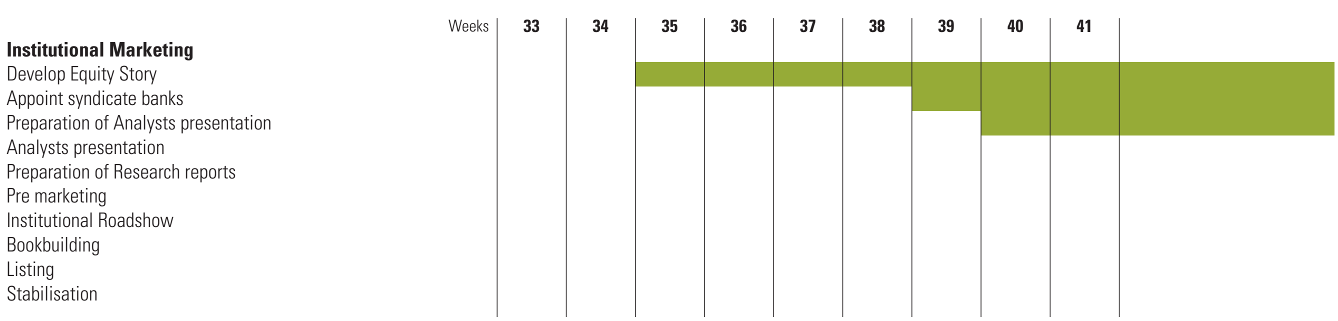
32.4.3 PRESENTATION TRAINER

If the representatives of the state owned enterprise and Government are not experienced and/or comfortable with public speaking, the speakers should receive training. These sessions are important to ensure that the state owned enterprise and Government come across professionally, as investment decisions will be made on how well the investment case is presented.

32.5 TASKS

The steps for the institutional marketing group are as follows:

- developing the equity story i.e. the key issues of selling the stock, and what investors will be looking for



- appointing a syndicate of investment banks
- holding analysts' meetings and preparing published research reports
- pre-marketing research with institutions to gauge likely response, take-up and indicative pricing
- offer period and publication of the prospectus
- domestic and international marketing
- bookbuilding
- pricing and allocation
- stabilisation and investor relations.

32.6 MILESTONES/CRITICAL PATH

The key milestones and their indicative timing are as shown in the table and discussed in detail below.

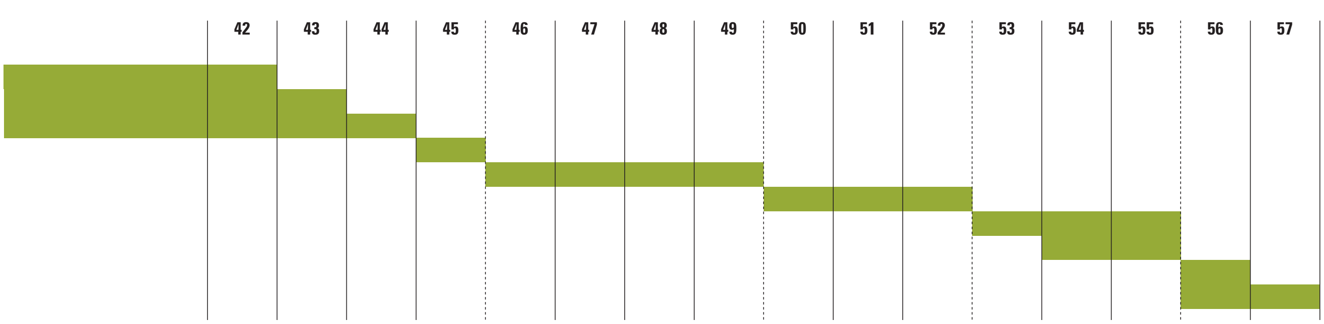
Timetable 3 – Institutional marketing

Indicative timetable In terms of week prior to listing	**Activity**
Week 10 to week 15	Development of the equity story
Week 8 to week 10	Appointment of syndicate banks
Week 7 to week 9	Analyst briefings
Week 6 to week 8	Deadline for publication of research reports
Week 4 to week 6	Start of pre-marketing
Week 2 to week 3	Launch of offer period
D day	Listing day

32.6.1 THE EQUITY STORY

The range of issues to be covered will usually include:

- the operating and regulator environment – to maximise value, investors will require clarity on the environment the state owned enterprise will be operating in, especially after listing, in terms of market situation, known competitors and regulatory constraints and opportunities



- shareholders' agreements – if 100% of the shares of the state owned enterprise are not being sold in the IPO, confirmation is required on the role of the main shareholders after listing, and whether they are likely to be selling more shares, and if so, when. For example, if the Government is still maintaining a sizeable holding, what say will they have in running the SOE, and when might they sell further shares? If there is a strategic equity partner, potential investors will want to know how long they propose to maintain their investment, and to what extent they are going to be involved in running the business
- assets of the business – what exactly are the investors buying. For example, if the SOE has a substantial holding in another business will, that business be included in the sale, or will it still be held by the Government after listing?
- business plan – what is management's future business plan for improving the business and growth. If the state owned enterprise is to be sold as a "yield stock" (rather than growth) what is the state owned enterprise's future dividend policy, and if it is to be sold as a growth stock, what are their plans to deliver this growth?
- capital structure – what is the state owned enterprise's capital structure, and will additional finance be required as part of the IPO, or shortly after listing?
- valuation – what is the state owned enterprise worth, relative to similar companies in the market, both globally and domestically?
- corporate governance – what is the board and management structure, and is it appropriate for a public entity. Are top management suitably incentivised to deliver, but not excessively rewarded?
- Information on South Africa – if the shares are also going to be listed offshore, it will be necessary to include key South African selling points, as international investors will also be buying into the country, and need to understand key policies and programmes.

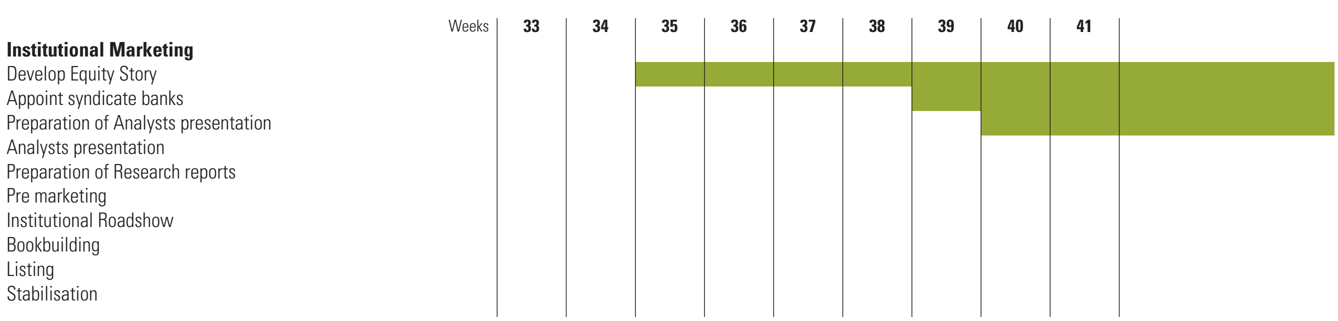
32.7 SYNDICATE APPOINTMENT

32.7.1 SYNDICATE ROLE

A syndicate is the group of banks that will be responsible for marketing and selling the offer to institutional investors that are controlled and directed by the global coordinator.

The purpose of the syndicate is to:

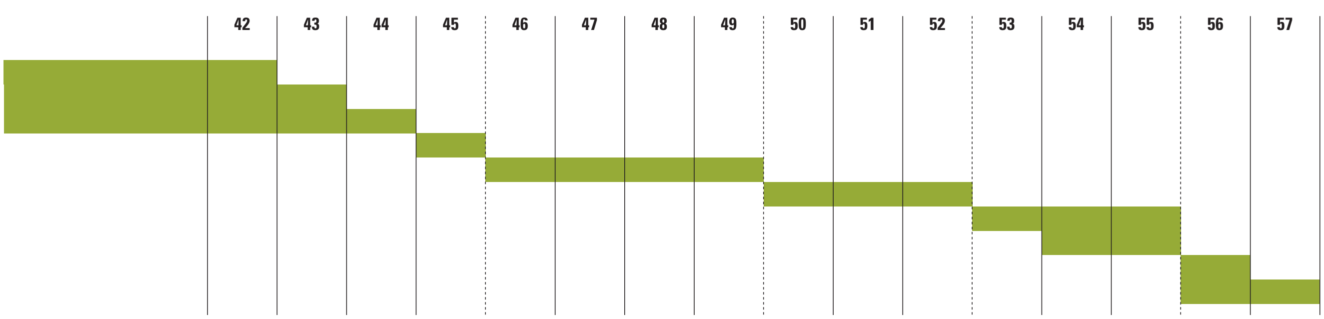
- increase the research coverage
- support the global coordinators with advice
- support sales and trading
- assist with the distribution during and after the IPO.



The table below summarises the role of the global coordinator, joint manager and joint lead manager.

Table 12 – Summary of role of Global Coordinator and Syndicate Members

Global coordinator	Syndicate members	
Control and direction	**Support and advice**	
	Joint lead managers	**Joint managers**
• Overall coordination and management of institutional offer • Propose structure for institutional offer • Assist with preparation of offering documentation • Most significant research publication • Arrange pre-marketing schedule • Advice on price range for publication of the prospectus based on feedback from the syndicate and major institutions • Arrange and coordinate management roadshows • Collect, order and monitor demand • Only source of information and messages to the market • Responsible for pricing and underwriting • Leading role in distribution of shares • Oversee institutional allocations • Market making • Conduct post listing stabilisation • Coordinate syndicate	• Major research contribution • Active marketing to investors during pre-marketing and offer period • Major distribution role • Ongoing research • Market development • Leading voice on the equity story and investment case • Support global coordinators • Underwriting	• Limited research output • Focus on generating niche orders, possibly from smaller Institutions



32.7.2 SYNDICATE STRUCTURE

The number of banks in the syndicate depends on the size of the IPO, and whether it is being promoted to domestic institutions, or to international institutions.

A balance is required when deciding on the number of banks in the syndicate in the following instances:

- if there are too many banks, levels of commission will be too thinly spread
- if there are too few banks, it is possible that not every institution will be covered, and the research may not be extensive

Over time the number of banks in a syndicate has been reduced. For example:

- in 1992, Welcome share offer had one GC and 42 Regional Managers
- in 1993, BT 3rd share offer (3rd tranche of shares sold in British Telecom) had one GC, 11 Global Managers and 51 Regional Managers
- in 2003, Telkom share offer had two GC's, five Co-lead Managers and four Joint Managers
- In 2003, Yell had just two GC's.

There are also various ways of organising the syndicate, for example by:

- geographical division with a member allocated to work only in one or more specific jurisdictions
- domestic and international, with one tranche responsible for South African institutions, and another tranche for overseas institutions
- tiers of hierarchy with global coordinators, joint lead managers and then, joint manager.

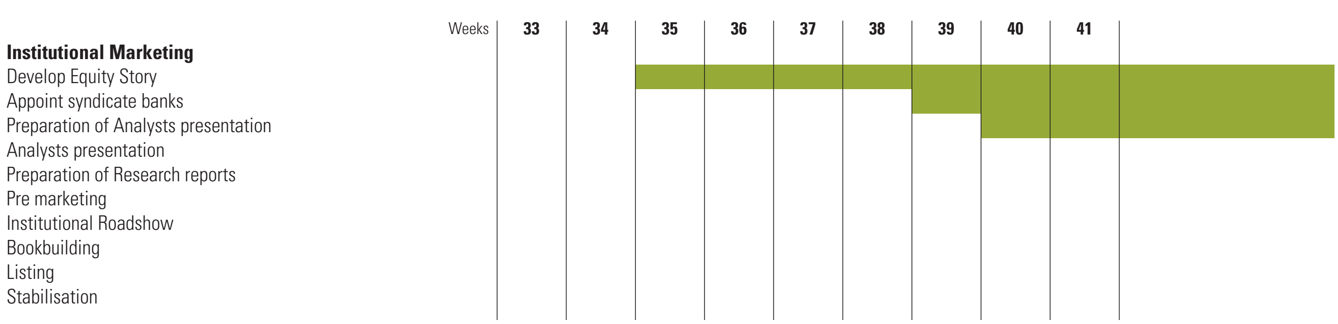
If there is to be a retail tranche of shares in the institutional offer, a retail syndicate may be set-up.

It is becoming less common to divide geographically as:

- it gives the impression of orders being treated differently from different regions
- institutional investors are consolidating and becoming global
- all investors should compete against each other, regardless of jurisdiction.

The financial advisers and GC's should prepare discussion papers on the options for the Government and the state owned enterprise. Issues to be taken into consideration are:

- maximisation of global demand
- securing support of banks with strongest distribution



- encouraging support of leading research analysts
- experience of operating in a syndicate
- size of the offer
- whether just domestic or domestic and international
- current knowledge of the state owned enterprise
- minimising duplication in coverage
- empowerment of BEE institutions.

Once the Steering Committee has decided on a preferred structure, RFPs should be issued to all interested investment banks.

32.7.3 SELECTION PROCESS

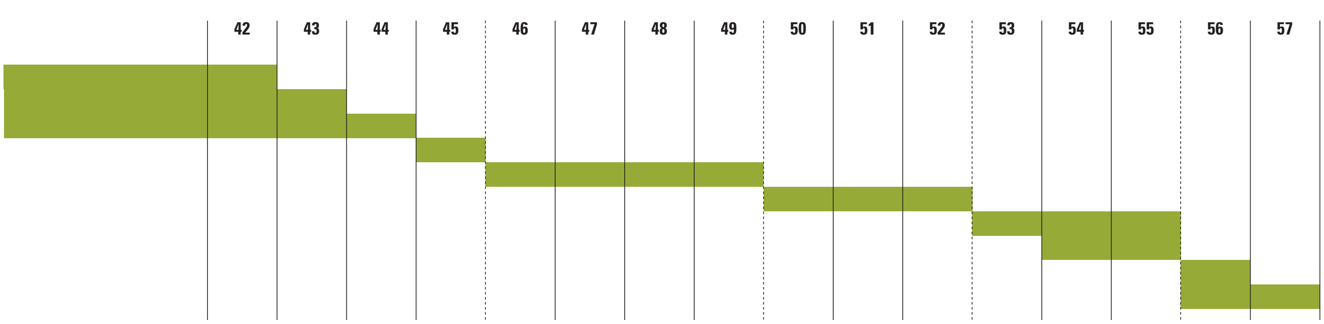
Timetable 4 below indicates how long it could take to appoint a syndicate. Normally selected firms are invited to tender, rather than an open tender. This is due to the specialised nature of the service required, and a limited pool of potential service providers.

The following steps will normally be undertaken:

- an independent firm may be appointed to oversee the selection process
- the selected banks should be sent an RFP and asked to submit written proposals
- a short list of banks should be invited to make presentations
- the selection panel should decide the syndicate appointments
- Cabinet approval should be obtained
- the chosen firms advised.

Government must play an active role in the syndicate appointment process, to ensure that all the syndicate members are treated fairly by the lead managers within their clearly defined role. In this regard Government must take a view as to:

- proposed allocation for each syndicate member
- ensuring that the local institutions, especially the BEE institutions, have a meaningful allocation
- determining the extent to which other syndicate members can talk directly to institutions with whom they have strong relationships, keeping in mind the need for controlled and coordinated messages.



Timetable 4 – Appointment of syndicate bank timetable

Indicative timetable In terms of D minus days	**Activity**
D – 28	Steering Committee to approve the selection approach and the list of banks to be invited to tender
D – 21	issue RFP to potential members
D – 14	receive responses from potential members to tender document
D – 7	presentation of potential members according to the short list
D – day	advise banks appointed to syndicate

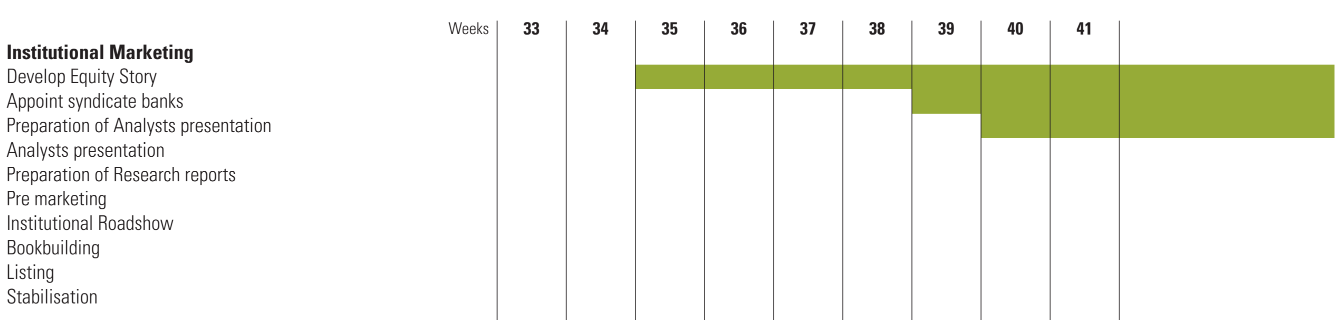
(D equals deadline for appointment)

32.7.4 SELECTION CRITERIA

The selection criteria should include, at least:

- understanding of markets in, and commitment to, South Africa
- understanding of, and commitment to the state owned enterprise
- research credentials in South Africa and the state owned enterprise's sector
- distribution credentials, including expectations of demand, and market capacity
- equity trading capabilities
- after market commitment through continued research, sales and trading support
- balance sheet and underwriting ability
- capital raising experience
- BEE credentials and proposed strategy for skills transfer
- confirmation of any current, or likely, conflicts of interest.

Consideration should be given to the role of the state owned enterprise's financial advisers. If they have distribution capabilities they will probably want to become members of the syndicate, which they may only do if:



- the state owned enterprise is raising capital at the time of the IPO. Then the state owned enterprise will more than likely expect them to become GC
- no capital is being raised. Then their role is a matter for Government.

32.7.5 COMMISSION

Global coordinators and syndicate members' remuneration is based on commission. Each IPO is likely to have a different set of rules for the spread of commission payment. But by way of example, the overall fee may be divided into:

- sales commission
- underwriting fee
- management fee.

These fees may be spread between syndicate members as shown below.

Table 13 – Syndicate fees

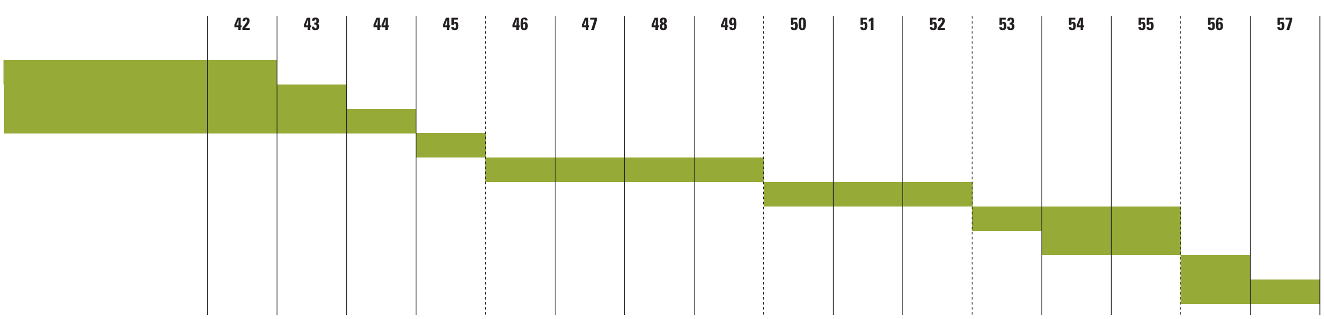
Tier	Selling commission	Underwriting fee	Management fee
% division of total fee	60%	20%	20%
GC's by investing institution	Based on designation	70% plus 35%	50% praecipium
Joint lead manager		20%	10%
Joint managers		10%	5%

If the joint manager is a small bank, it may not be able to afford to underwrite the offer, in which case the global coordinators may take on their responsibility and fee.

32.8 ANALYST PRESENTATION

Once the syndicate banks have been appointed, a senior management presentation to connected analysts should be made. The presentations will take cognisance of the following:

- it is important to bring the connected/in-house analyst up to date with issues, some of which may not be in the public domain, so that research is consistent with factual issues
- the analyst presentation should take place around five weeks prior to the pre-marketing/registration phase
- each attendee must sign a confidentiality agreement as price sensitive information will more than likely be disclosed



- the GC's will probably prepare a presentation for management to deliver, and there will possibly be a visit to one of the state owned enterprise's key sites.

32.9 RESEARCH MATERIAL

From the analyst presentation, each analyst will be expected to write their own research material on the state owned enterprise. One of the key purposes of the research is to provide material for briefing institutions before meeting management, on the roadshow. This will allow more time on the roadshow to focus on key issues and concerns.

The research is likely to include:

- estimated valuation of the state owned enterprise
- reasons to invest (positive) and reasons not to invest (negative)
- investment risks and concerns
- analysis of the state owned enterprise's finances
- current industry and sector situation
- forecasts and valuations.

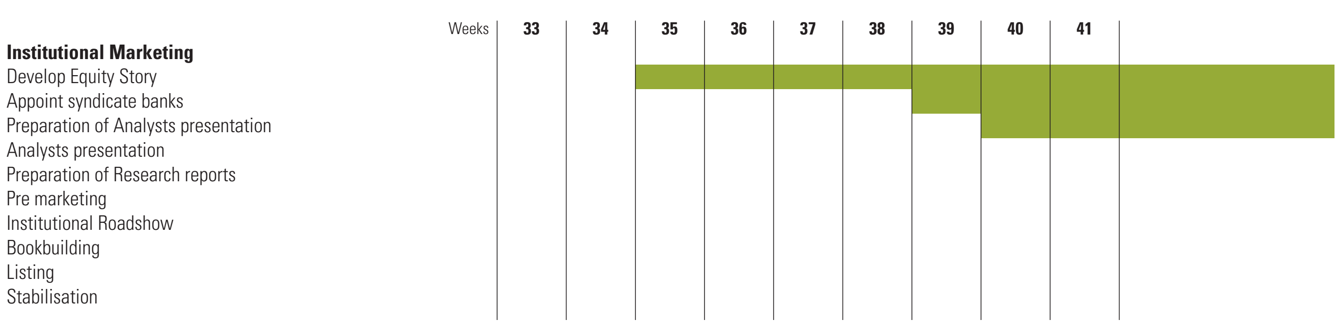
Although the report is issued in the investment bank's name, as the bank is connected to the transaction, such report will require reviewing for factual correctness, usually by the financial adviser and the lawyers.

The analysts from banks which have not been appointed to the syndicate (unconnected analysts), are also likely to write research reports. These reports may be shown to the financial adviser and/or state owned enterprise, however neither party is under obligation to review them.

Under JSE securities listing rules, there are strict rules governing when such reports may be published, and when they can no longer be distributed.

32.10 PRE-MARKETING

Prior to the publication of the full prospectus and the issuing of a price range, initial opinions are sought from potential investors about the state owned enterprise, and their likely valuation. In the past a pathfinder prospectus was issued for these meetings. These meetings are undertaken by research analysts, and sales forces of syndicate members, and not by the state owned enterprise. Their purpose is to:



- give background information on the state owned enterprise to institutions
- increase and create awareness of the IPO
- understand institutions' initial thoughts about the state owned enterprise and potential issues of concern
- gain institutions' initial thoughts on pricing.

From this, the global coordinator will evaluate the data and provide feedback on:

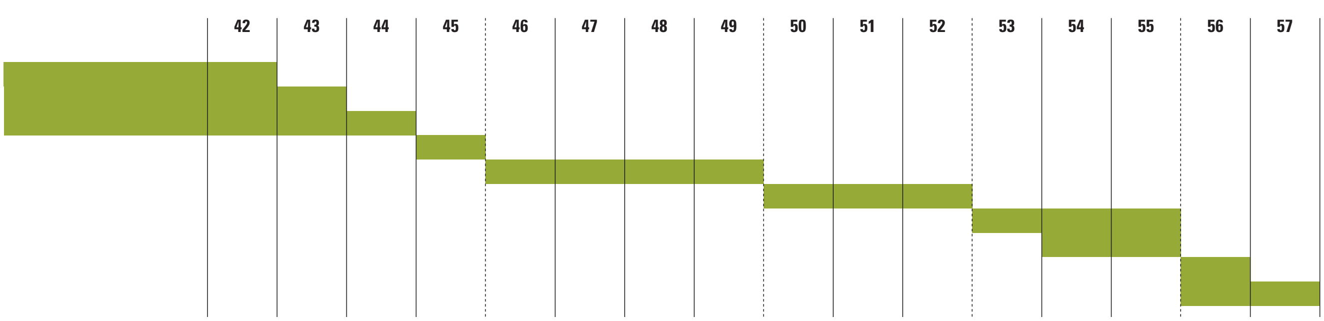
- price range
- number of shares to be sold
- institutions' views of the state owned enterprise
- key issues of concern, which may need to be addressed in the prospectus and/or on the roadshow
- likely levels of demand.

Much of this information will be needed for inserting into the prospectus.

32.11 INSTITUTIONAL ROADSHOW

After publication of the prospectus, senior management of the state owned enterprise and Government will undertake a tour of fund managers, to promote the shares. In planning the roadshows it will be kept in mind that:

- the roadshows offer a key opportunity for management to present their investment case and business strategy, to the investment community
- these meetings are typically held with significant institutional investors, who could place orders in the range of US$100m to US$150 million
- the meetings give the institutions the opportunity to question management on areas of concern
- the state owned enterprise should ideally be represented by the chief executive, chief finance officer and potentially one line manager
- management should be accompanied by representatives from the global coordinator and possibly by representatives of the financial adviser, and Government
- Government officials are able to present country specific investment cases.



The roadshows will usually consist of:

- one-to-one meetings with major fund managers
- lunch or dinner presentations to managers of medium size funds, attended by three to six fund managers at a time
- presentations to other fund managers, including retail stockbrokers, by way of formal presentations in conference centres or halls.

If there are a large number of meetings and presentations to be made, the team of presenters may at times be divided into two teams, with each team going to either different meetings or locations. All the teams going to the roadshow should be equally qualified to prevent one of them as being perceived negatively.

If the shares are being listed on the JSE only, this tour or roadshow will take place mainly in South Africa, although there may be a few visits to major investors in the UK and Europe. If there are one or more overseas listings, the roadshow will be more extensive in those countries.

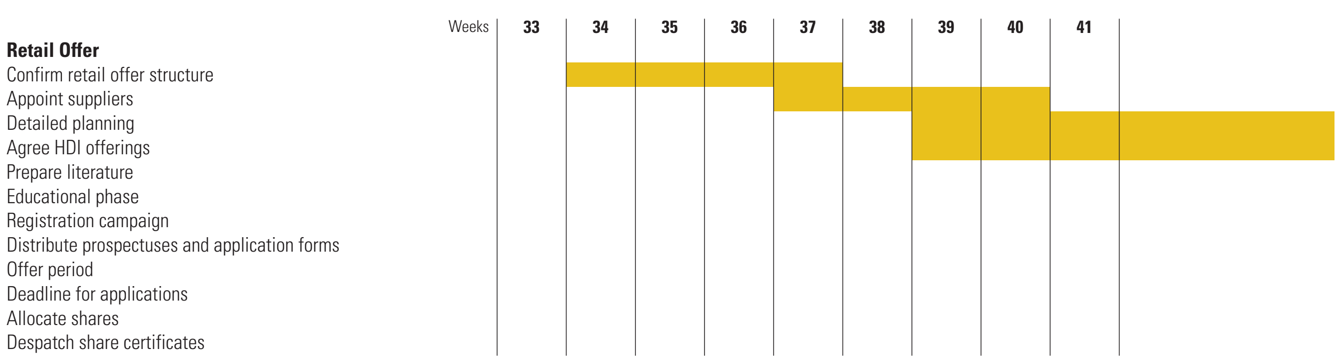
It is important that before starting the roadshow the following occurs:

- the presentation slides must be approved by the lawyers
- agreement on what can, and what cannot be said, must be reached
- deciding who is attending which meeting, what their roles are and who is presenting what, in particular the role of the Government representative, and the state owned enterprise representative, must be clarified
- extensive rehearsing by management occurs.

At the end of each meeting or day of meetings, a report should be made setting out feedback on:

- how the meeting went
- number of attendees and who attended
- concerns raised, in particular new ones
- developments during the roadshow.

This is so that necessary concerns raised can be addressed in the next meeting and the fund managers' response can be recorded. Such response may be taken into consideration when determining that institution's allocation, for example do they give the impression of being a short-term or long-term holder.



32.12 INTERACTION

This group will have strong links to the prospectus drafting offer structure.

33. RETAIL OFFER

33.1 OBJECTIVES

The retail working group is tasked with marketing and selling the shares to the retail market.

The retail offer should be designed around the overall IPO objectives. There is no one way of implementing a retail offer, therefore discussion papers should set out the options, the cost consequences and the advantages and disadvantages. Service providers such as printers and transfer secretaries may be consulted for indicative costs, but they should not be appointed until the retail offer structure has been approved.

33.2 TELKOM IPO RETAIL OFFER OBJECTIVES

During the Telkom share offer, the retail offer was divided into four phases with different objectives:

33.2.1 PHASE 1 – PUBLIC EDUCATION CAMPAIGN

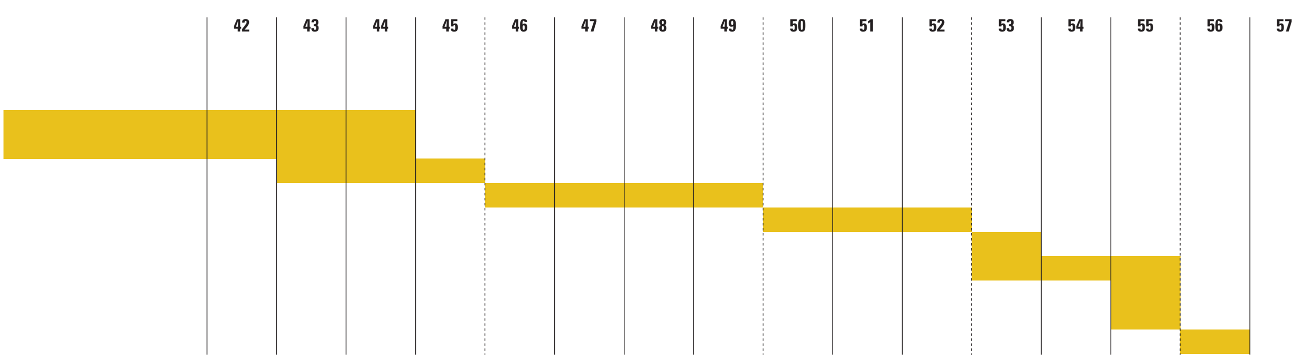
The public education campaign commenced on 3 October 2002 and ran for seven weeks until 26 November 2002. The main purpose of the campaign was to educate South Africans who had no previous knowledge of share ownership or the culture of participating on the JSE.

33.2.2 PHASE 2 – REGISTRATION PERIOD

The registration period commenced on 27 November 2002 and ran for nine weeks (including Christmas and New Year shutdown) until 23 January 2003. The aim was to introduce the Telkom share offer and to encourage individuals and stokvels to register for a prospectus and application form.

33.2.3 PHASE 3 – OFFER PERIOD

The offer period commenced on 30 January 2002. The retail offer ran for 23 days until Monday 24 February 2003. The Institutional offer closed a week later on Monday 3 March 2003. The main purpose was to accept applications, with payment, from individuals and stokvels in the retail offer and to take orders from SA, European and US institutions in the institutional offer.



33.2.4 PHASE 4 – POST-LISTING

The post-listing phase commenced on 4 March 2003, the day of listing. All applicants allocated shares in the retail offer were sent details on share ownership and how to buy and sell shares.

33.3 ROLE AND RESPONSIBILITIES

This working group is responsible for:

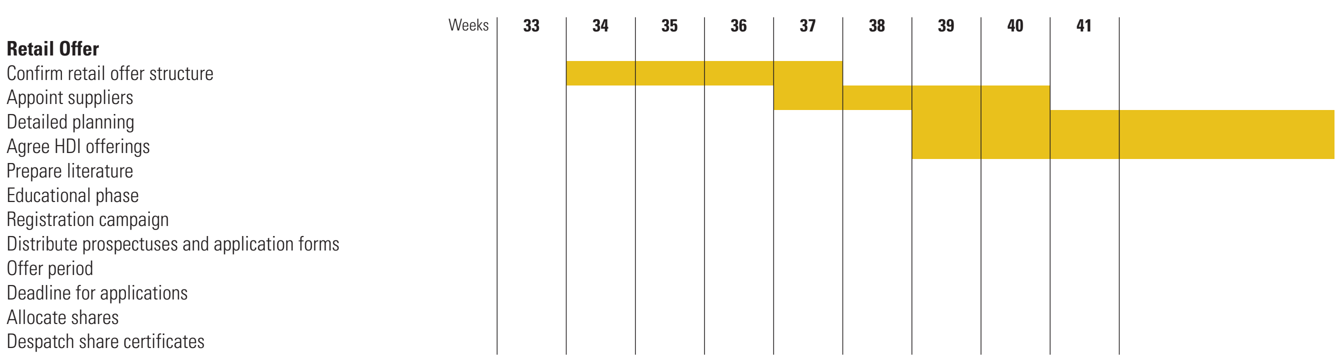
- designing the tranche of the offer that is open to retail investors
- implementing the retail offer, including organising the logistics and managing the service providers.

Issues to be considered:

- what is the indicative size of the retail offer and how many applicants are required?
- are there going to be special arrangements for HDIs e.g. extra discount and guaranteed product?
- what incentives are there to encourage retail applications e.g. bonus shares, discount vouchers, shareholder clubs?
- should there be an education campaign, a registration period as well as an offer period?
- what method of distribution should be used e.g. SA Post Office, retail banks, direct mailings etc?
- what range of service providers will be needed?
- what are the costs of implementing the programme and what elements could be removed to save costs?
- what are the logistics of the offer? If the retail offer is to be an important element, the logistics can at times drive the whole process in terms of decisions and timing.

As a general rule, the retail offer structure should:

- be as simple as possible, otherwise only the sophisticated investor will be able to understand and apply it
- minimise risks and ongoing administrative costs
- not be open when people's available disposable income is at a minimum e.g. shortly after Christmas
- close a day or so after most people have received their monthly pay.



Issues such as the level of any discount, the minimum subscription level, etc, need not be made until nearer the time of the launch of the share offer, as it may be beneficial to wait until the level of interest, and the results from any market research, are known.

33.4 ATTENDEES AND MEETING SCHEDULE

Initially the working group will be involved in determining the retail offer structure, and seeking approval from the Steering Committee and Cabinet. These initial discussions will usually involve:

- Government
- a financial adviser
- a retail logistics adviser
- a PR and communication's adviser
- lawyers
- a state owned enterprise representative.

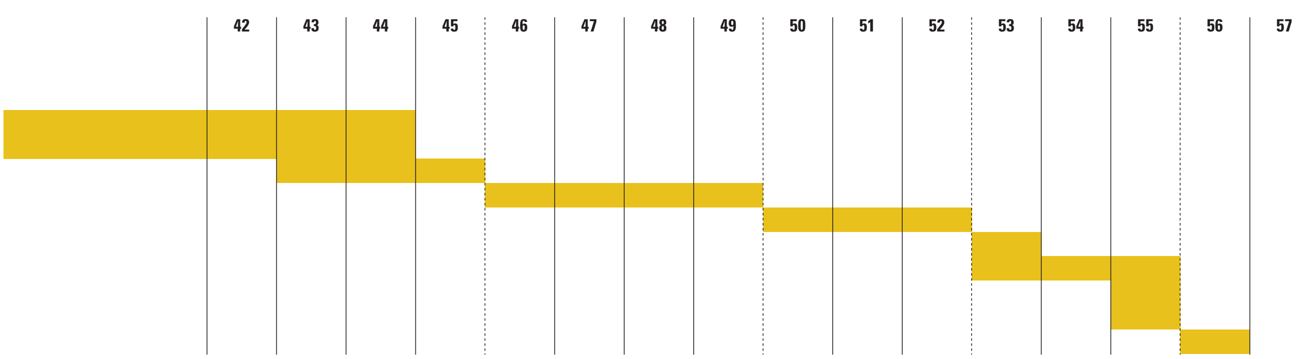
The group is likely to meet fortnightly. A date must be given at the outset by which the recommended retail offer structure should be referred to Cabinet for approval.

Once the retail offer structure has been approved by Cabinet, the focus of the group will change to implementing the retail offer. The group will occasionally be involved in refining the retail offer structure, but with time these issues will become less, and therefore the attendees will be predominantly from the printer, transfer secretary, etc, rather than the financial advisers. Meetings either in person or by conference call are likely to be weekly, as it is important that progress is monitored and that decisions are made according to the agreed schedule.

33.5 TASKS

The tasks in implementing the retail offer are as follows:

- develop a more detailed timetable, identify key milestones, decision points and critical path issues
- draw up a list of service providers required, potential firms and define their roles
- agree on dates by which service providers should be appointed
- issue tender documents and appoint service providers
- possibly divide the working group into subgroups based on the work of each service provider
- undertake detailed planning and preparation for the IPO, including booking facilities and ordering supplies.



It is important that service providers are appointed at the correct time, so time and fees are not wasted.

33.5.1 TELKOM IPO STEPS

By way of illustration, the Telkom retail offer was structured as set out below.

Step 1 – Public education campaign

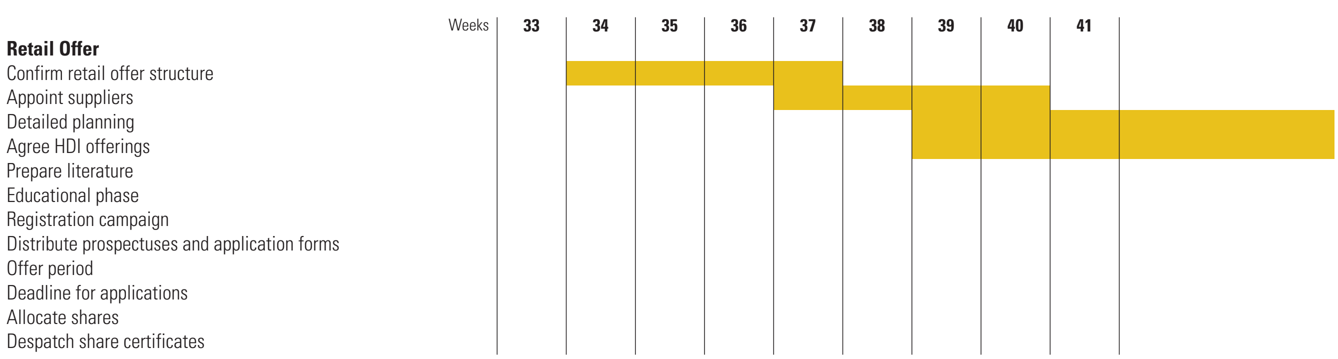
The public education campaign was aimed at introducing the concept of share ownership to those who had not previously owned shares.

The range of issues it addressed included:

- why invest?
- the different types of investments
- what is a stock exchange?
- what is a share?
- what is a dividend?
- what is capital growth?
- how to buy and sell shares?
- why do share prices go up and down?
- what is a share offer?
- what is involved in owning shares and being a shareholder?
- background information on the Telkom share offer.

There was no call to action. The campaign involved the following:

- the printing and distributing of 8,6 million “Your guide to shares” booklets. These were printed in various local languages
- the booklets were available from 1500 SAPO branches, 176 Telkom Centres and 600 Standard Bank branches. They were displayed in the branches in specially designed and built stands
- over 50 regional road show events were held, which over 50 000 people attended
- a call centre with 10 operators was set up to handle queries from members of the public, and a website had further information with copies of the booklets on it.



Step 2 – Registration period

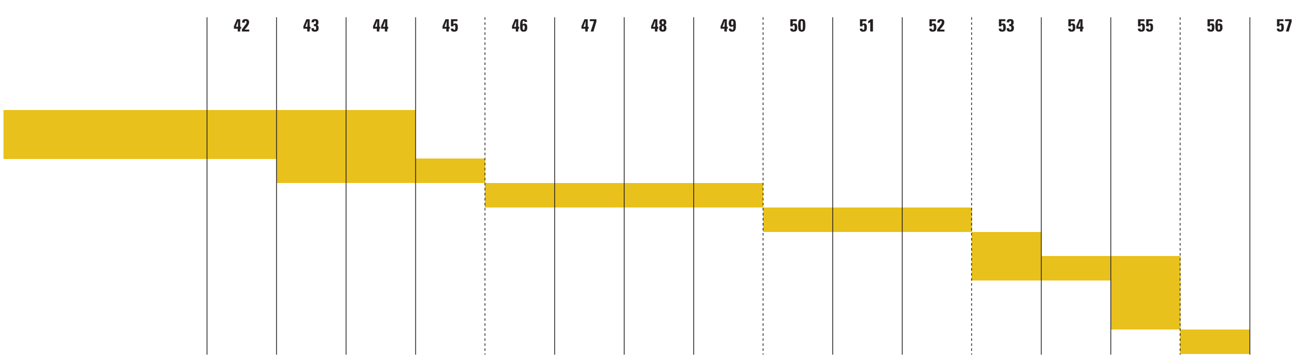
The registration period invited individuals and stokvels to register for a prospectus and personalised application form. The aim was to prepare as many South Africans as possible for the share offer, and to increase their awareness, in particularly HDIs and those who may not have had the chance to invest in shares, before the offer.

The range of issues it covered included:

- background information on Telkom and its business
- the general offer and the Khulisa offer (Telkom IPO HDI offer), and their differences
- how to register and why
- background information on the share offer phase.

The campaign involved the following:

- the printing and distributing of 6,6 million "Your Guide to Registration for the Telkom share offer" booklets. These booklets contained registration forms for individuals and were printed in various local languages
- the booklets were available from 1 500 SAPO branches, 176 Telkom CSBs and 455 participating Standard Bank branches. They were displayed in the branches in specially designed and built stands
- 3.2 million households were mailed a copy of the booklet with a covering letter, and personalised registration form. Up to four members of the household were invited to register by post
- 25 000 stokvel clients of Standard Bank were also mailed and invited to register
- individuals could also register online via the website *www.Telkomshareoffer.co.za*, or by downloading copies of the registration forms for individuals, and registration forms for stokvels
- a call centre with 20 operators was available to handle queries from members of the public. Callers, if they specifically asked and they were not able to register in person at a branch or on the web, could register via the call centre.



Step 3 – Offer period

The offer period gave individuals and stokvels twenty-three days to apply and pay for shares.

The campaign involved the following:

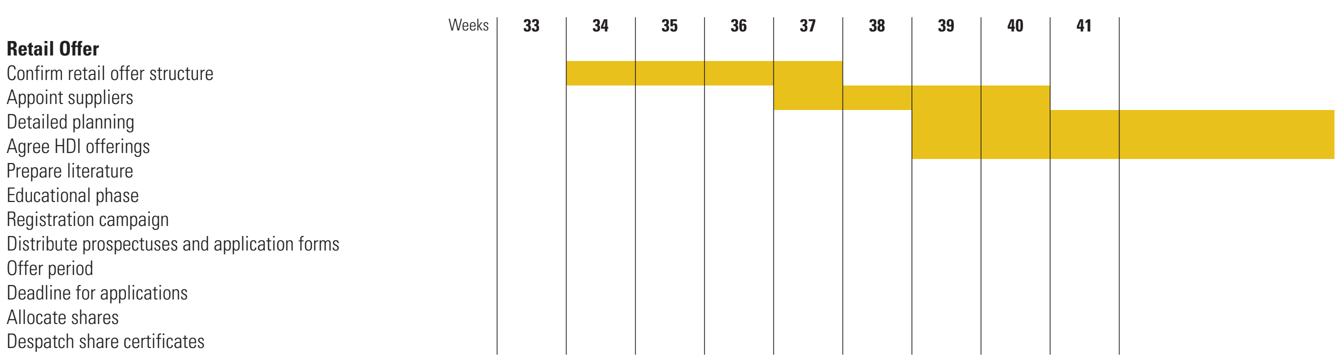
- the printing and distributing of 4,1 million summary prospectuses, including non-personalised application forms, 4 400 full JSE prospectuses, 17 000 full preliminary, 4 700 final SEC prospectuses
- summary prospectuses, along with personalised application forms, were mailed to the 1.475 million individuals and stokvels who had registered
- copies of the summary prospectus were available from 1500 SAPO branches, 176 Telkom centres and 455 participating Standard Bank branches. They were displayed in the branches in specially designed stands. Individuals who had not registered could pick up a copy and apply on the same terms as those who had registered
- full JSE prospectuses were available on request from the Telkom share offer information line, or by collecting from the JSE in Johannesburg and GCs in Pretoria, as well as the state owned enterprise's offices and from the main post offices in Cape Town, Durban, Port Elizabeth and Bloemfontein
- additional information was available from the call centre and the website, but applications could not be submitted by telephone, or online.

Step 4 – Post-listing

During the post-listing period, all those individuals and stokvels who had applied were allocated shares and were sent a share account statement, refund cheque if applicable, a Welcome Booklet and share dealing information pack and forms.

The Welcome Booklet covered:

- information on the share price
- how to buy and sell shares
- terms and conditions of the nominee
- dividends and annual mailings.



33.6 MILESTONES/CRITICAL PATH

As there are so many issues to be addressed and resolved over the duration of the project, one method of driving the process is to develop a retail logistics timetable. As the project unfolds, this document will be amended, so that there might be 30 proofs by the end. Such a document will help identify which items are on the critical path and, for example, when a key decision should be made. It is important to bear in mind that sometimes what may seem the most trivial logistic issue, can drive the whole transaction.

33.7 ADDITIONAL APPOINTMENTS

The range of service providers and services provided is discussed below.

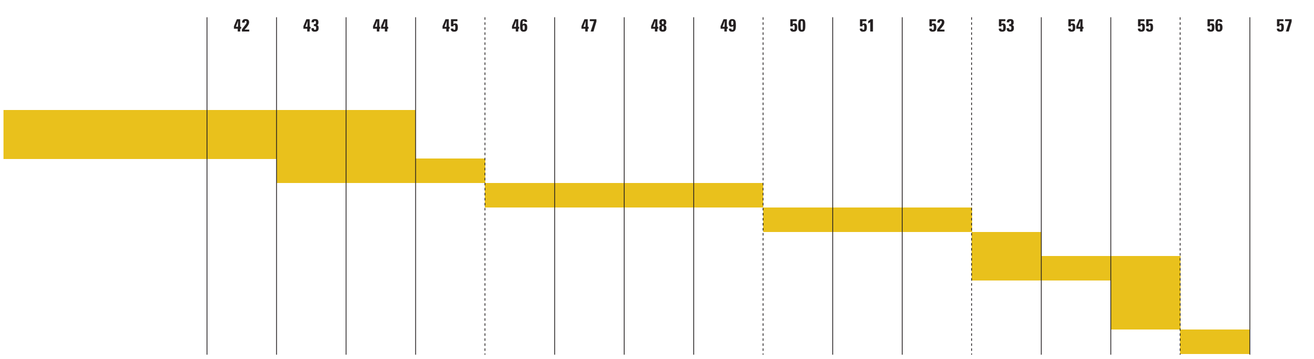
33.7.1 RETAIL LOGISTICS ADVISER

A retail logistics adviser, if not already appointed, could be appointed at this point to:

- keep track of logistics of all the complicated printing and mailing of documents
- work with the service providers mentioned below, to ensure that retail investors are successfully reached by the documentation prepared for the IPO
- assist the GCs to execute the transaction.

Key issues to consider in attempting to deliver a sizeable IPO within the required timescale, and to the appropriate quality from a logistics point of view, make it of paramount importance to:

- develop a logistics timetable of when all materials have to be produced and printed
- determine quantities of material that are required, given the anticipated target market for the various forms and booklets, etc.
- confirm that appropriate bulk printing production facilities have been pre-booked, so that material can be printed on schedule
- develop a printing schedule, in conjunction with the printers and advisers, who are producing the documentation
- ensure printed material is clearly and well printed
- check that documentation is not too complicated for the investors
- engage with SAPO as to when and how the documents will be mailed
- liaise with distribution agent staff who are trained in Q&A for communication with potential investors



- ensure that the distribution agent staff are able to register applicants
- inspect call centres to ensure that adequate staff and correct systems are in place
- liaise with call centre operators to ensure they are trained in Q&A in all official languages
- track call centre performance, and minimise incidence of lost or dropped calls
- minimise level of potentially rejected applications by ensuring that registration and application period materials cannot easily be confused
- ensure that the transfer secretary has the correct systems to capture all registrations and applications
- ensure that all potential investors who register receive application forms timely
- track the amount of registrations and applications.

33.7.2 CALL CENTRE

A call centre will need to be set-up to handle enquiries and possible registrations from members of the public.

The call centre will be operational from the launch of the Public Education Campaign, until in the region of 4 weeks post-listing.

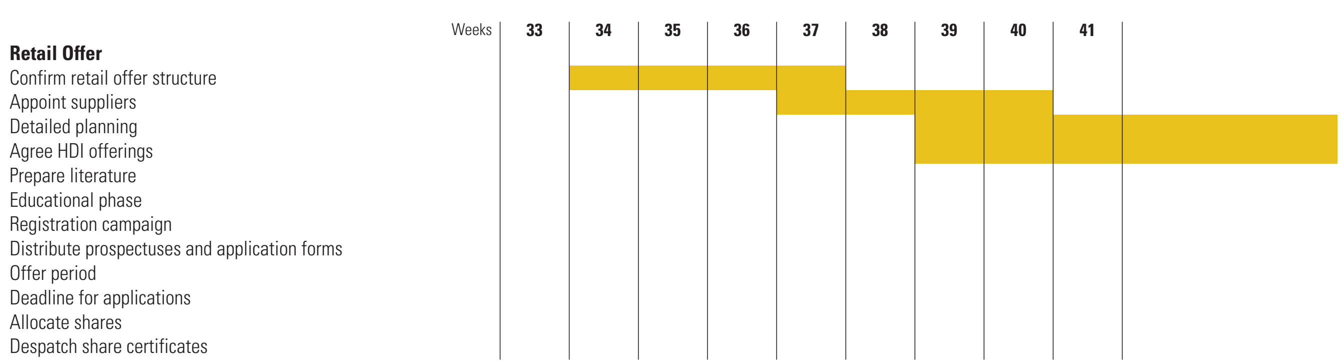
The number of call centre operators will vary depending on the size of the retail offer and anticipated retail uptake. In the Telkom IPO the centre was originally resourced by 10 people, plus a supervisor, and team leader which was increased to 20 operators, two supervisors and one team leader.

A Q&A prepared by the PR working group will need to be provided to the operators to ensure that there is a consistent message being communicated. The operators will be limited to very basic information, and have a prepared script as to whom complicated enquires should be referred to.

The call centre will need to have operators who are conversant in all official South African languages. The Q&A for the call centres will need to take this into consideration.

33.7.3 DATABASE MANAGER

If the registration campaign includes a direct mailing, there is a need for a database manager to maintain the list of those people who are mailed and/or who have expressed an interest in the offer. This database will be used for mailing summary prospectuses and application forms. The IPO Project Team database manager can play this role.



33.7 4 DISTRIBUTION AGENTS

In order to achieve maximum awareness of the share offer across the country, distribution agents such as retail banks and SAPO can be used, as they have an existing network of branches. Their role can include displaying and handing out leaflets and receiving registration and application forms.

SAPO developed a very sophisticated system for the Telkom IPO which meant that data capturing took place at branch level. This meant that only data had to be transmitted around the country, rather than hard copy.

Retail stockbrokers, especially BEE stockbrokers, may also be involved in promoting the offer and handling applications, although they are likely to be more focused on high net worth sophisticated investors rather than the mass public.

33.7.5 LITERATURE DESIGNER

Depending on the brief and role of the advertising agency, it may be more cost-effective to appoint a separate designer, as they are unlikely to be remunerated on a commission basis. A good designer can assist by making the documents user-friendly and eye-catching, whilst also ensuring the minimum level of errors by applicants completing the forms.

33.7.6 PRINTERS AND MAILING HOUSES

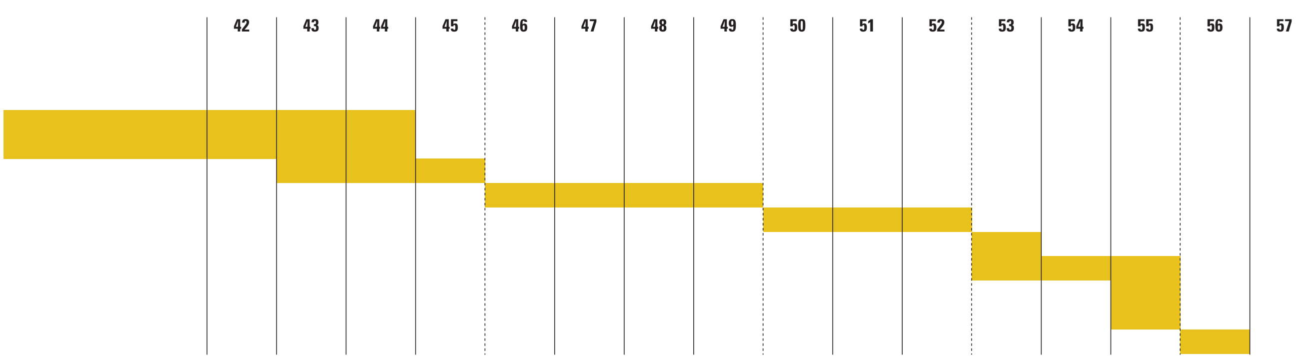
A printer will be required to:

- print the retail documents for mass circulation such as leaflets, brochures
- distribute the retail documents either by mail or bulk delivery, including direct mailing campaigns, summary prospectuses and application forms
- typeset and print the prospectus. For this a security printer will be required as the work will be confidential and the turn-around needs to be immediate. If there are to be overseas listings then overseas facilities will be required
- the printer will have to be able to deal with huge volumes of printing, depending on the size of the offer. It will be important to ensure that the printer has sufficient infrastructure and materials to produce the huge volumes of documentation.

Statistics on the printing of these documents can be found in sector 38.

33.7.7 RECEIVING AGENT

The receiving agent is responsible for handling and processing completed application forms and payments. It is usually the same firm as the Transfer Secretary.



33.7.8 SA POST OFFICE

SAPO will more than likely be required for the distribution and collection of documents. As such mailing exercises are large, detailed planning with SAPO is required.

An example of the scale of mailing that will be required is illustrated by the Telkom share offer, where the following was mailed over the periods referred to below:

Period 1 – Registration period

The documents were distributed as follows:

- mailing to 3,2 million Telkom customers
- mailing 25 000 Standard Bank stokvel customers
- SAPO & Telkom branches – packs of 2 510 000
- Standard Bank branch packs of 385 000.

Period 2 – Offer period

The documents were distributed as follows:

- mailing to 1.47 million registrants
- SAPO & Telkom branches packs of 2 182 000
- Standard Bank branch packs of 285 000.

33.7.9 TRANSFER SECRETARY

The transfer secretary is responsible for managing the ongoing share register. The state owned enterprise representatives should be able to be involved in all appointments, as they may be involved with some of the costs. However, depending on the cost-sharing arrangements, this appointment must involve the state owned enterprise representative, as, after listing, this is the one service provider who will continue working for the state owned enterprise.

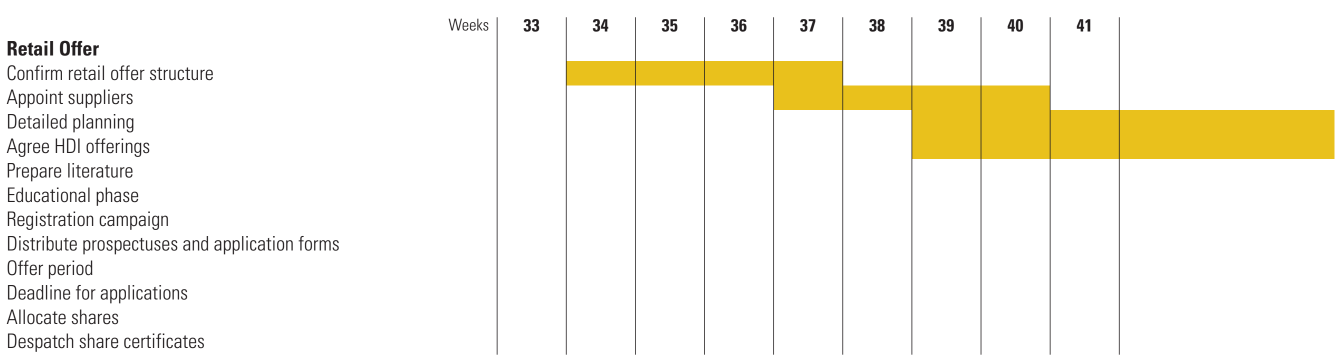
33.7.10 WEBSITE HOSTS

The offer will need its own website with links to the state owned enterprise's and the Government's website. The site will contain up-to-date information on the offer including FAQs, press releases etc. It may also allow online registration and application.

33.8. APPOINTMENT PROCESS – ADDITIONAL SERVICE PROVIDERS

33.8.1 ISSUE OF REQUESTS FOR PROPOSALS

For each transaction the exact role of each service provider will be different. Before going out to tender, it is important that their role is accurately defined, so that they are not asked to do anything additional after appointment.



For each role comprehensive tender documents must be issued to at least three or four potential providers. The tender documents must include every aspect of the work they may be required to undertake. Once appointed, if they are asked to undertake work outside the scope of the tender, their fees are likely to be non-competitive. So, for example, the printers tender must include a schedule of the documents that may be printed, with all the possible different pagination options.

33.8.2 DRAFT CONTRACTS AND SERVICE AGREEMENTS

Ahead of any appointments, the Government should prepare draft contracts and service agreements for each appointment. These agreements can either be included with the RFP, or sent to those firms short-listed for interviews.

It is important that the proposed firm is shown the full terms and conditions of their appointment prior to being formally appointed, as once a firm has been selected and appointed, it is much harder to negotiate their terms.

33.8.3 WRITTEN RESPONSES AND EVALUATION

Each firm responding to the tender must do so in writing by a set deadline. The written responses will often be used as the basis of their appointment, and form part of their contract.

A selection panel from the working group should review the responses and score each one against predetermined criteria. For example, with the printer's appointment the two most important issues are costs and empowerment. However, for the transfer secretary the ability to undertake the work is crucial, as the time frame available for their work is short.

33.8.4 INTERVIEW AND SELECTION PROCESS

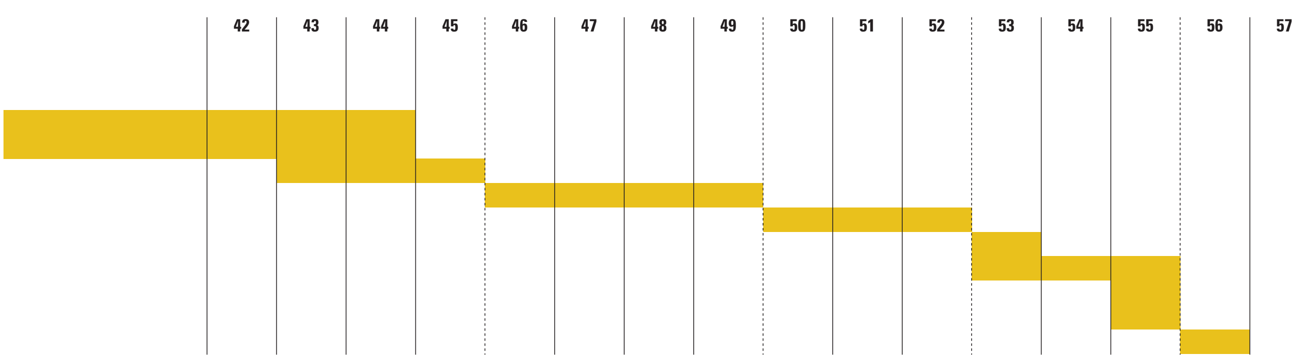
For each appointment, two to three firms should be short listed, and invited to make a presentation. If there are issues that need clarity, then the firm may be warned in advance to address these issues in their presentation.

From these interviews a preferred and second place provider should be identified.

33.8.5 LETTER OF APPOINTMENTS AND AGREEMENTS

Prior to the approval of any appointments, detailed negotiations should begin with the preferred supplier on their terms and conditions of appointment. Once formally appointed, it is generally too late to impose any stricter terms on them.

Finally, once the preferred supplier has accepted the terms and conditions and is willing to sign their appointment contract, their appointment should be approved by the appropriate authority.



33.9 DETAILED PLANNING AND MONITORING

Once each supplier has been appointed detailed planning should begin. This must include the following details:

- the key tasks to be undertaken
- start and end dates for each task
- details of items which are likely to incur large costs
- schedule of activities that require Government approval before proceeding
- list of working documents such as business plans and system development specifications, that are going to be drafted and will require sign off.

33.10 BUDGET AND COST CONTROL

A budget for the work of each provider must be agreed in advance. Where the costs are fixed, these costs should have been agreed at the time of their appointment. Such costs could include call centre set-up fees and transfer secretary set-up fees.

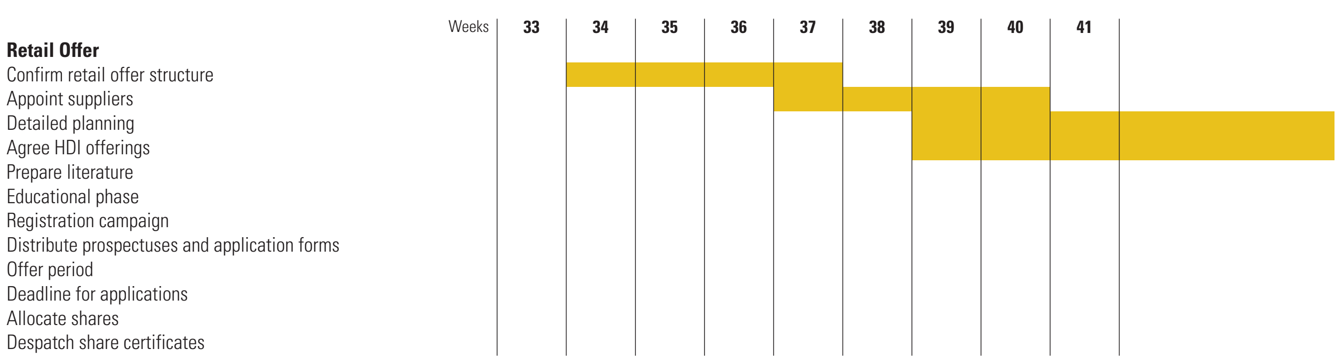
Where the costs are time dependent, the total costs must be agreed based on the proposed timetable. Such costs could include:

- operators at the call centre
- printer's project management
- transfer secretary management fees.

Where the costs are volume dependent and initial planning has been completed, the provider must supply a budget figure based on the planning volumes, with costs for additional volumes. Such costs could include:

- printing of leaflets and forms
- number of calls received at the call centre
- number of application forms received by the transfer secretary.

Before any costs are incurred each provider's budget must be approved by the Government and the provider. If the provider does not specify a cost at this time, then they will not be able to make a claim, or charge for it, at a later date.



33.11 SUBGROUPS

As some of the planning required by each provider needs to be very detailed and only involves that provider in discussions with the Government's team, the retail offer working group may be divided into subgroups, usually based on the function of each provider. Example subgroups include:

- printing and mailing
- call centre
- SAPO
- transfer secretary.

33.12 HDI PARTICIPATION

33.12.1 REASONS FOR HDI TARGETED RETAIL OFFER

IPOs of Government assets are likely to involve the retail offer being used as a means to:

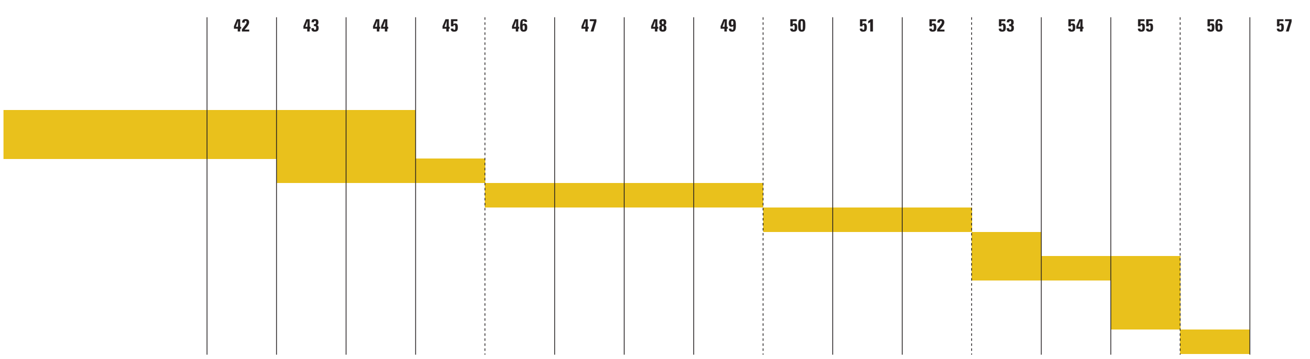
- achieve the objectives of stimulation of a culture of investment
- teach HDIs about the benefits of equity ownership and investing in the JSE
- attain broad-based ownership of major assets
- encourage savings
- empowering HDIs.

At times Government empowerment objectives will conflict with commercial objectives. For example, it may be cheaper to do an IPO targeted purely at institutional investors who require less marketing and have significantly more funds, but the expense of a broadly targeted retail scheme may be justified by empowerment objectives.

33.12.2 TELKOM IPO HDI TARGETED RETAIL OFFER – THE KHULISA OFFER

The retail offer consisted of the general offer and the Khulisa offer. The Khulisa offer was different to the general offer in that:

- the general offer was open to all South African residents. The minimum application was R500. The discount was five percent



- the Khulisa offer was open to all South African residents. The minimum application was R500. The discount was 20% with a one-for-five bonus share issue, however the shares had to be held for a minimum of three months and two years for the bonus shares.

33.12.3 KEY ISSUES FOR RETAIL OFFER

Key issues to be considered by the retail offer group in devising an attractive HDI offer is that the scheme needs to:

- be affordable – If HDI's are going to be able to afford to participate, the minimum application threshold must not be high
- be discounted – There must be a discount to make the HDI scheme more attractive (and more affordable)
- have a capital guarantee – Equities are associated with huge risk. People who do not have huge amounts of surplus cash do not like to perceive themselves as gambling with their money. In the circumstances, a cash, guarantee will be attractive to HDI investors. It should be noted that in teaching HDIs about shares, it is important to point our that the price in the normal cause of events, is not guaranteed and money can be lost
- be user-friendly – All forms of communication targeted at the HDI investors relating to the HDI offer must not be written in colloquial English, but everyday language
- be written in relevant languages – HDI documentation must be written and explained in the various languages of the target investors
- have the ability to vote – Given the fact that the HDI is now part-owner of the state owned enterprise, the HDI will want to have a voice in the running of the state owned enterprise as this is one of the advantages of being an owner of a share in a SOE. As thousands of shareowners, each with a few votes cannot have an effective voice, the votes are pooled into the HDI scheme vote, which could become significant, if the HDI scheme is significant
- have a board of trustees – A board of trustees is likely to need to be appointed to vote for, and look after, the interests of the beneficiaries of the scheme as many of the target investors will not have the financial acumen to be able to make key decisions relating to the scheme. There is a wide group of prominent, reputable and influential HDIs in senior positions in Government and industry, who can be called upon to perform this fiduciary duty
- have a short lock-up period – HDI investors may not want to participate in a scheme where they are unable to access their money for years. Although a short lock-up period may be acceptable, there is a need to be able to trade the shares soon, if they are to be an attractive way in which to save
- have minimal trading costs – To motivate participants, the trading cost should be kept as low as possible as an incentive.

33.13 INTERACTION

The retail working group will need to work closely with the following groups:

- offer structure
- prospectus drafting
- PR and communications and advertising.

PHASE 4

1

PRE-PLANNING — SECTION 4

PRELIMINARY WORK BY GOVERNMENT AND STATE OWNED ENTERPRISE, INCLUDING:

Decision to undertake an IPO

- Government sale of shares to SEP and BEE prior to the IPO
- Government IPO objectives
- IPO risks

PHASE 1 – INITIAL PLANNING — SECTION 4

Internal Government process

- Defining role of Government stakeholders
- Regulatory and industry restructuring completed
- Timetable and budget approval

2

PHASE 2(A) – EXECUTING THE TRANSACTION — SECTIONS 5 TO 10

Setting up the Government team

- Establishing IPO structures such as a Steering Committee and IPO Project Team
- Roles, responsibilities and resources for IPO structures

PHASE 2(B) – EXECUTING THE TRANSACTION — SECTIONS 11 TO 14

Interaction with the state owned enterprise

- State owned enterprise IPO objectives
- Role and responsibilities of the state owned enterprise
- Strategic equity partner

PHASE 2 (C) – EXECUTING THE TRANSACTION — SECTIONS 15 TO 20

Appointing advisers and service providers

- Appointment of advisers, service providers and suppliers
- Invitations to tender and interviews
- Contract negotiations and appointment

3

PHASE 3 – DETAILED PLANNING — SECTIONS 21 TO 33

Detailed planning

- Detailed timetable and budgets
- Setting up of working groups
- Defining roles and responsibilities

4

PHASE 4 -EXECUTING THE TRANSACTION — SECTIONS 34 TO 37

Official launch, the share offer and listing

- Registration and pre-marketing
- The offer period
- Listing
- Post-listing activity

PHASE 4 – OFFICIAL LAUNCH, THE SHARE OFFER AND LISTING

Page Contents

145 34. Decision to launch the share offer
145 34.1 Overview
145 34.2 Decision to launch

146 35. Pre-marketing period
146 35.1 Retail investors
146 35.2 Institutional investors

146 36. Offer period, bookbuilding and pricing
146 36.1 Offer period
147 36.2 Pricing
147 36.3 Bookbuilding
148 36.4 Basis of allocation
36.4.1 Retail allocation policy
36.4.2 Institutional allocation policy
36.4.3 Greenshoe

Page Contents

150 37. After-market activity
150 37.1 Share performance
150 37.2 Objectives
150 37.3 Ongoing public education

151 38. Telkom IPO key statistics
151 38.1 Offer
151 38.2 Share price performance
152 38.3 Institutional offer
152 38.4 Retail offer
38.4.1 Public education campaign
38.4.2 Registration period
38.4.3 Offer period
153 38.5 Printing statistics

154 39 Glossary of terms

PHASE 4 | OFFICIAL LAUNCH, THE SHARE OFFER AND LISTING

This section focuses on what needs to be done to officially launch the programme. It distinguishes between the retail and institutional investors in the pre-marketing period. The pricing of shares and the bookbuilding processes, as well as the allocation process are discussed in detail.

Activities that need to be undertaken in the after-market period are highlighted.The last section also contains information on the key statistics of the Telkom IPO for illustrative purposes.

The activities in this section are the culmination of the months of hard work set out in the previous phases.

34. DECISION TO LAUNCH THE SHARE OFFER

34.1 OVERVIEW

This is the "live" phase when details of the IPO will be made public and investors invited to subscribe. It includes the:

- decision to launch the share offer
- pre-marketing
- offer period
- listing
- after-market activity.

34.2 DECISION TO LAUNCH

Although the public and investor community will know that an IPO is imminent, it is best to keep as much detail as possible confidential, so that on a particular day the Minister and state owned enterprise Chairperson/CEO can officially launch the offer at a press conference. The more the details are kept confidential, the greater the impact of the launch and the greater the publicity.

The launch should be the first time that the timetable and high-level issues, such as the extent of the retail offer, are made public. Once the offer has been launched there is no going back, and any changes will be in the public domain. Therefore, before launching a thorough check-list should be drawn up on issues that should have been resolved by the time of the launch, and the state of progress on further issues.

A check-list for each working group must be drawn up in advance, and each group should then be consulted on the extent to which they are progressing in line with the agreed overall timetable. For example, the prospectus working group must confirm that there are no major hurdles that may prevent the prospectus being signed off on time.

35. PRE-MARKETING PERIOD

Prior to the publication of the prospectus and the offer period, during which both institutional and retail investors can apply for shares, a pre-marketing campaign should be undertaken. One of the key reasons for this is to create awareness of the share offer. Creating such awareness can take many weeks, if not months, and it is not possible to have the offer period open for many months, as the offer period will include a time-sensitive price range. Therefore, a pre-marketing period allows investors to be "prepared and have their funds ready".

There will be different campaigns for retail investors and institutional investors.

35.1 RETAIL INVESTORS

The purpose is to make sure that the target audience is aware that the share offer is about to happen, and how they can participate. Retail investors may be encouraged to pick up an educational leaflet and register for the offer. There may be:

- regional roadshows
- extensive advertising
- publicity.

The retail pre-marketing could be six to eight weeks or more, in a dedicated education campaign.

35.2 INSTITUTIONAL INVESTORS

Key institutional investors are likely to be contacted and briefed on the share offer. This is to:

- prepare them for the investment
- gauge what they think is a reasonable price for the shares, and how many shares they are likely to subscribe for.

This information is used for setting the price range of the prospectus, and if not already decided, the size of the offer and the division between retail and institution.

36. OFFER PERIOD, BOOKBUILDING AND PRICING

36.1 OFFER PERIOD

The offer period is the limited time during which investors can apply or bid for shares. It usually lasts around three weeks, although times vary, depending on where the state owned enterprise is being listed.

At the start of the offer period, there is usually an official launch press conference at which the prospectus is unveiled and the price range announced.

Retail investors are either mailed or encouraged to collect a prospectus (or summary prospectus) and application form on which to apply. Most investors will apply towards the end of the offer period with, in general, 70% of applications arriving in the last few days. It is therefore difficult to gauge the level of demand during the offer period.

Institutional investors will be attending roadshow presentations and submitting their bids to the GC's bookrunner.

There may be two closes to the offer period. A retail close by which time all retail applications must be submitted, and then a day or so later the Institutional Close by which time all bids must have been received.

36.2 PRICING

A few years ago most IPOs were based on a fixed price, which was published at the launch of the offer. Nowadays most IPOs are priced, based on demand for shares from institutional investors during the offer period.

At the launch of the offer period, a price range is published. During the offer period, institutions submit bids to the global coordinators/bookrunners, usually for a number of shares at a certain price. Each institution may submit different bids at different share prices. For example, an institution may bid for 100 000 shares at a price of R20, but only 50 000 shares at a price of R25.

The steps for pricing the shares are usually as follows:

- during the pre-marketing, i.e. before the launch of the offer period, an indicative price range is sought from institutional investors
- the Government and their financial adviser, in conjunction with the state owned enterprise, determine the price range and the offer size including the likely division between retail and institutional investors, based on the institutional feedback. This information is published in the prospectus
- institutions then bid for these shares. If retail demand is higher, the Government may reserve the right to reduce the number of shares sold to Institutions, and increase the number sold to retail investors.

36.3 BOOKBUILDING

When bidding for shares institutions will take into consideration:

- the state owned enterprise's growth and dividend prospects
- how the state owned enterprise compares with similar state owned enterprise valuations
- the IPO discount
- the sector strength
- the market sentiment
- the roadshow performance
- competing syndicate calendar, e.g. how many other IPOs at the same time
- retail demand
- current liquidity of most funds.

The price at which the shares are sold is determined by:

- collating all the bids from the institutions to create a book of demand, from this the strike price is determined
- evaluating the amount of coverage over the strike price. In theory the shares could be sold at the strike price, which would maximise the Government's proceeds. However, it would undermine the after market in the shares, as once a share trades below the issue price on day one, it often continues in a downward spiral and can take weeks or more to recover.

The share price should create a favourable perception of the IPO, especially for future Government IPOs, by ensuring that a stable, long-term investor base is built. Ideally the shares will be sold to those institutions that are known long-term investors, rather than those who are trying to make a short-term gain.

If the shares are priced:

- too high – This will maximise Government proceeds, but the share price is likely to under-perform which will discourage investors to participate in future Government IPOs
- too low – The Government will be accused of selling the state assets too cheaply and not maximising the return for tax payers. It would also encourage short term holders in any future Government IPO.

During the offer period, whilst bids are being received from institutions, Cabinet should be kept informed on how the bookbuilding is going with indications of the likely final price and division between institutional and retail offer.

National Treasury and public enterprises officials will play a key role in the final decision. As the market moves continuously, it is advisable to delegate pricing decisions to officials of these departments who have a thorough knowledge of the valuation, and working of financial markets.

Government officials should preferably do an in-house valuation independently of their GC's, so that they are in a position to determine whether the shares are fairly priced.

The final decision at which the shares are sold, should be taken by either Cabinet, or the suggested IMC, on the recommendation of the Steering Committee as:

- there is a limited amount of time between the close of the offer and announcing the pricing (in most cases this is either overnight or over a weekend)
- there is no one right price.

36.4 BASIS OF ALLOCATION

Once the price has been agreed the number of shares to be sold in the institutional offer, and the number of shares to be sold in the retail offer must be agreed, from which the basis of allocation will be determined.

36.4.1 RETAIL ALLOCATION POLICY

The retail allocation policy will depend on the various categories of retail investors and whether one type receives preference over another one. For example, if there is a special offer to employees, they are likely to receive a more favourable allocation, than a member of the public.

If applications were made based on a total amount to be invested, the application amount needs to be divided by the final share price, before the number of shares to be allocated per denomination can be determined.

Once the number of shares to be allocated to retail investors has been decided, the next step is to decide the division of total shares to be allocated between the different categories of investors. The number of shares for each category is allocated per denomination as per the example illustrated below.

Table 14 – Share allocation example (assuming a share price of R10)

Denomination (amount applied for)	Maximum number of shares that could be allocated	Employee	Member of the public
R200	20	20 (100%)	18 (90%)
R300	30	30 (100%)	24 (80%)
R400	40	36 (90%)	28 (70%)
R500	50	40 (80%)	30 (60%)

The process of determining the allocation policy will be iterative, and it is unlikely that the number of shares reserved for the retail tranche will fit exactly within a sensible allocation policy. It may be necessary to ask for a few more shares from the institutional total allocation, or conversely, not to allocate all the shares initially allocated to the retail tranche.

36.4.2 INSTITUTIONAL ALLOCATION POLICY

As the demand for shares at the final share price exceeds the number of shares that are available by the amount of cover, each institution must be allocated a reduced number of shares, to the amount they bid. For example, if the share price is set at twice cover, each institution will receive on average 50% of the shares they bid for.

An extensive marketing campaign to the institutions is important if Government wants the best price, as this will help maximise demand, increase momentum and create price tension.

Normally not all institutions and their bids are treated equally i.e. they do not receive the average allocation. Instead allocations are based on the quality of the institution and their bids. Such analysis will include:

- who the institution is and whether they are long-term investors?
- when did they bid (timing)? Early bids in the offer period help steer the bidding process, and should be treated more favourably
- what price did they bid at (price leadership)? Even though, in the end, all institutions pay the same price, bids at higher prices should be treated more favourably (up to a certain limit)
- what kind of interest did they show during the offer period, and at roadshow events? For example were meetings attended by senior investment managers?

36.4.3 GREENSHOE

The over-allotment option or Greenshoe (named after the 1st state owned enterprise on which this mechanism was used), is used to create after-market support for the shares. The option is granted to the GC's/bookrunners to purchase additional shares at the offer price for 30 days after the listing.

The Greenshoe allows the lead manager to create a protected short position, which will enhance the after-market support of the shares. So that if, for example, the after-market share price rises, the lead manager can sell more shares into the market which will maintain, or reduce, the share price. And if the share price is falling, the lead manager can buy shares from the market, to increase demand, and raise the share price.

Typically the over-allotment is around 10 to 15% of the Offer.

37. AFTER-MARKET ACTIVITY

37. 1 SHARE PERFORMANCE

The parties involved in the IPO are likely to monitor the after-market performance of the state owned enterprise's shares. Share price will be monitored for the following:

- movement of share price – Success will be achieved if the share price does well upon listing. However, if the price is too high after the listing it may be perceived that the shares were under-priced
- increased investor confidence – A successful IPO will bode well for future Government IPOs and retail offering, as investor confidence will be boosted by a successful transaction
- increased corporate ratings – Confidence in the state owned enterprise globally, and internationally, will be enhanced by a successful IPO.

37.2 OBJECTIVES

Government may want to benchmark the IPO against all stated objectives set before the commencement of the IPO process, over and above the price objective, especially as social objectives are as important to the South African Government. For example:

- financial objectives can be measured by the proceeds received from the IPO
- empowerment objectives can be measured by HDI uptake of the retail offer, and skills transfer to empowerment firms.

37.3 ONGOING PUBLIC EDUCATION

The extensive public campaign at great cost teaches the public about equity ownership, and the benefits of being an equity owner. It is important that these lessons are reinforced post the IPO, at every opportunity, so that:

- the messages are not lost
- government does not need to start from scratch when the next IPO is undertaken
- the money spent on the Telkom IPO public education campaign can be leveraged in future transactions
- those who bought shares during the Telkom IPO, continue to be confident that they did the right thing.

Continuous public education can be achieved if, after the IPO, public enterprises continues to engage the public through:

- GCIS structures, as well as the public enterprises communications directorate, that continuously communicate the Government's restructuring policies, including the benefits of a share offer
- JSE investor education programmes and officers.

38. TELKOM IPO KEY STATISTICS

The Telkom IPO was the catalyst for this manual and has been used throughout to illustrate points. Key Telkom IPO statistics that may be of further interest to readers are set out below.

38.1 OFFER

The size of the offer was R4,3 billion or US$539 million, being approximately 28% of the state owned enterprise

Offer price R28 per share (US$13,98 per ADS)*

ADR ratio four ordinary shares to one ADR

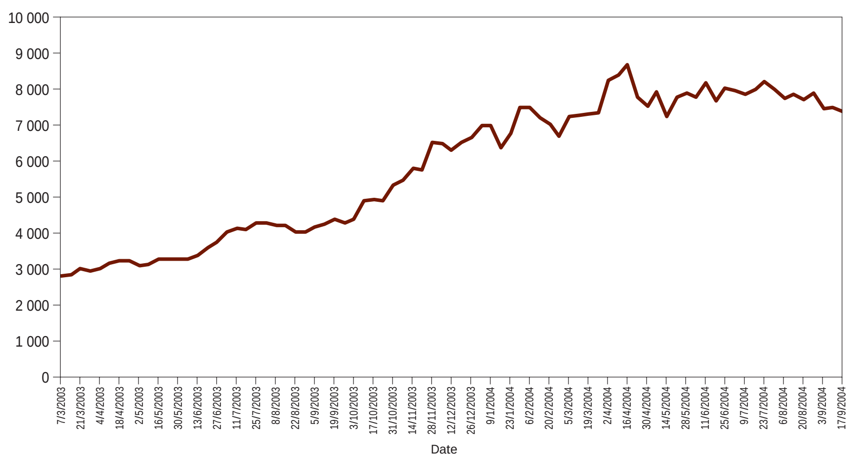
Number of shares offered 139 257 954 ordinary shares

Market capitalisation at issue date R15,6 billion (US$2 billion)*

Issue date 4 March 2003

38.2 SHARE PRICE PERFORMANCE

Telkom share price (weekly price Friday closing)



Source: Bloomberg

*Based on an exchange rate of R8 = US$1

38.3 INSTITUTIONAL OFFER

The results of the institutional offer were:

Roadshow

The roadshow lasted three weeks, during which there were over 80 meetings in 16 cities, as follows.

- South Africa – five days, visiting four cities, 22 one-on-one meetings and two group meetings
- Europe – seven days, visiting eight cities, 27 one-on-one meetings and 10 group meetings
- USA – three days, visiting four cities, 19 one-on-one meetings and three group meetings

Institutional demand and allocation:

Demand

- the book of demand was covered more than twice
- domestic (SA) institutions accounted for 55% of demand
- USA and European institutions accounted for 10% and 35% of demand respectively.

Allocation

- 57% of stock allocated to South Africa Institutions
- 11% and 33% of stock allocated to USA and European institutions respectively.

38.4 RETAIL OFFER

The results of the retail offer are outlined below:

38.4.1. PUBLIC EDUCATION CAMPAIGN

The results of the education campaign for the following phases were:

- 220 roadshow events took place
- the roadshows were attended by over by 50 000 people
- within four weeks of the launch, many SAPO and Standard Bank branches reported that they had run out of the public education campaign booklets. Considering that 8,6 million had been printed and distributed, this could imply that the booklets were widely read
- media reported on many of the events, and the press reports were favourable.

38.4.2. REGISTRATION PERIOD

- initial predictions were that around 500 000 individuals and stokvels would register. After four weeks 380 000 individuals had registered
- by the close of registration over 1 474 501 individuals and 283 stokvels had registered
- 82% individuals had registered via a post office.

38.4.3. OFFER PERIOD

During the offer period:

- 104 379 individuals and 445 stokvels applied for R335 701 500 (less R5,1 million for bounced cheques)
- This represented around 7% of the total offer.

38.5 PRINTING STATISTICS

The following documents were printed during the various phases of the Telkom IPO share offer:

Phase 1 – Education campaign

"Your Guide to Shares" Booklet – 8,6 million copies

Phase 2 – Registration period

"Your Guide to Registration for the Telkom share offer" Booklet – 6,6 million copies

Phase 3 – Offer period

During the offer period the following were printed:

- full JSE prospectuses – 4 400
- full SEC prospectuses – 21 700
- summary prospectuses – 4,1 million.

Phase 4 – Post-listing period

In the post-listing period the documents were only printed in English as:

- during the education campaign it came to light that most people picked up and read the English version of the booklet, even though English was not their first language
- it saved costs
- a multilingual call centre could be used as back-up.

The printed documents were:

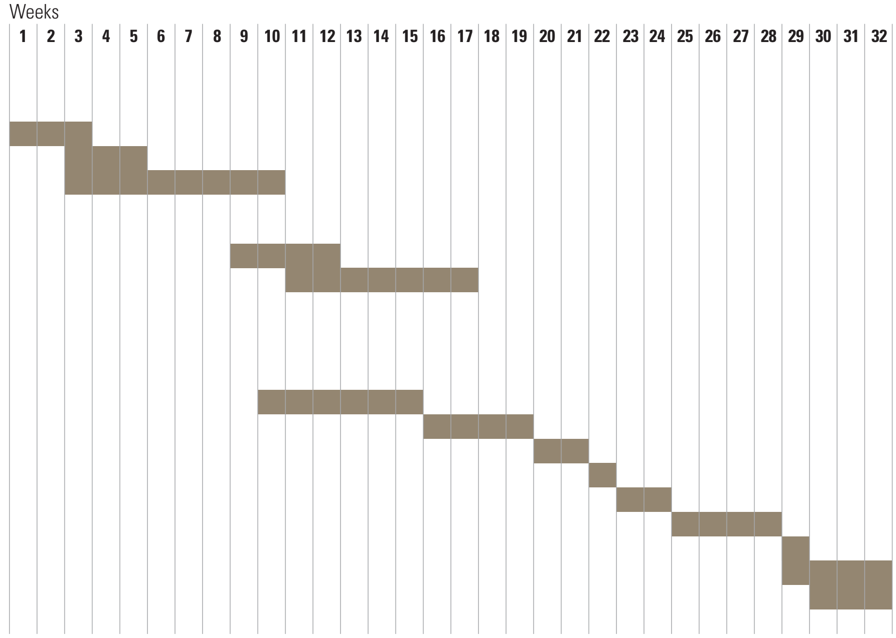
- Welcome Booklet (English only) – 140,000
- share account statements & share dealing forms (28 different versions).

39. GLOSSARY OF TERMS

BEE	Black Economic Empowerment
Board (the)	The board of directors of the state owned enterprise
DDG	Deputy director general
DFID	UK Government's Department for International Development
DG	Director General
DOC	Department of Communications
DTI	Department of Trade and Industry
ESOP	Employee share option programme
Financial Adviser	The main financial adviser to the Government
GC	Global coordinator – a global coordinators appointed by the Government
GCIS	Government Communication and Information Systems
Global coordinator	The investment bank appointed to control and direct distribution of the SOE shares
Government	The Government of the Republic of South Africa
HDI	Historically Disadvantaged Individuals, South Africans unable to vote before 1994, women and disabled persons
ICASA	Independent Communication Authority of South Africa
IMC	Inter Ministerial Committee
Investment Case	Underlying business rationale for potential investor to buy shares
IPO	Initial public offering
JSE	JSE Securities Exchange of South Africa
Key Advisers	The financial adviser, the legal adviser and global coordinator
Listing date	The date on which the shares of the state owned enterprise are to be offered for sale to the public through registration with the JSE
LSE	London Stock Exchange
Manco	Management Committee
MSOP	Management share option programme
NEF	National Empowerment Fund
NFA	National Framework Agreement
NYSE	New York Stock Exchange
NT	National Treasury
PFMA	Public Finance Management Act 1 of 1999
Policy department	Government department that sets industry policy for SOE and to which the SOE directly reports
Project Charter	The document setting out the parameters and guidelines within which the IPO will be undertaken by Government
PR	Public relations
Public enterprises	Department of Public Enterprises
Q&A	Questions and answer sheets prepared by communication advisers as acceptable responses to potential media questions
RFP	Request for proposals
Regulator	The nationally appointed industry regulator for the industry in which the state owned enterprise is operating, who is responsible for supervising the industry and ensuring that a correct regulatory framework is in place
SAPO	South African Post Office
SEC	Securities and Exchange Commission in America
SEP	Strategic equity partner
SIDA	Swedish International Development Agency
SOE	State-owned enterprise
Share offer (the)	The sale of shares
Stock Exchange	Market on which shares are traded, predominantly the JSE Securities Exchanges, London Stock Exchange and New York Stock Exchange.
Syndicate	The group of banks that will be responsible for marketing and selling the offer to institutional investors
Stokvel	A social cooperative where members contribute financially (or otherwise) for the benefit of all members
VAT	Value added tax

ISBN No. 0-620-33300-6

IPO PROCESS



Phase 2(A)
Setting up the Government Team
Steering Committees established
Manco established
IPO Office set up

Phase 2(B)
Interaction with the Company
Agree objectives and strategic issues
SOE setting up appropriate structures

Phase 2(C)
Appointing Advisers
Prepare tender documentation/Legal input
Issue tender and await response
Evaluate written tenders and shortlist
Presentations to Selection Panel
Selection of Preferred and Second Supplier
Negotiation with Preferred Supplier
Appoint Advisers
Prepare revised Budget and Timetable
Set up Working Groups

IPO PROCESS

main menu