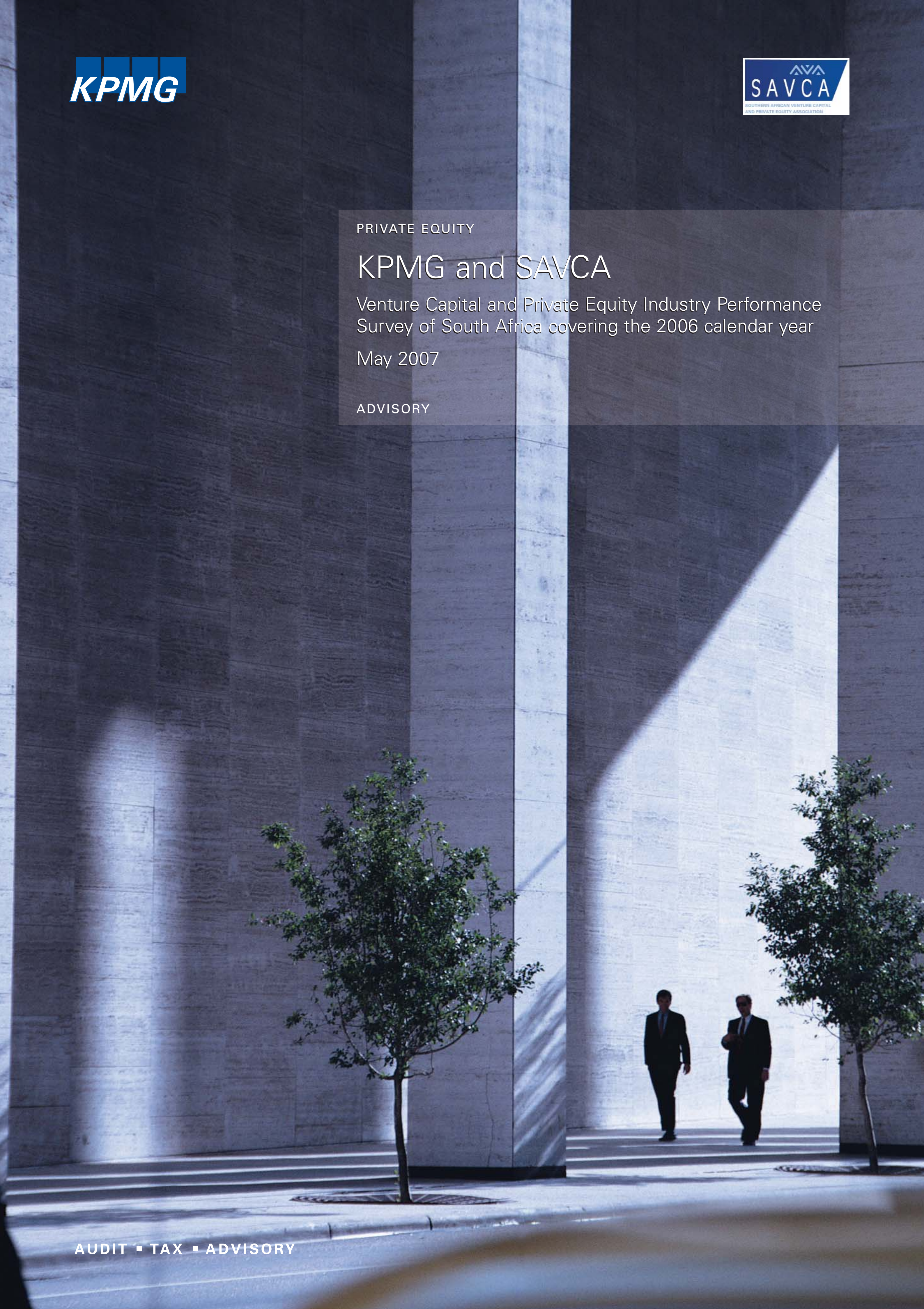

PRIVATE EQUITY

KPMG and SAVCA

Venture Capital and Private Equity Industry Performance Survey of South Africa covering the 2006 calendar year

May 2007

ADVISORY

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The SAVCA GIBS Foundation Programme for Private Equity and Venture Capital.

Consider it your first major investment

The Southern Venture Capital and Private Equity Association (SAVCA) has for the fourth year partnered with the Gordon Institute of Business Science (GIBS) to provide a range of programmes designed to increase the knowledge base and effectiveness of practitioners in the Venture Capital and Private Equity industry.

As part of this partnership the SAVCA GIBS Foundation Programme runs from 13-15 June 2007 (3 days), and provides attendees with:

- a strategic overview of the Venture Capital and Private Equity industry and processes
- a working knowledge of key analytical tools used by Venture Capital and Private Equity practitioners
- insights into practical challenges and strategic opportunities in the industry

The cost of the programme is R7 500 for SAVCA members and R8 500 for non SAVCA members.

Registration:
Valeria Wastell
Tel: 011 771 4108
E-mail: wastellv@gibs.co.za

University of Pretoria

SAVCA
SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

Gordon Institute of Business Science

Contents

Foreword

SAVCA

2006 will surely go down as the year in which private equity came of age in South Africa. Our annual industry survey reflects on this progress.

The survey shows that:

- South African investors are beginning to understand that private equity provides positive absolute returns and significant portfolio diversification benefits.
- Black Economic Empowerment (BEE) remains a major source of activity in the industry; there are major moves by industry players not only to transform themselves but also to promote BEE investment into companies.
- While venture capital funding is still not at the levels that we would like it to be, the scale of activity in this sector of the market compares favourably with that in other markets. The SAVCA sub-committee, focused on venture capital development, will look to continue the trend towards more investor activity as they draft a consultation paper on the importance of venture capital investment for South Africa.
- The scale of activity in the industry compares favourably with that in many major international economies, which bodes well for Government's stated growth targets, as local and international research confirms that private equity investment is a key driver of entrepreneurial activity in any economy.

Looking ahead, prospects for our industry are very positive:

- While 2005 and 2006 were periods of fund raising for many SAVCA members, it seems that, given the announced local and international "mega deals", 2007 and beyond will be years of heightened investment activity.
- The advent of independent mezzanine funds is a positive sign for the development of our industry and the importance of captive and independent mezzanine financing in the facilitation of private equity transactions should not be underestimated. In the coming months SAVCA will further analyse this section of our industry and look to report on its contributions towards capital market development, BEE and the cost of capital.
- Following the capital gains tax amendments announced by Finance Minster Trevor Manuel in his budget speech of February 2007, private equity investors now have clarity on the taxation of private equity realisation gains. This is an important breakthrough for that industry and is likely to lead to additional investment into private equity funds.
- As valuations increase and investment pressures build in developed markets, more and more global investors and private equity firms are looking to access opportunities in emerging markets. It is easy to understand why they seek these opportunities via private equity in South Africa, as today, South Africa is one of the most sophisticated and

promising emerging markets globally and our industry is well developed and uses international standards and procedures.

These are all positive signs for our industry and the country, as private equity investment has considerable impact in terms of productivity, skills development, national competitiveness and job creation, as private equity investments include the transfer and exchange of know-how and the flow of capital.

It is fitting, therefore, that this industry performance survey indicates a trend towards greater sharing of information and analysis thereof. It has become the definitive industry publication, widely used locally and internationally by industry participants and stakeholders, policymakers, academics, students, investment analysts and the media. The availability of this source of regular, reliable information and analysis has contributed to a virtuous circle of awareness and understanding which has in turn generated expanded interest in and growth of our industry.

I would therefore like to thank the association's members for participating in the survey, with particular thanks to the teams from KPMG and SAVCA for their considerable efforts in producing this outstanding body of work. Your efforts are much appreciated.

J-P Fourie
Executive Officer
SAVCA

KPMG

KPMG has invested considerable time and effort to better understand the private equity market. Our role as advisors on a number of recent high profile transactions – including Shoprite, Edcon, Alexander Forbes and Consol – bears testament to our position as a leading advisory firm in the private equity market.

This is the eighth year that we have collaborated with SAVCA to produce this survey and it is encouraging that it is now considered the industry benchmark, widely relied upon by a diverse range of stakeholders. In this year's survey it is heartening to note the significantly increasing level of capital being committed to this important asset class. It is with interest that we look forward to reporting on increased investment activity during 2007 and beyond, as these funds are deployed.

KPMG also looks forward to continued and increased involvement in the private equity industry, ensuring a continued leadership position in audit, tax and advisory services to the private equity sector.

A special word of thanks to SAVCA, specifically to SAVCA's Executive Officer, J-P Fourie, and the survey sub-committee who again played a critical role in compiling this survey.

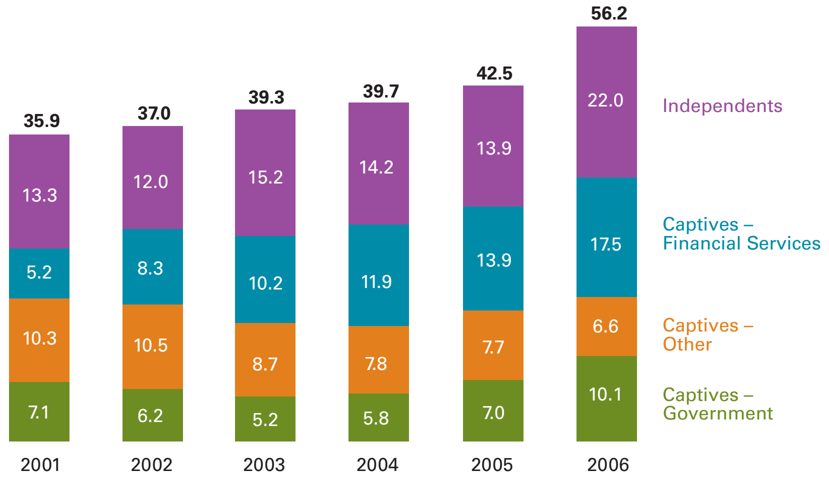
N Matthews

Nick Matthews
Director
KPMG's Corporate Finance practice

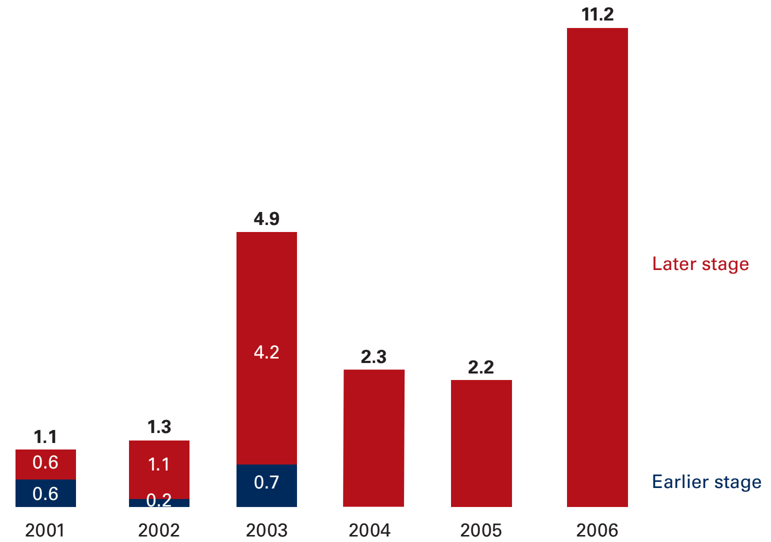
Highlights

- 44 entities, managing 71 funds, are included in this year's survey.
- South Africa's private equity industry boasts R56.2 billion in funds under management at 31 December 2006, an increase of 32% from the R42.5 billion at 31 December 2005.
- Funds under management have grown at a compound annual rate of 9% over the last seven years for which we have been conducting this survey.
- At the end of 2006, R26 billion in undrawn commitments is available for future investment. This represents an increase of 63% from the R16 billion of undrawn commitments at the end of 2005.
- Independents have increased their total funds under management by 58% from R13.9 billion at the end of 2005 to R22 billion at the end of 2006.
- Captives – Financial Services' funds under management increased by 26% from R13.9 billion at the end of 2005 to R17.5 billion at the end of 2006.
- Captives – Government's funds under management increased by 44% from R7 billion at the end of 2005 to R10.1 billion at the end of 2006.
- R11.2 billion was raised during 2006, representing almost as much as the aggregate amount raised from 1 January 2001 to 31 December 2005.
- 50% of all funds raised during 2006 were from US sources contributing to the US overtaking Europe as the highest provider of foreign funds to South Africa. South African sources have contributed 45% of all funds raised to date and not yet returned to investors.
- Investment spending by private equity firms is up 33% from R4.5 billion during 2005 to R6 billion during 2006. This excludes the mega-MBOs/LBOs announced during the last quarter of 2006 but that were still conditional at 31 December 2006.
- R6.4 billion, excluding VenFin's disposal of its interest in Vodacom for R16 billion, was returned to investors during 2006. This represents an increase of 60% from 2005 and surpasses the previous record of R4.5 billion recorded during 2004.
- Captives – Government and fund managers that are themselves black owned, empowered or influenced, have R48.4 billion of funds under management at 31 December 2006, an increase of 42% from the R34.1 billion at the end of 2005. 86% of funds under management are thus at least black influenced or are classified as Captives – Government (2005: 80%).
- Investment in entities that are black owned, empowered or influenced is up 23% from R3.1 billion during 2005 to R3.8 billion during 2006.

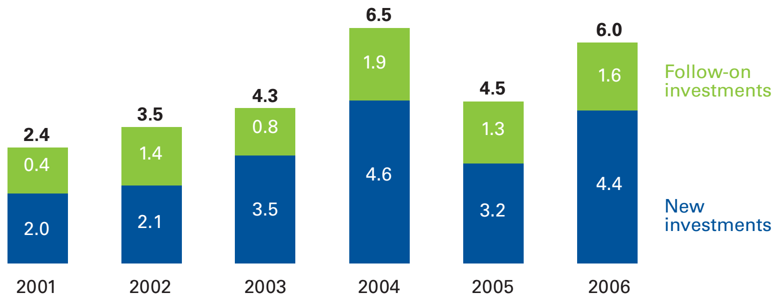
Composition of total funds under management at year end (Rbn)



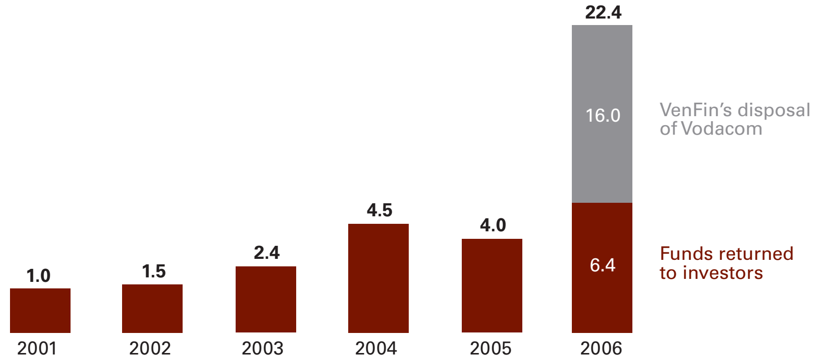
Funds raised during the year, analysed by fund stage (Rbn)



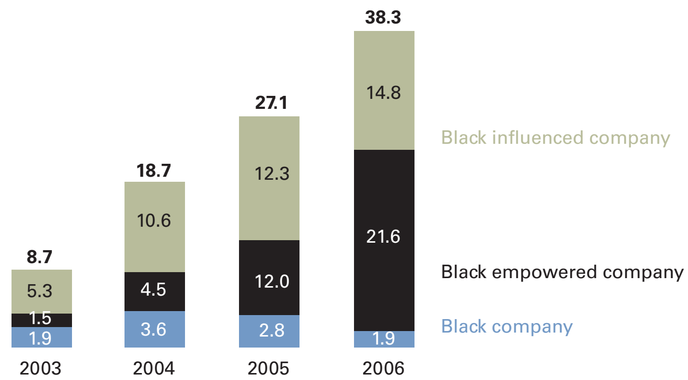
Investments made during the year at cost, analysed by new and follow on investments (Rbn)



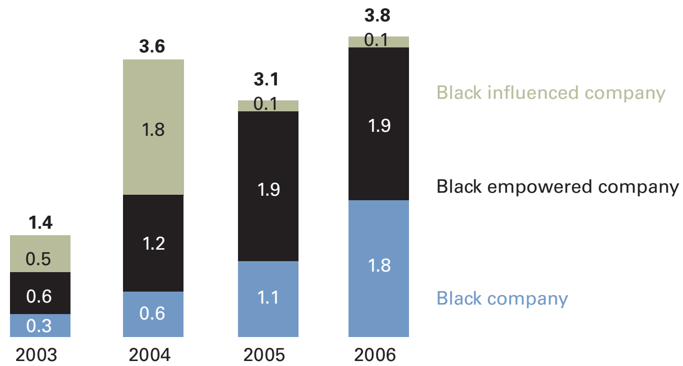
Funds returned to investors during the year (Rbn)



Funds under management by BEE fund managers at year end (excluding Captives – Government) (Rbn)



BEE investments made during the year at cost (excluding Captives – Government) (Rbn)



Sources of information

The principal source of information for this survey was the survey Questionnaire. In addition we have utilised a draft version of SAVCA's 2007 Yearbook, held discussions with certain private equity industry participants and sourced public information on private equity funds, including international surveys.

The survey Questionnaire was developed jointly by KPMG and a SAVCA sub-committee constituted for this purpose, with a view to ensuring that relevant information was extracted.

KPMG's background research identified 61 entities that may potentially be classified as private equity firms or are involved in the management of private equity funds. These included all the fund managers registered as members of SAVCA at 1 January 2007. Questionnaires were e-mailed to all 61 entities. Forty of them (representing 66 funds) at least partially completed the Questionnaire. In addition, alternative sources were used to obtain information on a further four private equity firms, representing five funds, that did not complete the Questionnaire. Although these alternative sources did not provide us with as much information as our Questionnaire, we nevertheless believe that the information we present provides a fair reflection of the state of South Africa's private equity industry. We are confident that the 17 participants for which no information was sourced are not significant players in the South African industry and we do not believe that they would have had a material impact on our survey results.

International data has been sourced from various sources, including:

- US, Asia and Global data: PwC 3i Global Private Equity 2005 Survey (relating to the 2004 calendar year and the first half of 2005)
- Western European data: EVCA/Thomson Financial/PwC (extracts from the EVCA 2006 Yearbook for 2005 data and preliminary data for 2006 as announced on 13 March 2007)
- Central and Eastern European data: Central and Eastern Europe Statistics 2005 – EVCA Special Paper November 2006
- Israeli data: MoneyTree Survey prepared by Kesselman & Kesselman PwC (Q4 2006 survey)
- Other sources specifically identified in the footnotes

In compiling the information for this survey, KPMG has worked closely with a SAVCA sub-committee, to ensure that meaningful interpretation and comment has been included in this report. This sub-committee reviews this document prior to its public release, but does not have access to any of the individually completed Questionnaires submitted to KPMG or any other information not presented in this publication.

Although care has been taken in the compilation of the survey results, KPMG and SAVCA do not guarantee the reliability of its sources or of the results presented. Any liability is disclaimed, including incidental or consequential damage arising from errors or omissions in this report.

Introduction to private equity

The term private equity refers to shareholder capital invested in private companies, as distinguished from publicly listed companies. Private equity funds are generally investment vehicles that invest in enterprises, which are not listed on a public stock exchange.

An enterprise may seek private equity financing for a variety of applications, from increasing its working capital base in times of business expansion, to developing new technologies and products in order to grow and remain competitive, to making acquisitions of other businesses and buying out certain shareholders in order to restructure the ownership and management of the business. Another more recent application of private equity in South Africa is the facilitation of the introduction of BEE investment.

The role of private equity

Investments by private equity funds into companies hold great benefits besides the introduction of capital. Private equity investors have a considerable impact in terms of productivity, skills development, national competitiveness and job creation, as it includes the transfer and exchange of know-how and not only the flow of capital. Private equity fund managers play an active role in managing their investments into companies as they derive a return from the increased valuation of their investments (not just debt repayment and an associated interest rate) and hence they focus on business development for the companies they invest in.

In South Africa the private equity industry represents a significant sector within the overall financial services industry, and an attractive asset class within the broader capital markets. As seen across a range of indicators, the profile of the local private equity industry is that of a productive contributor to the development of the South African economy, particularly in the context of policies such as BEE (that address economic imbalances of the past) and the promotion of entrepreneurial initiatives, that promotes South Africa's global competitiveness.

Investment stages

Private equity can be broadly classified into three sub-classes, namely:

- venture capital
- development capital
- buyout funding

Because the definitions of the terms "venture capital" and "private equity" vary from country to country, the following figure sets out the terminology used in this survey to avoid confusion.

Figure 1: Private equity investment stages

Private equity category	Stage of business development	Typical application
Venture capital	Seed capital	Funding for research, evaluation and development of a concept or business before the business starts trading.
	Start-up and early stage	Funding for new companies being set up or for the development of those which have been in business for a short time (one to three years).
Development capital	Expansion and development	Funding for growth and expansion of a company which is breaking even or trading profitability.
Buyout	Leveraged buyout or buy-in	Funding to enable a management team or empowerment partner, either existing or new, and their backers to acquire a business from the existing owners, whether a family, conglomerate or other. Unlike venture and development capital, the proceeds of a buyout generally go to the previous owners of the entity. Buyouts are often leveraged.
	Replacement capital	Funding for the purchase of existing shares in a company from other shareholders, whether individuals, other venture-backers or the public through the stock market. Unlike venture and development capital, the proceeds of replacement capital transactions are generally paid to the previous owners of the entity.

There are variations among different countries in what is meant by venture capital and private equity. In Europe, like in South Africa, these terms are generally used interchangeably. This is in contrast to the US, where buyouts are not classified as venture capital. This survey has been prepared to cover the full spectrum of private equity investing.

History of private equity

Beyond being defined as a range of investment categories applicable to non-listed companies, private equity is also a distinct asset class within the broader capital market, and is supported by a well-defined industry made up of various players and stakeholders.

The current profile of the private equity industry in South Africa is the result of various historical developments in the country and in global capital markets. In South Africa, the industry was boosted by the large number of LBOs and MBOs in the 1980's, resulting from the widespread disinvestment of multinationals from the old apartheid-based South Africa. These transactions were structured, financed and managed by the major commercial, merchant and investment banks of the time.

As these local banks developed the in-house expertise to manage private equity investments on an internally funded basis, there was a global trend, especially in the US and Europe (more specifically the UK) towards the formation and management of private equity funds whose capital was sourced from third party investors such as pension funds, large corporations and other institutional entities.

In the US the growth of the private equity industry was supported by government initiatives in the 1950's and 1960's to promote the development of small businesses. This was followed by changes to the regulatory and tax environment in the late 1970's, which allowed pension funds to invest in private equity for the first time. These enabling conditions, combined with profitable realisations of investments in earlier years, for example during the very active US IPO market of the late 1960's, resulted in a major growth in US private equity firms.

During the 1970's in the US, there was significant growth in LBO firms that managed buyouts of divisions and subsidiaries or large corporations. During the next two decades, the success of the LBO funds was complemented by the growth of private equity funds investing in earlier stage businesses, including venture capital funds investing in new business start-ups. The boom in technology-oriented businesses of the late 1990's was in part facilitated by the emergence and growth of many venture capital and technology funds. Almost every large US technology or tech related company, including Apple, Compaq, Dell, Genetech, Oracle, Cisco, Netscape, Amazon, eBay and Yahoo, is venture-backed[1].

The growth of the private equity industry in the US has been paralleled by similar developments in Europe in the 1990's and the current decade. The private equity industry is seen as a major driver of economic activity and development for the European continent.

In South Africa the private equity industry has benefited from the global trend towards recognising the asset class as an attractive investment vehicle for investors, combined with its growing reputation as an effective means of economic development for governments and development agencies. The local industry was given a more formal representation with the formation of SAVCA in 1998, which has since undertaken various initiatives aimed at the effective growth and sustainability of the industry.

It may be argued that South Africa has one of the most sophisticated private equity industries among emerging markets, with different funds at all stages of business development, from start-up venture capital funds through to late-stage and buyout funds.

Globally, the industry declined sharply after the "bubble burst" of the early 2000's and signs of recovery are well underway with fund raising and investment activity during 2005 and 2006 being reported at unprecedented record levels:

- Cumulative investments and funds raised from 1998 to 2005 were approximately $499.3 billion and $791.5 billion respectively for North America[2].
- Preliminary data indicates that 2006 was another record year for Europe with significant increases across most measurement criteria, especially fund raising where more funds were raised in 2006 (€89.8 billion) than during 2005 (€71.8 billion), the previous record year. The €161.6 billion raised in Europe during 2005 and 2006 is almost as much as the amount raised during the previous five years combined from 2000 to 2004[3].

1 Smarter Ventures – A survivor's guide to venture capital through the new cycle, Katharine Campbell
2 PwC 3i Global Private Equity 2005 survey (relates to the 2004 calendar year)
3 Preliminary 2006 data compiled on behalf of EVCA by Thomson Financial and PwC

The global market is dominated by the US. Sixty-seven percent of all global private equity funds raised from 1998 to 2004 have been raised in North America ($692 billion of the $1 038 billion raised globally) with Europe and Asia Pacific a distant second and third with 24% ($ 254 billion) and 7% ($69 billion) respectively. The Middle East and Africa (1% or $13 billion) and Central and South America (1% or $10.5 billion) are small in global terms, but have been steadily increasing in size over the last few years.

Types of private equity firms

A distinction needs to be made between captive and independent fund managers[4]. Fund managers include independents who manage funds on behalf of third parties as well as captives who manage on balance-sheet investments that were funded by a parent or group often from an indeterminate pool of money. Captive funds are for the purpose of this survey further classified into the captive funds of government, financial services (including banks and insurance companies) and other captive funds (including corporates).

Independents

Independent fund managers raise cash commitments from third party investors[5]. Generally, in terms of the agreement between the third party investors and the private equity fund manager, the private equity firm draws down on the commitments as and when investments are to be made. Independents are the dominant type of firm in the UK, the rest of Europe and in the US, where these funds are structured as limited partnerships. Private equity firms typically act as the general partner of the limited partnership, whilst institutions and other investors become limited partners.

Unlike captive funds, independent funds are usually closed ended. This means that once a fund has been raised, it is closed out, following which no further commitments are accepted from third parties. Typically, third parties' commitments expire, often according to a time schedule based on a "use it or lose it" principal, once a maximum drawdown time period expires. Professional private equity managers usually earn income from a combination of a management fee based on total commitments plus an enhanced carried interest, which is based on the performance of the fund relative to a benchmark. Captive fund managers usually do not charge any management fee.

Although this independent sector is dominated by the larger buyout focused funds, such as Actis Africa, Brait Private Equity and Ethos Private Equity, we continue to see a prevalence of second tier private equity fund managers. These also include some earlier stage venture capital funds such as Decorum Capital Partners which manages the New Africa Mining Fund.

[4] In the US, independent funds are normally structured as Limited Liability Partnerships.
[5] Referred to as limited partners in the US.

Captives

Captive fund managers, specifically those in the financial services arena, dominate the local market. Captives – Financial Services manage 31%, while Captives – Government and Captives – Other each manage 18% and 12% respectively of total funds under management at 31 December 2006. This is in stark contrast to the international experience which has seen most captives converting into independent third party fund managers over time. This is partly because many international captives elected to exit from the private equity market when the market softened a few years ago, resulting in significant write-offs. Also, the continued preference for later-stage deals in the domestic market is in keeping with the risk appetite of a captive player.

Significant captive funds include corporate private equity players (classified as Captives – Other in this survey) such as Business Partners and VenFin and Captives – Financial Services private equity players such as ABSA Capital, Nedbank Capital Private Equity, Old Mutual Investment Group, RMB (Ventures and Corvest) and Sanlam Private Equity.

Examples of private equity portfolios of government and DFIs (referred to as Captives – Government in this survey) include[6] the Industrial Development Corporation (IDC), National Empowerment Fund (NEF) and the Southern Africa Enterprise Development Fund. Whilst DFIs are not significant players in private equity in North America and Western Europe, they do have a focus on other developing economies including those of Eastern Europe and Africa. South Africa is not an exception owing to the more active role that the South African government and international DFIs, such as the International Finance Corporation (IFC), have taken in funding investment in the country.

Determining the level of private equity industry activity is not an easy task. Whilst certain parties lobby for a more inclusive approach to measurement, others believe that overstating the level of local activity is a disservice to the industry as this could possibly reduce the appetite of DFIs and foreign investors to commit funds to South Africa in favour of other under-funded emerging markets. The “purists” also argue that this survey should only measure the activity of the independent funds, as these form the core of the professionally managed private equity industry both locally and globally. This, however, would negate the significant role played by corporates, banks and DFIs in private equity in South Africa. Thus, for the purposes of presentation, and elimination if deemed necessary by specific users, we have presented data split, wherever possible, between the various types of fund managers.

[6] The Public Investment Corporation (PIC) is not a participant in this survey since it indicated that it is a provider of wholesale private equity funding and its inclusion would result in an overstatement of the industry size.

Black Economic Empowerment

One of the notable features of South Africa's private equity industry is the very significant role it plays in the development of BEE. The industry's impact on BEE is far reaching, as detailed in the various sections of this survey. It is specifically important to note that:

- Private equity transactions enable higher gearing, whereby a combination of private equity investment and bank loans allow the implementation of an appropriately geared financial structure, allowing management of the investee company to acquire a significant stake in the company. This leveraged model also creates opportunities for the involvement of black management and other BEE parties in the ownership and management of the investee company.
- The vast majority of transactions concluded by the industry have a significant BEE component and the majority of private equity fund managers have a BEE element to their own shareholding structure.
- Given the clarity provided in the recently gazetted Codes of Good Practice on Broad-Based BEE, as to how a company may treat its ownership arising from a private equity fund as if that ownership were held by black people, the industry is well poised to further increase its already significant contribution on this vital socio-economic process.

Funds under management

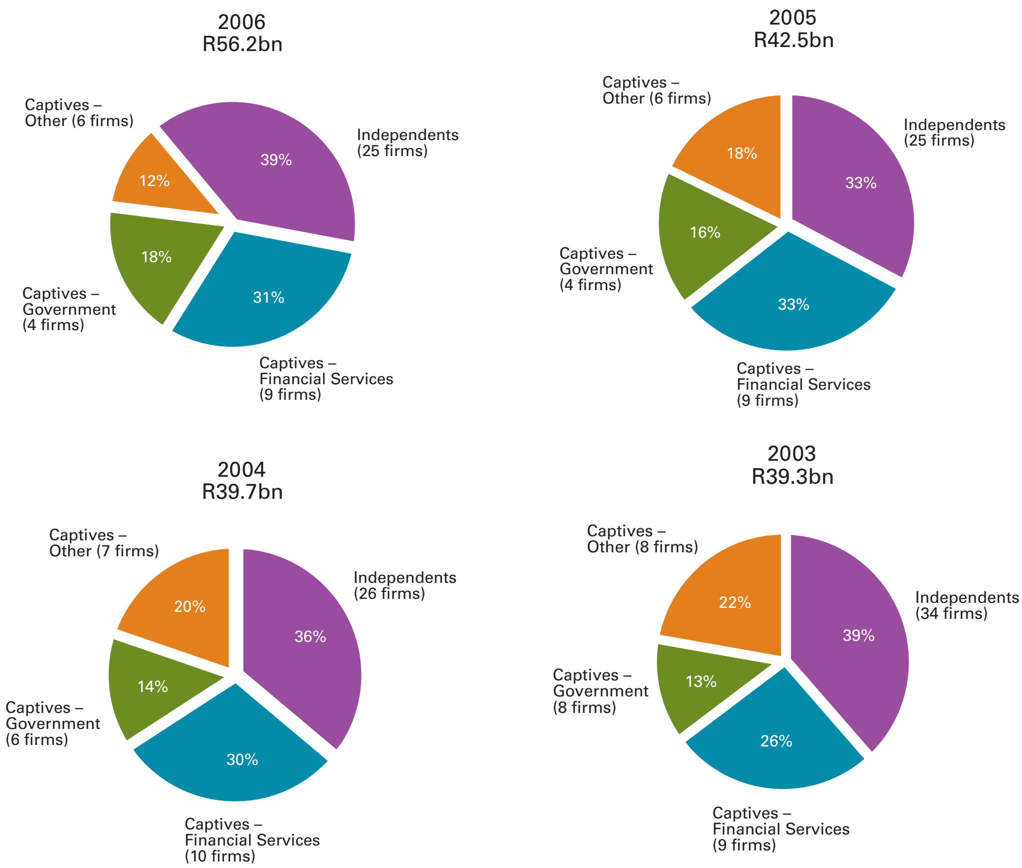
Our research shows that South Africa's private equity industry now boasts total funds under management of R56.2 billion (inclusive of undrawn commitments of R26 billion). This reflects an increase of 32% from funds under management at 31 December 2005 of R42.5[7] billion (inclusive of R16 billion undrawn commitments). This represents compound annual growth of 9% of total funds under management over the last seven years.

Independents have had the largest growth in total funds under management with an increase of R8.1 billion from 31 December 2005 to 31 December 2006. This 58% increase is as a result of the significant fund raising activity during 2006. Captives – Financial Services' total funds under management also increased by R3.6 billion from 31 December 2005 to 31 December 2006. This 26% increase is likely as a result of the continued increased private equity investment allocations by financial services groups to meet their BEE charter obligations. Funds under management by Captives – Government also increased by R3.1 billion from 31 December 2005 to 31 December 2006 (44% increase).

Funds under management by Captives – Other decreased by R1.1 billion from 31 December 2005 to 31 December 2006 (14% decrease). The decrease is mainly due to lower reported undrawn on balance sheet funds.

[7] Although our 2005 survey reported total funds under management of R43.9 billion at 31 December 2005, the 2005 results now include certain private equity funds which were excluded last year and vice versa. The restatement of comparative data by certain participants has also been a major contributor to the restatement. In analysing the research it is important to note that, in most cases, only comparative 2005 information has been restated with pre-2005 information being extracted from the 2005 survey.

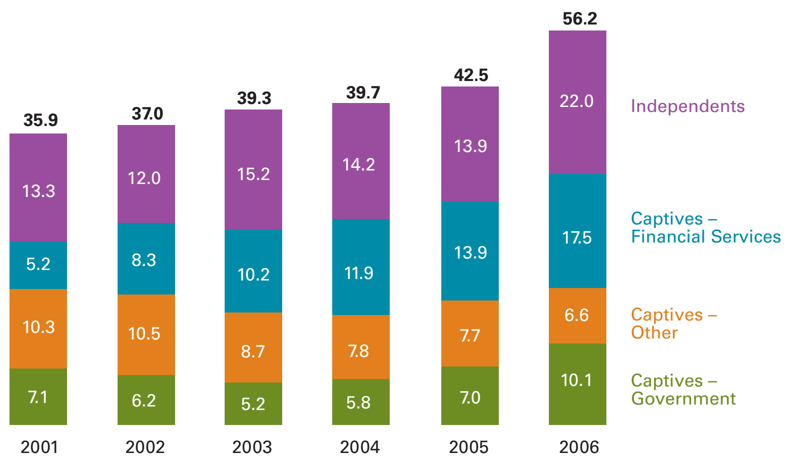
Figure 2: Total funds under management at 31 December



Fund raising activity during 2006 has shattered all previous records with almost the same amount being raised during 2006 as was raised collectively during the previous five years. Investment activity is also up 33% on 2005 levels while 2006's exit activity also exceeded all previous levels. These aspects are discussed in further detail in the "Fund raising activity", "Investment activity" and "Exits" sections of this survey.

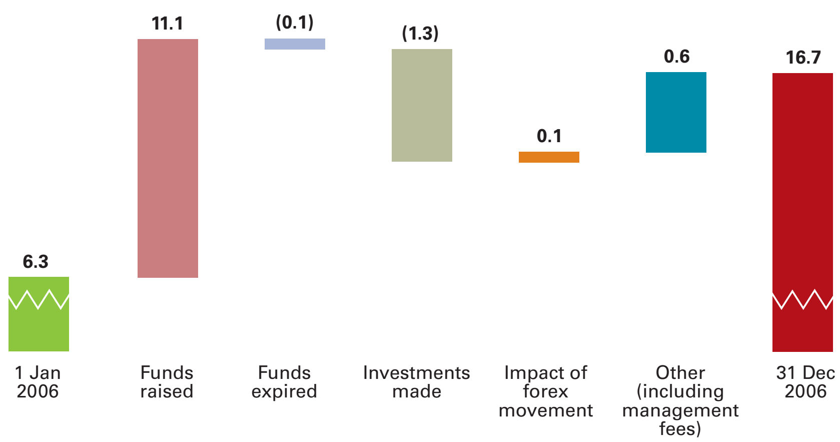
The total of all captive funds accounts for approximately 61% of the total funds under management at 31 December 2006. Independent funds make up the remaining 39% of total reported funds under management at 31 December 2006.

Figure 3: Composition of total funds under management at year end (Rbn)



Although total undrawn commitments are R26 billion (2005: R16 billion), R16.7 billion reflects the undrawn commitments of independent fund managers. This capital has been committed to the independent fund managers by third parties.

Figure 4: Roll-forward of undrawn commitments from third parties to Independents (Rbn)



The weakening of the Rand by some 9% against the US Dollar and 21% against the Euro from 31 December 2005 to 2006 ($6.4 to $7.0 and €7.6 to €9.2 respectively to the Rand) had the effect of increasing committed but undrawn funds in local currency terms at the end of 2006. The effect is an estimated net increase of approximately R96 million of funds under management in Rand terms at 31 December 2006. We suspect that the impact was not larger since most of the fund raising activity by Independents was towards the end of 2006.

There are still a significant amount of undrawn commitments which bodes well for seekers of capital. These funds often work on a "use it or lose it" principle, meaning that there will be a continual incentive for fund managers to invest their funds as soon as possible. The timing, however, is also dependent on prevailing economic factors.

Figure 5: Total funds under management at year end, split by undrawn commitments and investments (Rbn)[8]

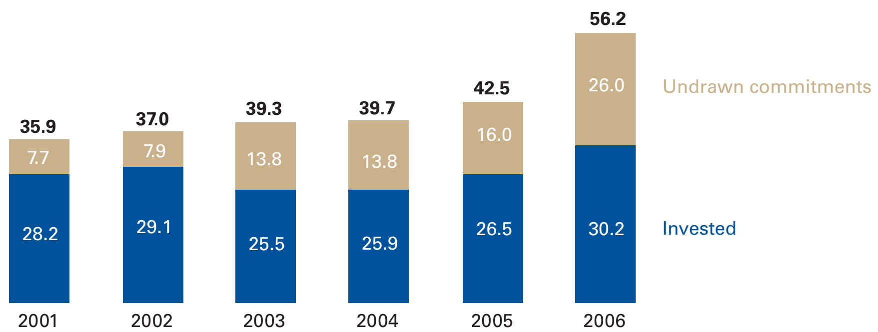
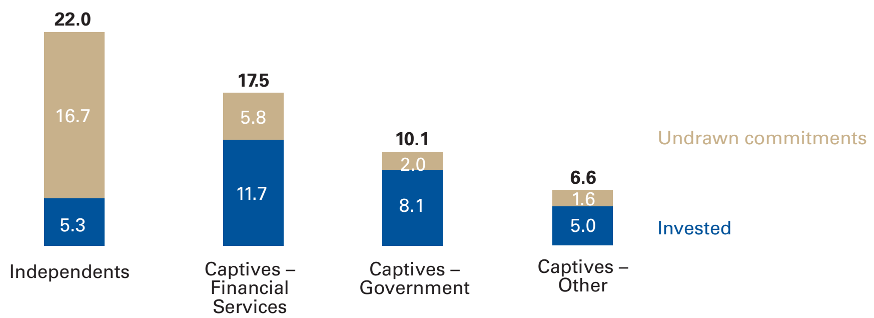


Figure 6: Total funds under management at 31 December 2006, split by undrawn commitments and investments (Rbn)[9]



The level of undrawn commitments at the end of 2006 must be seen in the context of the high level of fund raising activity annually since 2003 and especially during 2006. This does indicate the length of time involved in identifying opportunities and ultimately investing funds.

[8] Captive funds, and specifically Captives – Financial Services, generally have no fixed commitments, although this is not necessarily indicative of their capacity to make additional private equity investments. In certain instances, captive funds have reported the cash available for private equity investments as undrawn commitments while others have only reported unrealised investments without including the "pool" of available funds as undrawn commitments.

[9] The undrawn commitments at 31 December 2006 of Independents include R16.7 billion raised from third parties and R65 million of own funds.

Of the total R16.7 billion (2005: R7.8 billion) undrawn commitments available for independent fund managers at 31 December 2006, R414 million (2005: R565 million) is available from fund managers who indicate that they focus on early stage investments. A further R1.825 billion (2005: R1.751 billion) is available from captives who also focus on investing in early stage businesses.

Participants have indicated that almost all the undrawn commitments at 31 December 2006, which was similar at 31 December 2005, can be invested in new and/or follow-on investments (R24.3 billion/93%), while 3% (R0.7 billion) can only be invested in new investments and the remaining 4% (R1.1 billion) can only be invested for follow-on investments – ie, additional rounds of funding.

Assuming that there is no future fund raising and investment activity continues at 2006 levels (R6 billion for the year), it will take survey participants more than four years to exhaust the R26 billion committed but undrawn funds at 31 December 2006. Investment activity is however expected to increase substantially during 2007 due to the prevailing market conditions and number of mega MBOs/LBOs already announced – eg, Edcon, Shoprite Checkers, Alexander Forbes, Consol, Primedia and Peermont Global but which were still conditional at 31 December 2006 and thus excluded from the investments activity data reported in this survey.

Analysis of total BEE funds under management

Total funds under management of participating fund managers that themselves are black owned, empowered or influenced companies (ie, have at least 5% black ownership – refer to the glossary for definitions) increased by 41% from R27.1 billion at the end of 2005 to R38.3 billion at the end of 2006. This represents 83% of total "qualifying"[10] funds under management and is also an increase from the 76% at the end of 2005.

The increase mentioned above has been mainly as a result of the increase in funds under management by empowered fund managers.

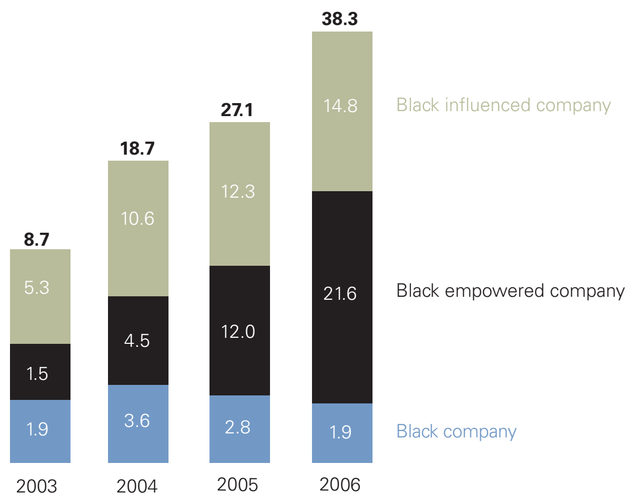
It is also important to note that the BEE private equity statistics presented in this survey exclude all Captives – Government which are obviously significant BEE investors. Thus the important contributions that the Industrial Development Corporation (IDC), National Empowerment Fund (NEF) and Public Investment Corporation (PIC)[11] make to empowerment, have not been included in the data presented on BEE funds under management and investment activity shown in this survey.

[10] Captives – Government funds under management have been excluded from total funds under management.

[11] The PIC is not a participant in this survey since it indicated that it is mainly a provider of wholesale private equity funding and its inclusion in the survey data would result in an overstatement of the industry size.

This understates private equity BEE investments significantly. Also, where participants did not return a completed Questionnaire but we were able to include them in certain parts of this survey using publicly available information, all these funds under management have been classified as "not empowered".

Figure 7: Funds under management by BEE fund managers at year end (excluding Captives – Government) (Rbn)



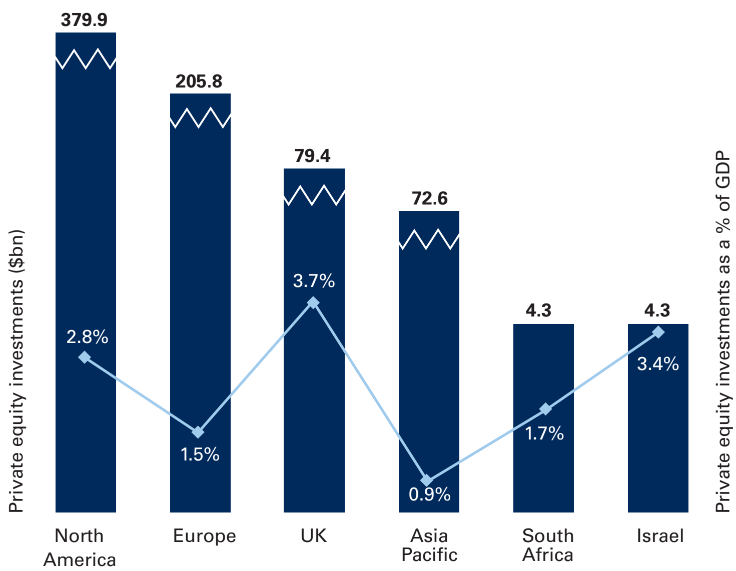
R21 billion of the funds at 31 December 2006 (31 December 2005: R10 billion) under the management of at least black influenced companies remained undrawn at the year end. The investment of these undrawn facilities will continue to have a positive impact on future investment activity, especially as South African businesses strive to meet the targets set out in the Codes of Good Practice on Broad-Based BEE and the various industry specific BEE charters. It must however be remembered that these undrawn funds will not necessarily be invested in BEE related transactions.

Comparison to the global market

Although our industry is small, in absolute value terms, compared with the US, it is significant in relation to many other countries. These include Israel which is often sighted as having implemented a successful private equity model.

In terms of total funds under management relative to GDP, South Africa's private equity industry (1.7%) is higher than the European average of 1.5%, and the 0.9% for Asia Pacific. It is still some way off that of North America (2.8%), UK (3.7%) and Israel (3.4%).

Figure 8: Size of international private equity markets relative to GDP[12]



[12] Based on funds under management for South Africa at 31 December 2006 and at 31 December 2005 for Europe and UK as reported by EVCA/Thomson Financial/PwC and converted at €1=$1.2. North America and Asia Pacific is based on cumulative investments at cost made from 2000 to 2005 as reported by the PwC 3i Global Private Equity survey (covering the 2004 calendar year). Israel is based on cumulative investments at cost made from 2000 to 2006 as reported by the MoneyTree Survey prepared by Kesselman & Kesselman PwC. South African data excludes undrawn commitments to allow for comparability and converted at $1=R7. GDP for South Africa was sourced from Statistics South Africa (estimate at March 2007). European and UK GDP as reported by EVCA/Thomson Financial/PwC. Asian GDP based on 2003 data as reported by the PwC 3i Global Private Equity survey. North American GDP based on 2005 data as reported by The World Bank development indicators.

The depreciation of the Rand during 2001 caused South Africa to slip off the "Top 20" rankings of investment activity during that year. The recovery to 19th during 2002, 16th during 2003, 12th during 2004 and 16th during 2005 was on the back of the strengthening Rand and the increased level of activity. Using 2006 figures for South Africa and Israel and 2005 or 2004 for all other countries, South Africa is reflected at 17th place on the global private equity investment activity rankings.

Figure 9: Country ranking – Investment activity[13]

	Country	Investments (Rbn)		Country	Investments (Rbn)		Country	Investments (Rbn)
1	US	268.5	11	China*	13.3	21	Switzerland	2.9
2	UK	188.6	12	Korea*	10.1	22	Pakistan*	2.6
3	France	57.7	13	India*	8.6	23	Portugal	1.9
4	Japan*	45.5	14	Denmark	8.4	24	Finland	1.8
5	Sweden	23.7	15	Singapore*	8.3	25	Belgium	1.5
6	Germany	21.3	16	Canada*	7.7	26	Poland	1.2
7	Spain	21.1	**17**	**South Africa**	**6.0**	27	Austria	1.1
8	Netherlands	18.5	18	Malaysia*	4.9	28	Ireland	0.8
9	Italy	17.3	19	Israel*	3.8	29	Romania	0.6
10	Australia*	14.0	20	Norway	3.4	30	Hungary	0.4

If fund raising activity was used as the measure for the ranking, South Africa would be placed 10th (2005: 19th) as seen below.

Figure 10: Country ranking – Fund raising activity[13]

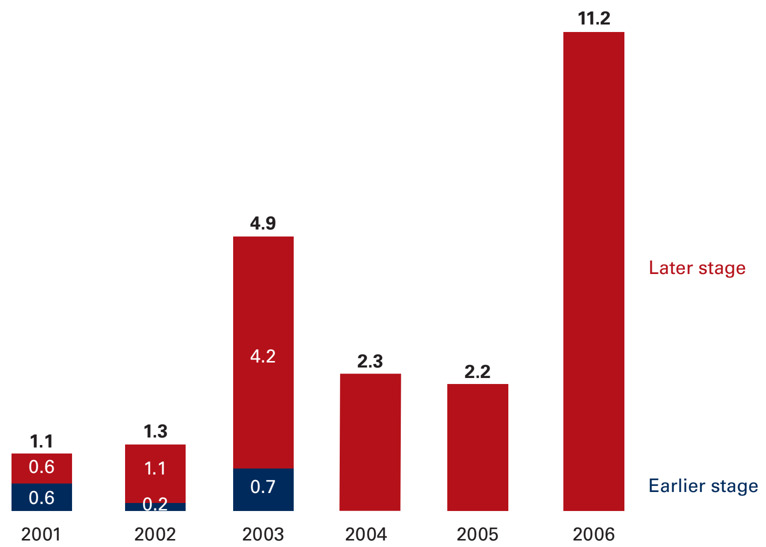
	Country	Investments (Rbn)		Country	Investments (Rbn)		Country	Investments (Rbn)
1	US	636.2	11	Italy	10.6	21	China*	2.8
2	UK	361.2	12	CE Europe	10.2	22	Belgium	2.8
3	France	90.6	13	Israel	8.2	23	Korea*	2.4
4	Japan*	35.7	14	Spain	8.1	24	Portugal	2.3
5	Germany	22.7	15	Denmark	7.9	25	Austria	1.7
6	Netherlands	19.3	16	Canada*	7.3	26	Czec Rep	1.3
7	Sweden	15.2	17	Singapore*	5.9	27	Malaysia*	0.8
8	Australia*	12.0	18	Norway	5.4	28	Hungary	0.6
9	Switzerland	11.8	19	Finland	5.0	29	Ireland	0.6
10	**South Africa**	**11.2**	20	India*	4.3	30	Poland	0.3

[13] 2006 figures for South Africa and Israel, 2005 for all others unless otherwise indicated by an * which indicates 2004. US Dollars converted to SA Rands using the average spot rate for 2006 of $1=R6.844, 2005 of $1=R6.362 and €1=R7.913 or 2004 of $1=R6.450, as applicable. US investment and fundraising activity is based on the simple annualisation of activity for the first six months of 2005 as reported by the PwC 3i Global Private Equity survey.

Fund raising activity

The figure below highlights the substantial increase in the amount of funds raised from R2.2 billion during 2005 to R11.2 billion during 2006 (409% increase). Almost all the fund raising activity of 2006, like 2004 and 2005, was by later stage funds since early stage funds only raised R1 million (2005: R14 million) during 2006.

Figure 11: Funds raised during the year, analysed by fund stage (Rbn)



The majority of reported fund raising activity during 2005 and 2006 was, as expected, by Independents although Captives – Financial Services also reported raising R180 million of third party funding during 2006.

The major fund raisers for 2006, all of which were Independents, were Actis Africa, Brait Private Equity, Ethos Private Equity, Sasfin Private Equity Fund Managers, Sphere Private Equity and Treacle Private Equity. The major fund raisers of 2005 included Actis Africa, Sphere Private Equity and Treacle Private Equity.

Thirty percent of all third party funds raised during 2006 were from pension and endowments funds followed by government and aid agencies (22%), insurance companies (19%) and private equity fund of funds (10%). All other sources contributed the remaining 19% of funds raised during 2006. Interestingly, private equity fund of funds contributed R1.1 billion of the 2006 fund raising activity while this source of funding had only contributed R191 million of all funds previously raised and not yet returned to investors at 31 December 2005.

Figure 12: Sources of third party funds raised during 2006 (R11 241m)

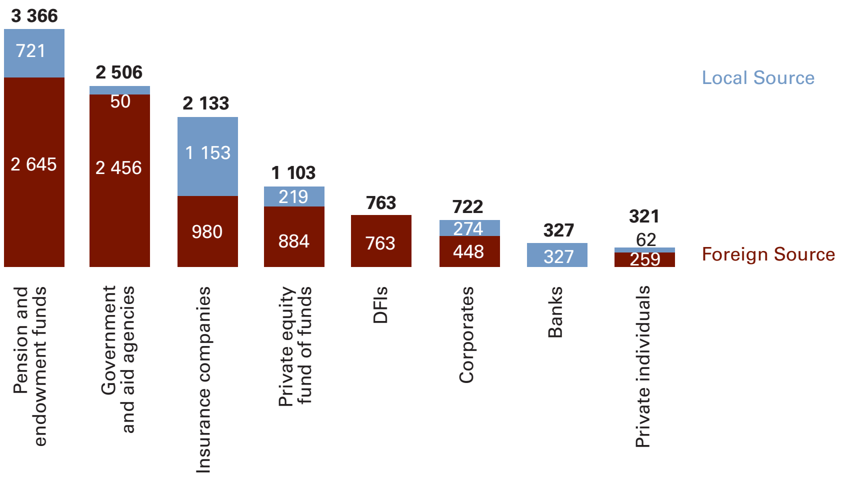
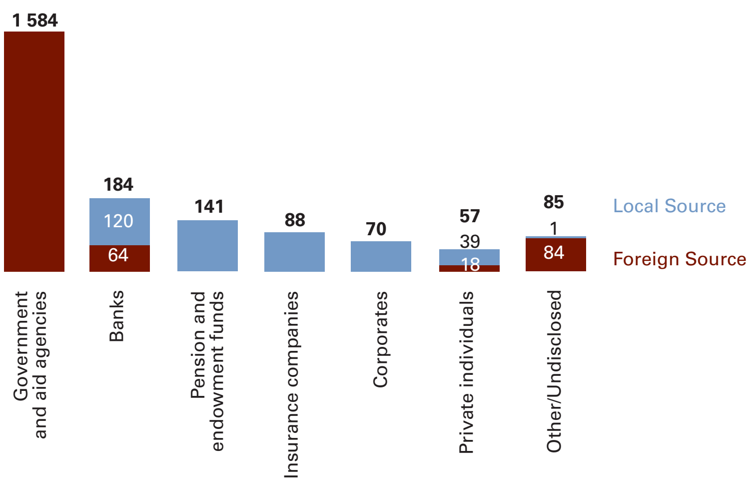
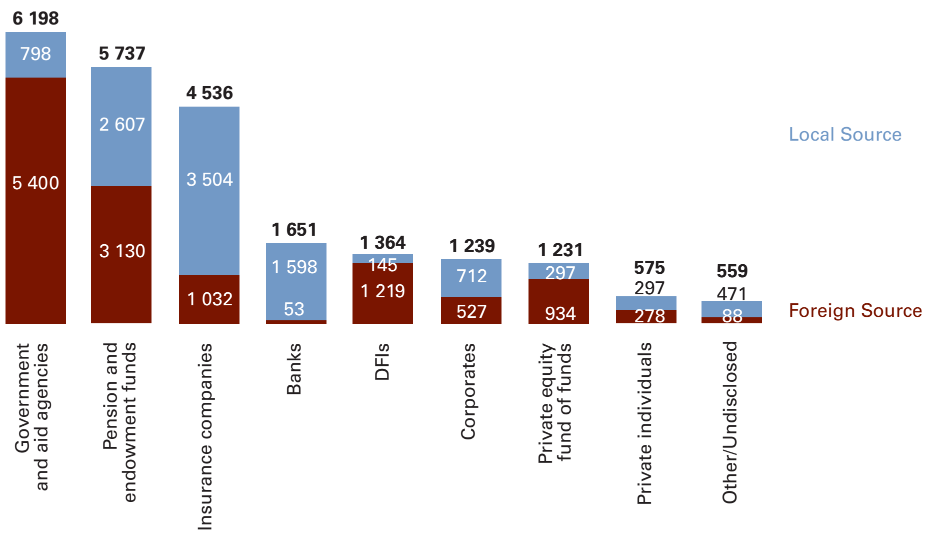


Figure 13: Sources of third party funds raised during 2005 (R2 209m)



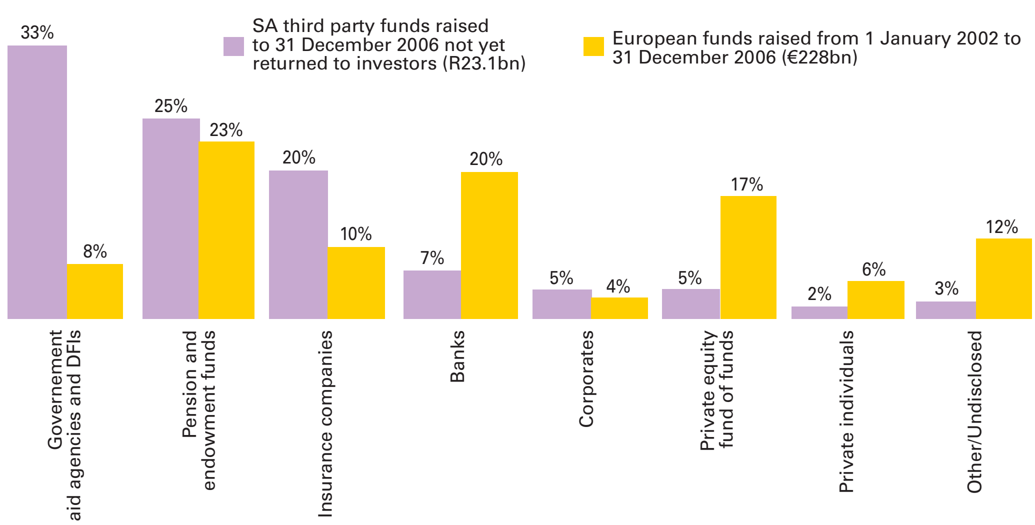
Twenty-seven percent of third party funds raised and not returned to investors to 31 December 2006 have been from governments and aid agencies followed by pension and endowment funds (25%) and insurance companies (20%).

Figure 14: Sources of third party funds raised to 31 December 2006 not yet returned to investors (R23 090m)



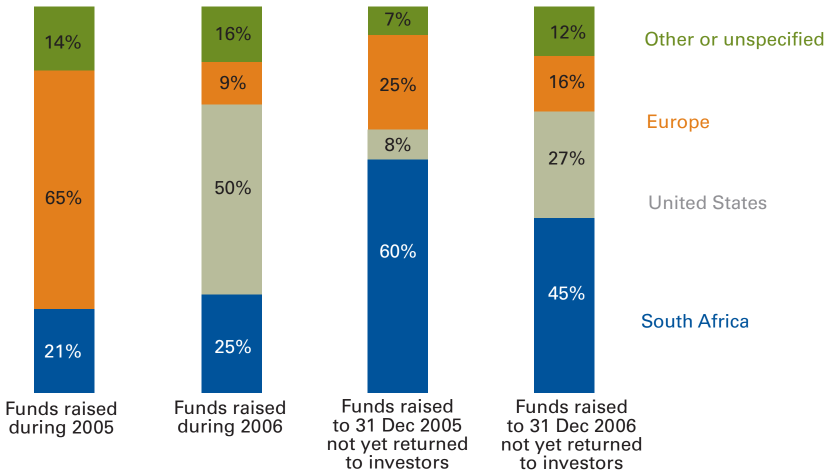
The large contributions from governments, aid agencies and DFIs to the local industry are different from Europe where they contributed 8% of European cumulative funds raised from 1 January 2002 to 31 December 2006. Banks were the second highest source of European funds raised during the same period. This is attributed to the more active role that banks play in the local private equity industry. In Europe, banks tend to prefer providing funding to Independents rather than investing in private equity assets directly themselves.

Figure 15: Sources of third party funds raised not yet returned to investors – South Africa compared to Europe[14]



[14] European data sourced from EVCA/Thomson Financial/PwC

Figure 16: Geographic sources of third party funds raised



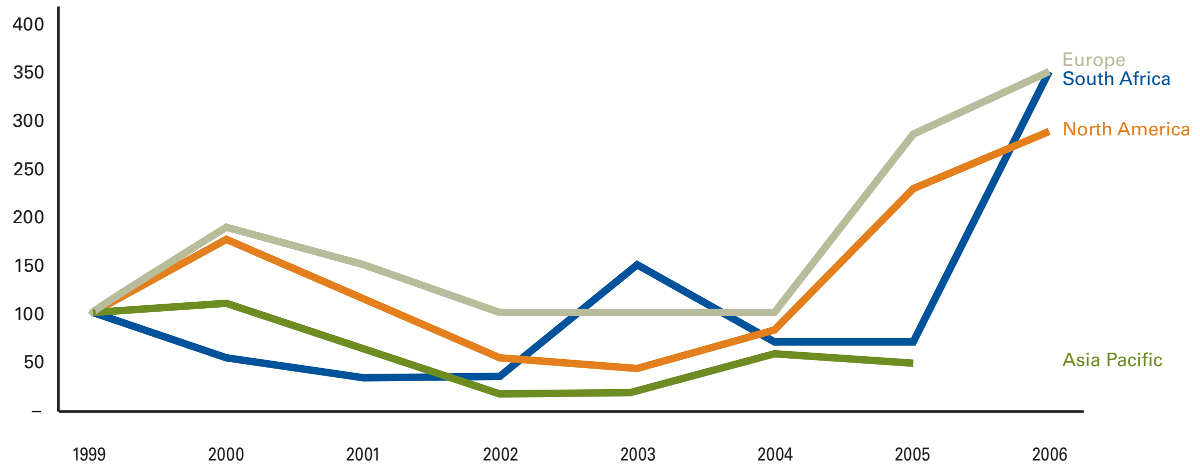
The US contributed half of the record level of funds raised during 2006. South African sources contributed 25%, maintaining the trend of recent years where local sources have been an important source of fund raising activity. Approximately 6% of the funds raised during 2006 were from Canadian sources (included in the "Other" category in the figure above). The significant funds raised from US sources during 2006 has resulted in the US overtaking Europe as the main contributor of foreign fund raising sources to date.

Local funders remain a very important contributor of funds to the South African industry and have contributed 45% of funds raised and not yet returned to investors to 31 December 2006.

The figure below indicates that South Africa has not always tracked the international trend when it comes to fund raising activity. While the rest of the globe's historic fund raising peaked during 2000, South Africa's did not. South Africa's fund raising record during 2006 is now in line with that of Europe and the US.

There has been a declining annual fund raising trend internationally from 2001 to 2004. Fund raising levels have, however, increased substantially in the last two years where US and European fund raising levels are much higher than ever before. Preliminary data indicates that $432 billion was raised globally during 2006, a 38% increase on the already strong 2005 figure. Forecasts are that 2007 is set to be another record fundraising year with talk that the $500 billion mark could be achieved[15].

Figure 17: Global and South African fund raising activity during the year (1999 = 100)[16]

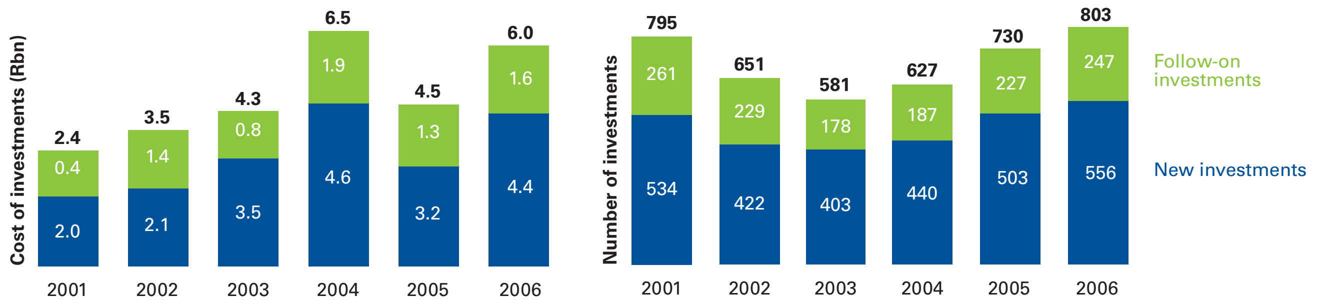


[15] Global 2006 and forecast data for 2007 as reported by Preqin in "The 2007 Global Fundraising Review"
[16] 2005 and 2006 North American data as reported by Preqin. All other data for North America and Asia obtained from the PwC 3i Global Private Equity survey. It is thus possible that North American data for 2005 and 2006 is not strictly comparable to the 1999 to 2004 data. European data sourced from EVCA/Thomson Financial/PwC.

Investment activity

Reported new private equity investments increased by 33% from R4.5 billion during 2005 to R6 billion during 2006. The total number of investments made also increased by 73, from 730 to 803 during the same period (10% increase).

Figure 18: Cost and number of investments made during the year, analysed by new and follow on investments[17]



The 33% increase in private equity investment activity shown above, measured in terms of cost, is especially positive when measured against total M&A activity in South Africa during 2006, which increased by 5.6% from R269 billion during 2005 to R284 billion during 2006[18]. Reported private equity activity during 2006, however, comprises less than 3% of the total South African M&A activity. This contribution is substantially lower than the 17%[19] contribution that global private equity investment activity made to 2006 total world-wide M&A activity during 2006 (12% for 2005).

The investment activity for 2006 reported in this survey excludes the announced private equity transactions that were still conditional at 31 December 2006. These include the possible acquisitions by Bain Capital of Edcon (R25 billion), Shoprite Checkers by Brait Private Equity (R15.2 billion), Alexander Forbes by a consortium led by Actis Africa and including Ethos Private Equity (R8.8 billion), Consol by Brait Private Equity (R6.2 billion) and Primedia (R6.7 billion) and Peermont Global (R7.3 billion) by the Mineworkers' Investment Company[20]. These transactions will be included in next year's survey if successfully completed during 2007.

The overall average investment deal size has increased from R6.2 million for the 2005 year to R7.5 million during 2006. The new investments' average deal size increased from R6.5 million to R8 million while follow-on investments average deal size increased from R5.5 million to R6.3 million from 2005 to 2006.

In terms of the number of reported investments, Business Partners (previously The Small Business Development Corporation), classified as a Captives – Other fund, was again by far the most active investor player in the South African private equity market, contributing 72% of the total number of reported investments made during 2006 (74% during 2005), although only 10% during 2005 and 2006 in terms of the cost of total investments made during the year.

[17] The investment activity for 2005 reported in this survey excludes the acquisition of Waco for R5.4 billion (before accounting for net debt – ie, enterprise value) by CCMP Capital Asia, JP Morgan Partners Global Fund and management. The investment was not included in the survey since the private equity acquirers do not have a local office and the majority of Waco's revenue is also generated off-shore.
[18] Total M&A activity as reported by Mergers & Acquisitions: A Review of Activity for the Year 2005 (Ernst & Young)
[19] Dealogic
[20] Amounts in brackets refer to the publically announced transaction value at the time of printing this survey.

If Business Partners' investments are excluded, the total average deal size increases to R24 million (2005: R20.9 million), the new investments average deal size increases to R25.9 million (2005: R22.5 million) and follow-on investments average deal size increases to R19.8 million (2005: R17.7 million).

Captives – Financial Services (measured in terms of value) and later stage focused funds continued to dominate investment activity during 2006.

Figure 19: Cost and number of investments made during the year, analysed by type of fund manager

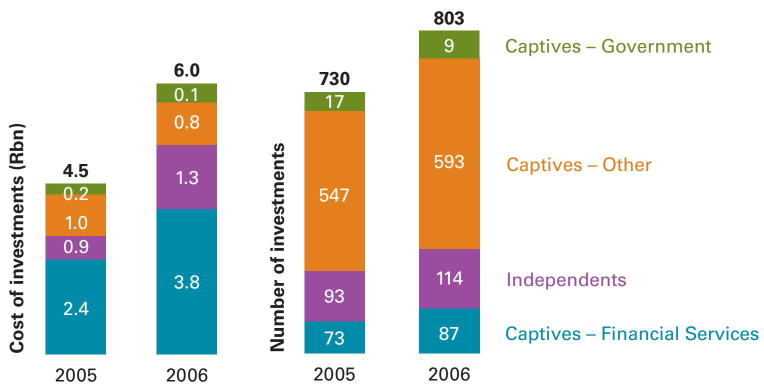
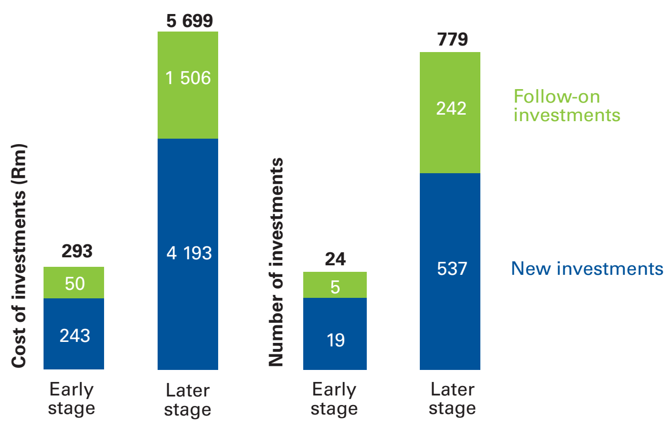
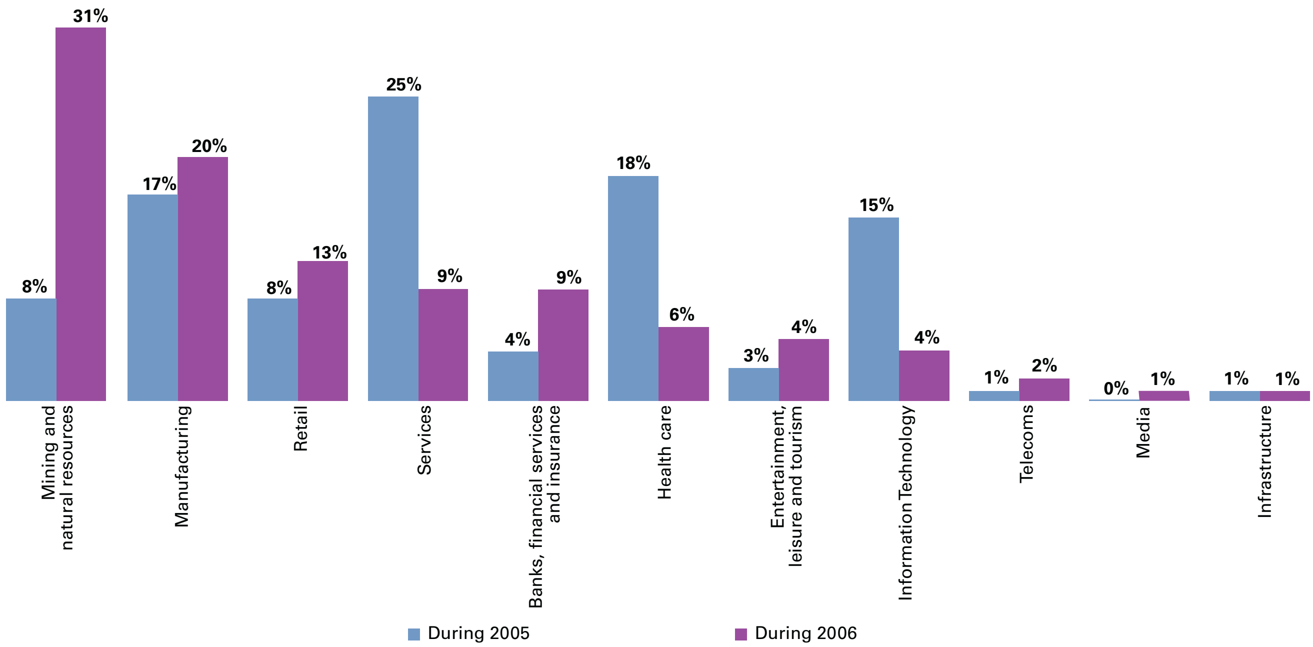


Figure 20: Cost and number of investments made during 2006, analysed by fund stage



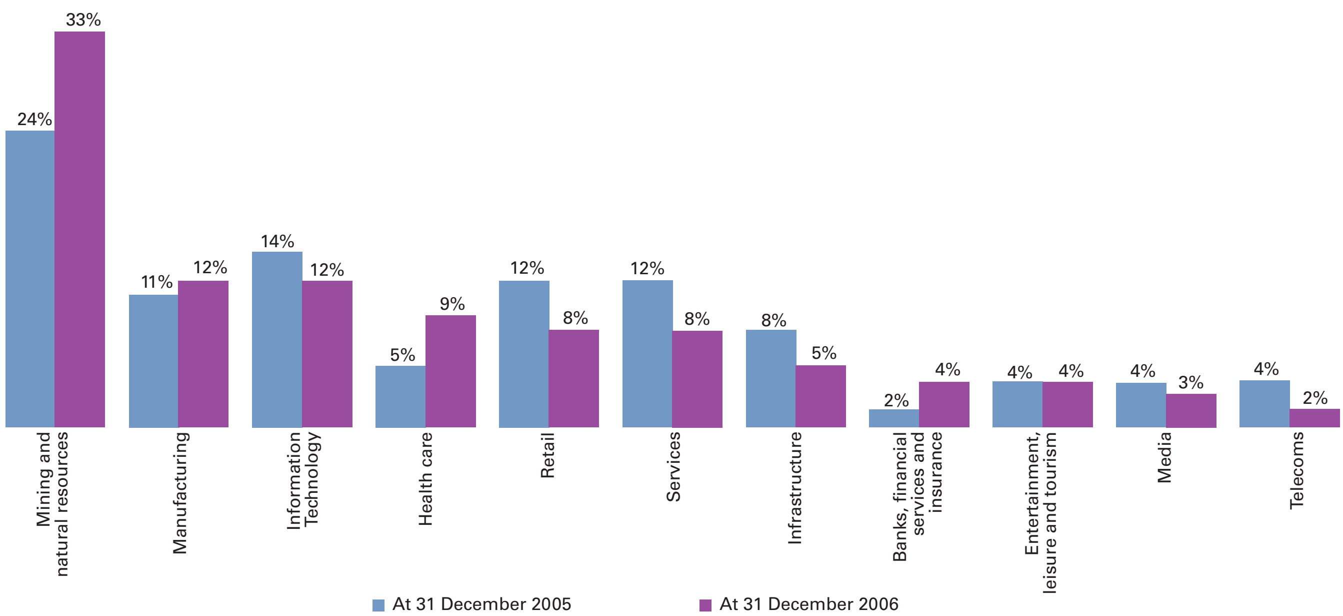
Of the 2006 investments classified into sectors, 31% were in the mining and natural resources sector, 20% in the manufacturing sector and 13% in the retail sector.

Figure 21: Investments made during the year, analysed by sector[21]



The mining and natural resources sector remained the dominant recipient of private equity funding across all types of funds. It comprises 33% of all classified investments at 31 December 2006 followed by manufacturing and information technology with 12% each.

Figure 22: Unrealised investment portfolio at year end, analysed by sector[22]



[21] 20% (R1.2 billion) of investments made during 2006 were classified in the other sector category or not classified at all (2005: 22%/R1 billion). These have been excluded from the analysis shown.

[22] 27% (R8.1 billion) of the unrealised investment portfolio at 31 December 2006 was classified in the other sector category or not classified at all (2005: 29%/R7.7 billion). These have been excluded from the analysis shown.

High technology investments have generally seen a significant portion of global private equity and venture capital investments. The highest percentage contribution was seen at the height of the IT investment bubble during 2000 when high-tech investments contributed an estimated 61% of total global investments.
Its global proportion has decreased since then and was 41% of total global investments – ie, $45 billion of a total $110 billion for 2004[23].

The cost of investments into seed, start-up and early stage entities contributed 15% of unrealised investments at 31 December 2006. Eighty-five percent of the cost of investments at the end of 2006 is deployed into expansion, development, replacement and buyout transactions, although the number of transactions in the sector only accounts for 55% of the investments by number at 31 December 2006. This is indicative of the proportionally larger transaction values for the "later stage" types of deals.

Figure 23: Analysis of investments by stage based on cost of investments[24]

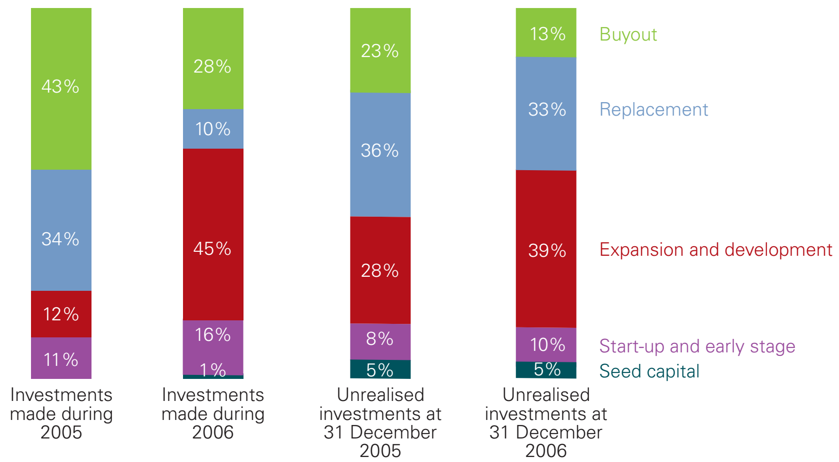
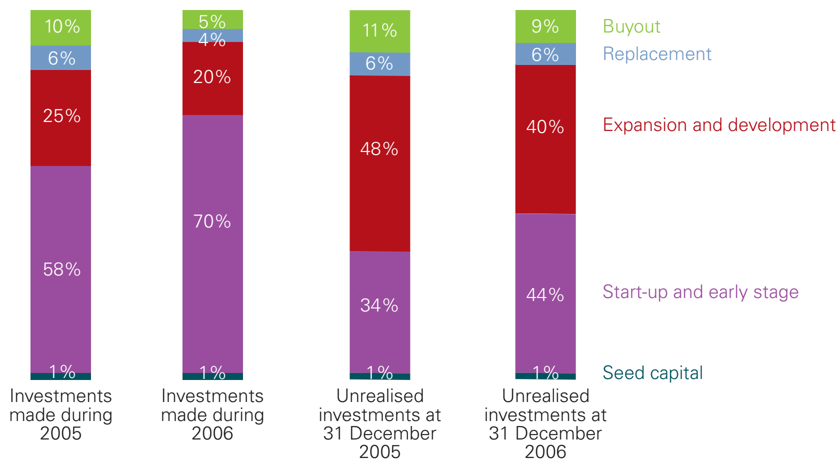


Figure 24: Analysis of investments by stage based on number of investments

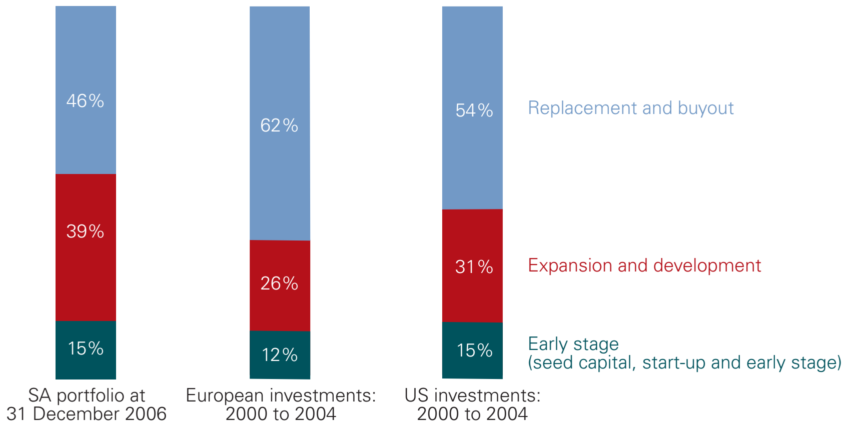


[23] PwC 3i Global Private Equity 2005 survey (relates to the 2004 calendar year)
[24] Investments not classified by stage have been excluded.

South Africa's tendency towards later stage investments is not unlike the global trend where early stage investments, which include seed and start-up, have decreased from 21% of global investments during 2000 to 11% in North America, 7% for Europe and only 2% for Asia Pacific during 2004. Globally, expansion investments have also decreased from 46% of investments during 2000 to 20% during 2004. On the other hand, buyouts only accounted for 21% of all global investments during 2000 but have increased to 61% of all global investments during 2004.

South Africa's proportion of early stage investments in the total unrealised portfolio at cost at 31 December 2006 is 15%, which is higher than Europe's 12% and the same as the US'.

Figure 25: Analysis of investments by stage based on cost of investments – South Africa compared to Europe and US



The majority (93%/R28.2 billion) of the unrealised investment portfolio of R30.2 billion at 31 December 2006 comprise investments whose majority of revenue is generated in South Africa. The remaining 7% comprises South African investments not managed from South Africa (5%/R1.4 billion), other African investments managed from South Africa (1%/R259 million) and non-African investments managed from South Africa (1%/R365 million).

The figure below provides an analysis of the top 10 largest reported private equity transactions in 2006.

Figure 26: The ten largest private equity transactions reported during 2006 based on total funding raised

Name of investment	*Equity provider/s*	*Debt provider/s*	*Total funding raised*	*Type of investment*	*Private Equity Fund's equity interest*	*Part of syndication*	*BEE ownership (post-deal)*
Safripol	ABSA Capital	ABSA Capital	R1.3bn	LBO	Not disclosed	No	Not empowered
Mvelaphanda Resources	ABSA Capital and Sanlam	ABSA Capital and Sanlam	R1.2bn	Replacement capital	Not disclosed	Yes	Black company
Moresport	Ethos Private Equity	–	R681m	LBO	60%	No	Not empowered
Fidelity Security Group	RMB Corvest and Others	Shareholders	R295m	Replacement capital	23%	Yes	Black company
Plumblink	Ethos Private Equity	–	R234m	LBO	70%	No	Black empowered company
Chemspec	RMB Corvest	RMB	R205m	MBO	45%	No	Black empowered company
Vunani	ABSA Capital	–	R186m	Replacement capital	20%	No	Black company
Outdoor Network	Sanlam and Zico	ABSA Capital	R140m	LBO	40%	Yes	Black company
Shanduka Resources	OMAI[25]	–	R90m	Later stage expansion capital	15%	No	Black company
ERP.Com	Treacle Private Equity	–	R80m	Replacement capital	26%	No	Black empowered company

[25] Old Mutual Alternative Investments

The figure below provides an analysis of the top 10 largest reported private equity transactions in 2005, as reported in last year's survey.

Figure 27: The ten largest private equity transactions reported during 2005 based on total funding raised

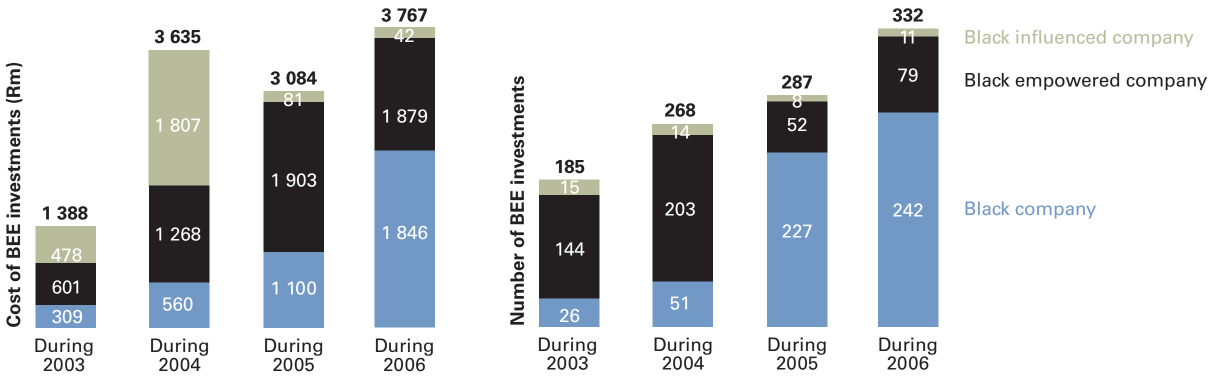
Name of investment	Equity provider/s	Debt provider/s	Total funding raised	Type of investments	Private Equity Fund's equity interest	Part of syndication	BEE ownership (post-deal)
Life Healthcare (formerly Afrox Healthcare)	OMAI[25], RMB	RMB, OMSFIN[26], Investec, Standard Bank, Sanlam	R4.3bn	LBO	22%	Yes	Black company
Savcio Holdings (repairs and services divisions of Delta)	Ethos, Actis Africa, OMAI[25], AKA Capital, Sphere Holdings	Barclays, ABSA	R1.3bn	LBO	69%	Yes	Black empowered company
Defy Appliances	Standard Bank Private Equity	Standard Bank	R860m	MBO	50% minus 2 shares	Yes	Black empowered company
Fidelity Cash Management Services	RMB Corvest, Safika Investments, Zico Investments	Standard Bank	R345m	Replacement Capital	Not disclosed	Yes	Black empowered company
Peter's Papers	Actis Africa	Management	R165m	MBO	49%	Yes	Black empowered company
Senwes	Treacle, Royal Bafokeng Finance	–	R122m	Replacement Capital	27%	No	Black empowered company
Fidelity Supercare	RMB Corvest, Zico Investments	Nedbank	R90m	Replacement Capital	25%	Yes	Black empowered company
SA Leisure	RMB Corvest	Nedbank	R50m	LBO	Not disclosed	Yes	Black empowered company
Siel (SA)	RMB Corvest	Nedbank	R50m	MBO	Not disclosed	No	Black empowered company
Fundiswa Investments	RMB Ventures	RMB	R47m	MBO	20%	No	Black empowered company

[25] Old Mutual Alternative Investments
[26] Old Mutual Specialised Finance

Analysis of BEE investments

The cost of investment into entities that are at least black influenced companies in 2006 was R3.8 billion, an increase of 22% from 2005 levels. The number of BEE investments also increased from 287 during 2005 to 332 during 2006. This reflects the private equity market's continued realisation that BEE investments are an increasingly important element of the South African economy and it holds good prospects for growth.

Figure 28: Cost and number of BEE investments made during the year (excluding Captives – Government)

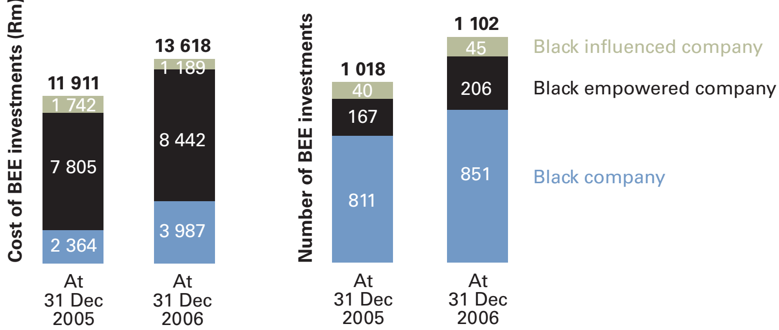


The above activity is especially positive when measured against total BEE M&A activity in South Africa during 2006, which remained flat at R56 billion during 2006 (R56.2 billion during 2005)[27].

The average BEE deal size in 2006 was R11.3 million compared to R10.7 million during 2005. These are investments into black owned, empowered or influenced companies. The 2005 and 2006 average BEE deal size is higher than the R7.5 million and R6.2 million average of all investments in 2005 and 2006 respectively.

R13.6 billion of all unrealised investments at 31 December 2006 were at least 5% black empowered (31 December 2005: R11.9 billion). This represents 62% of the "qualifying"[28] investments at the end of 2006 (2005: 55%).

Figure 29: Cost and number of BEE investments made at year end (excluding Captives – Government)

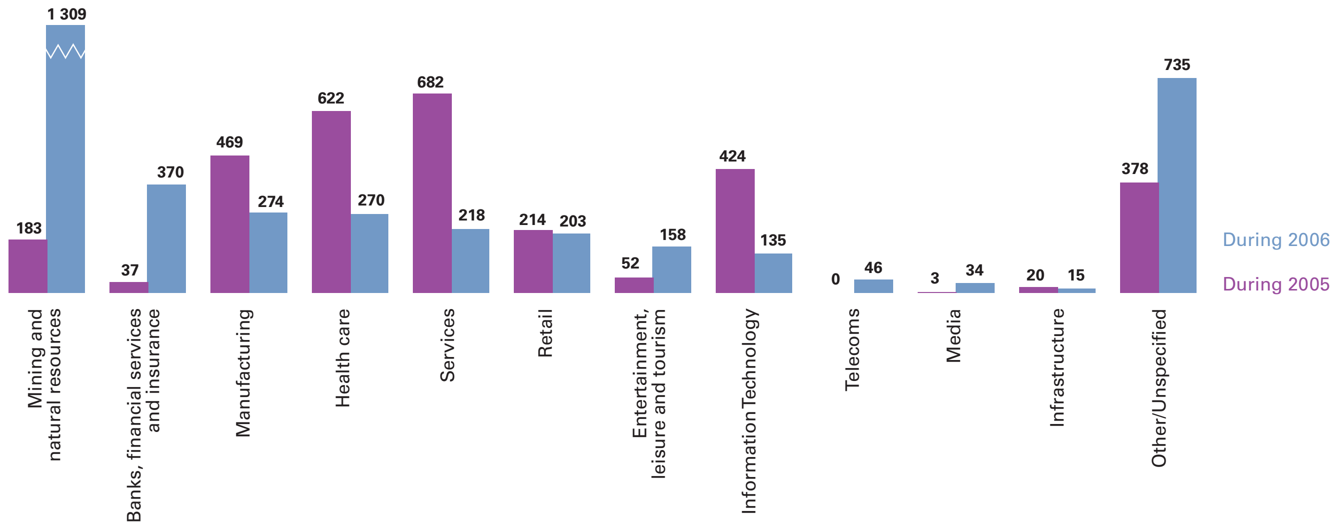


27 Total BEE M&A activity as reported by Mergers & Acquisitions: A Review of Activity for the Year 2005 (Ernst & Young)

28 Captives – Government investment activity has been excluded from total funds under management.

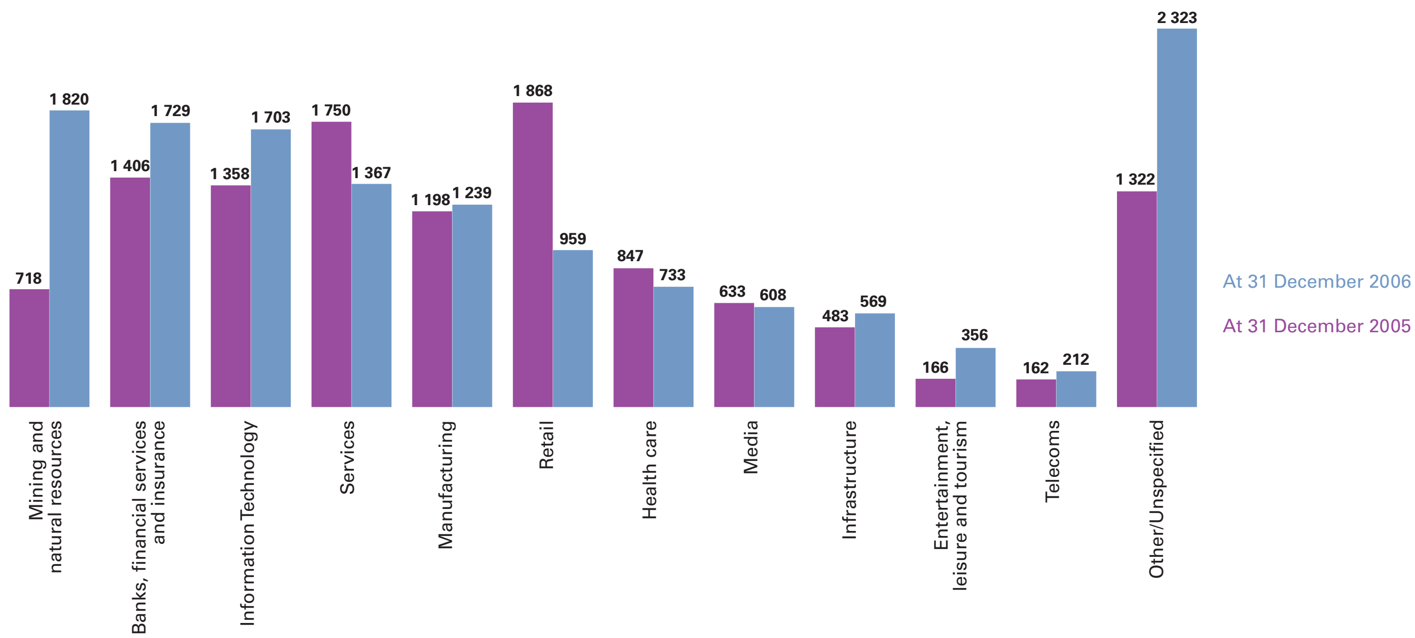
The mining and natural resources sector enjoyed the highest level of BEE investment activity by value during 2006.

Figure 30: BEE investments made during the year, analysed by sector based on cost (Rm)



The mining and natural resources sector enjoys the highest level of BEE investment activity for all unrealised investments at 31 December 2006.

Figure 31: BEE investments at year end, analysed by sector based on cost (Rm)



Like the entire industry, seed capital, start-up and early stage investments constitute a small portion of BEE investments.

Figure 32: BEE investments made during the year, analysed by stage based on cost and number

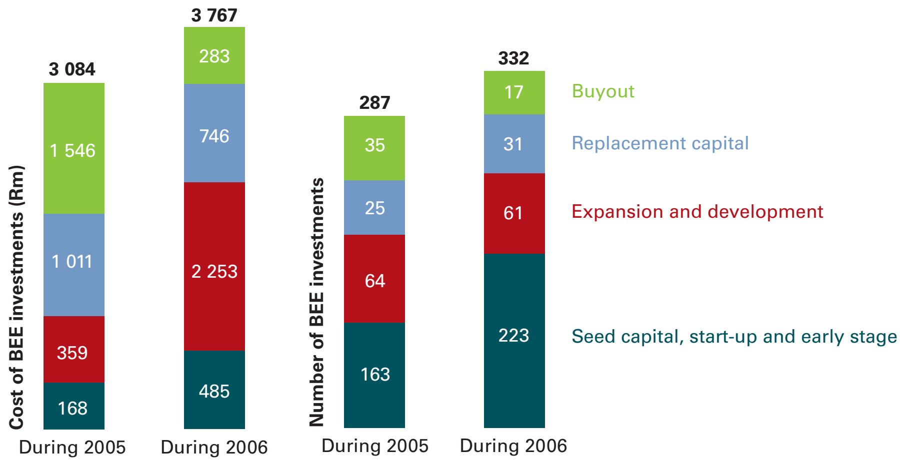
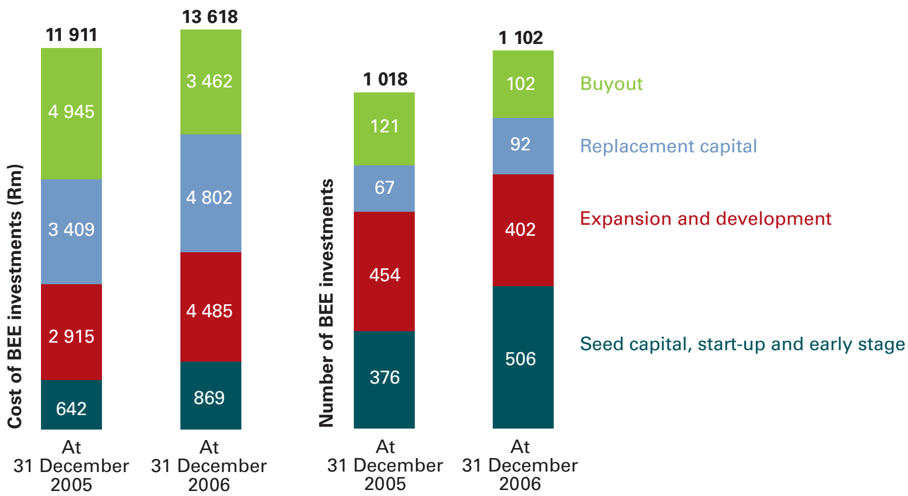


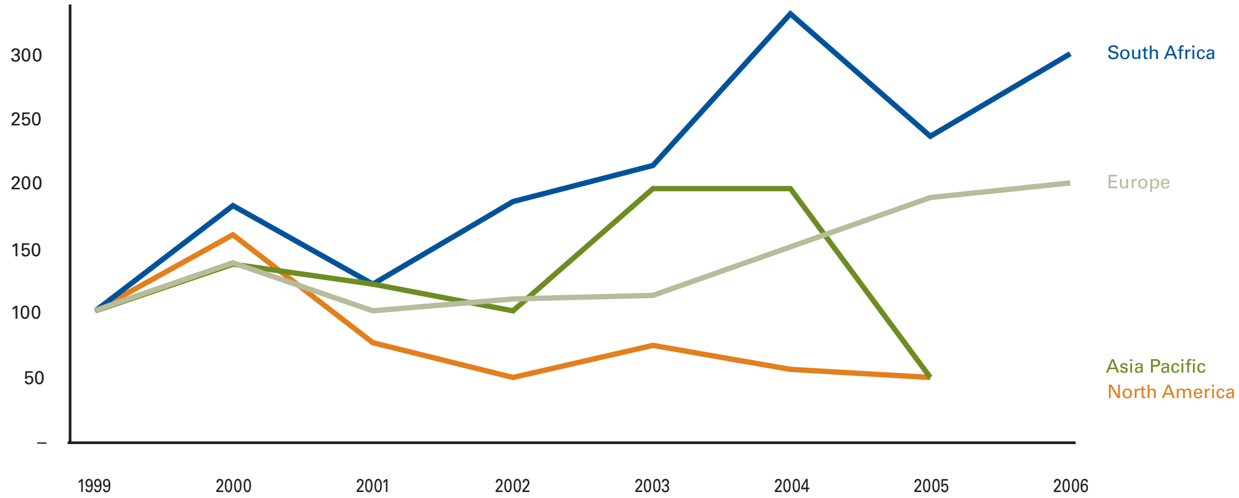
Figure 33: BEE investments at year end, analysed by stage based on cost and number



Global investment activity

In parallel with fund raising activity, international investment activity reached a peak during 2000. International investment activity then declined in 2001 and 2002 but recovered from 2002 to fairly healthy levels during 2006. European investment levels have been increasing steadily since 2001. Investment activity in Asia however did not increase from 2003 but has been declining with annualised levels for the first half of 2005 being substantially lower than 2004 levels.

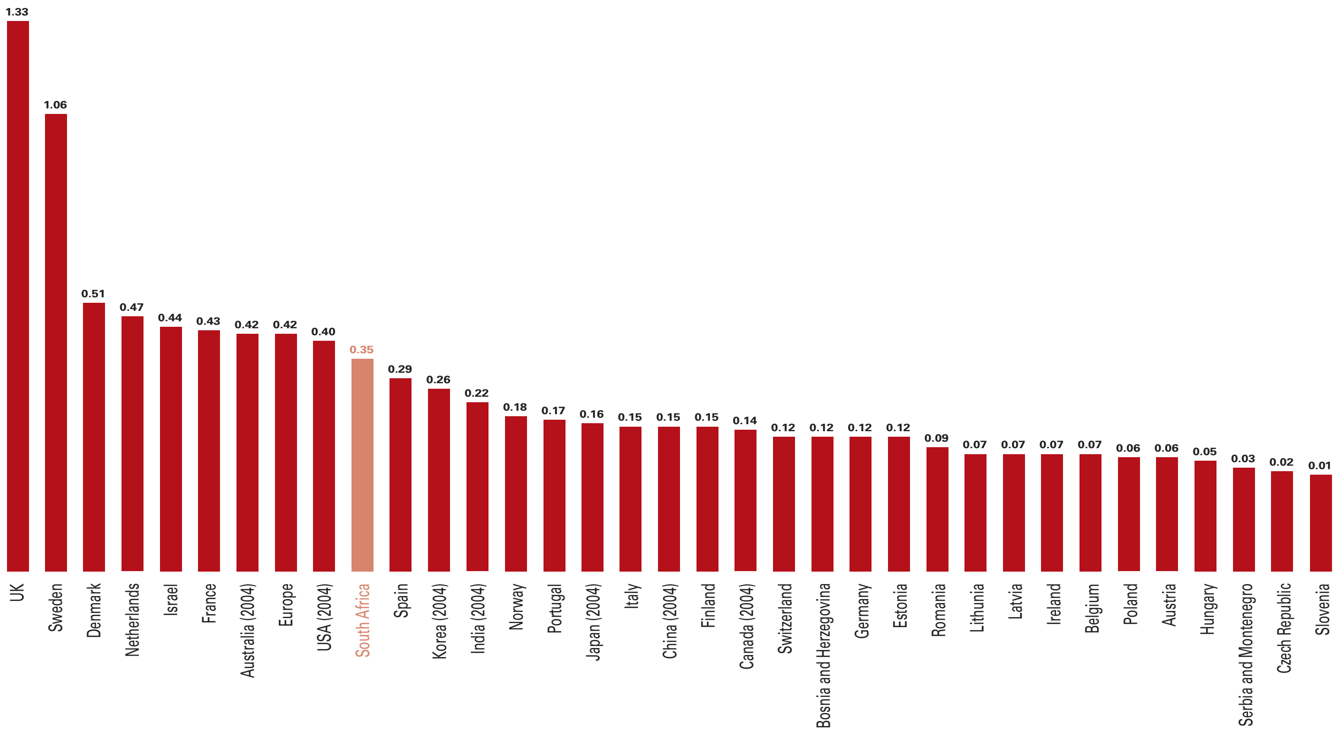
Figure 34: Global and South African investment activity during the year (1999 = 100)



In South Africa, investment activity has generally been increasing since 2001. The decreased activity for 2005 has been reversed during 2006. Nevertheless, private equity investors will need to substantially increase investment activity if in-roads are to be made into reducing the current levels of undrawn commitments. The successful conclusion of at least some of the "mega-LBOs" announced during the last quarter of 2006 will likely result in record investment activity during 2007.

South African private equity investments during 2006 comprised 0.35% of GDP. This is significantly lower than the 1.33% for the UK but only marginally lower than the European average of 0.42% (2005) and the US of 0.40 (2004).

Figure 35: Investment activity during the year as a percentage of GDP[29]



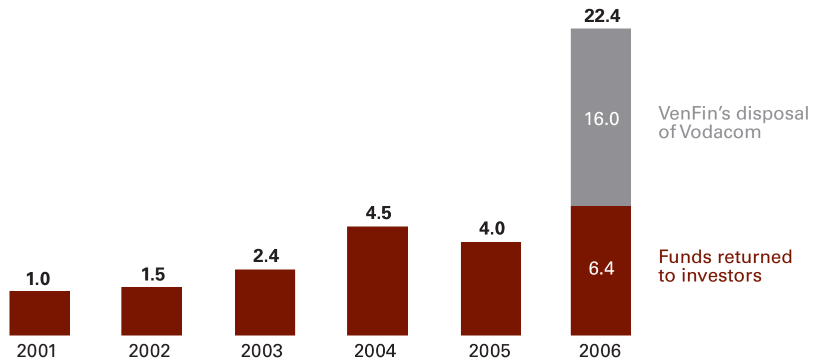
[29] 2006 for South Africa, 2005 for all others unless otherwise indicated. Greece, Slovak Republic, Croatia and Bulgaria are less than 0.01% and are thus not shown in the figure.

Exit activity

Total funds returned to investors

Funds returned to investors (being the proceeds on exit of investments through disposals, repayments of loans and dividend receipts) increased by R18.4 billion from R4 billion during 2005 to R22.4 billion during 2006. VenFin's disposal of its interest in Vodacom for R16 billion during the early part of 2006 was however a large contributor to the amount. Exit activity during 2006 was still at an all time high even if the above mentioned transaction is excluded with reported activity still being 60% higher than during 2005.

Figure 36: Funds returned to investors during the year (Rbn)

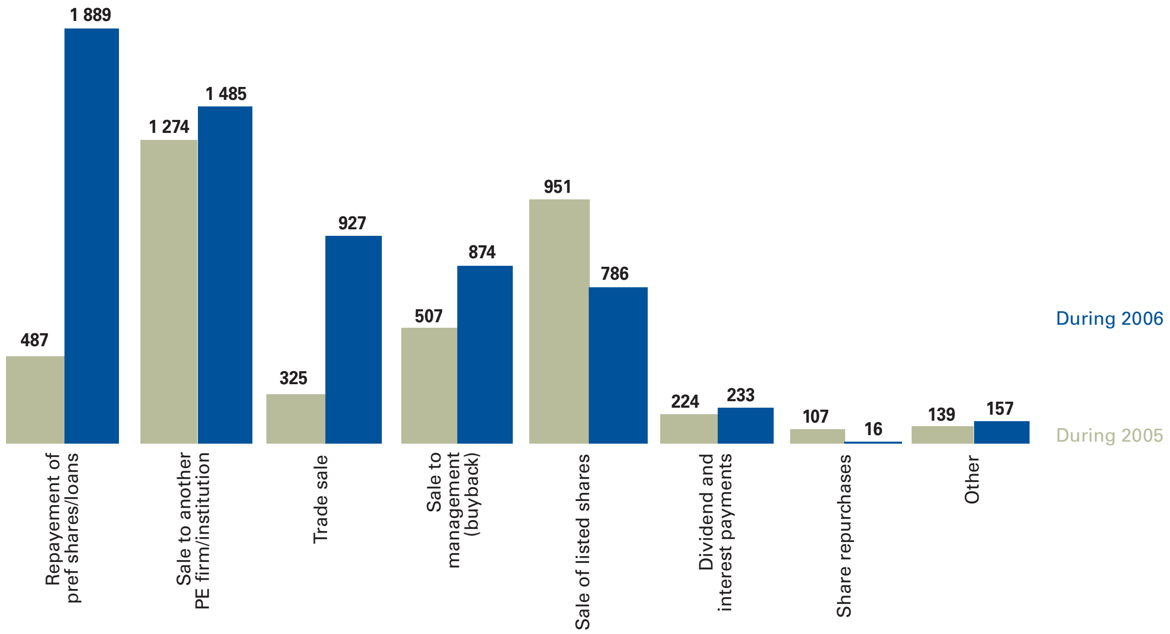


The increased activity during 2006 does not come as a surprise given the age of the local industry and the increased fund raising activity of the late 1990's. Many of the funds closed during that period are reaching their "expiry" date – ie, the end of the typical five to seven year cycle.

The data relating to VenFin's disposal of its interest in Vodacom has been excluded from the rest of this survey to allow for a better comparison to historic data.

The analysis of funds returned to investors during 2005 and 2006 is shown below.

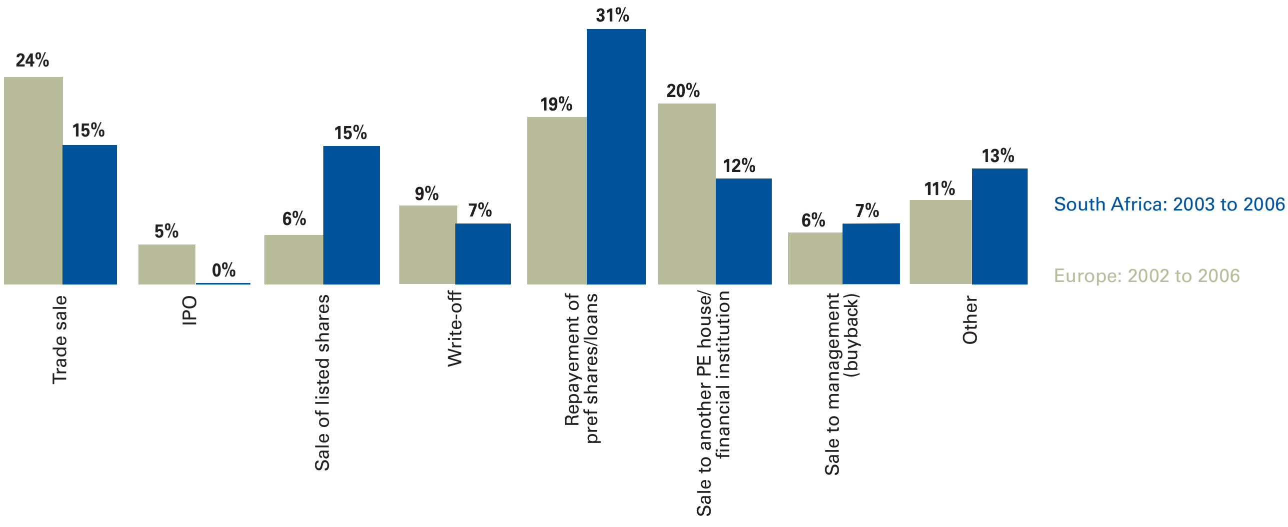
Figure 37: Analysis of funds returned to investors during the year (Rm)[30]



Proceeds on the sale of listed shares during 2005 and 2006 do not include any IPO/listing proceeds but comprise mainly subsequent disposal proceeds where the entire investment was not sold on IPO/listing in prior years.

The comparison of South African and European divestments at cost is shown below.

Figure 38: Analysis of exits based on cost: South Africa[30] compared to Europe

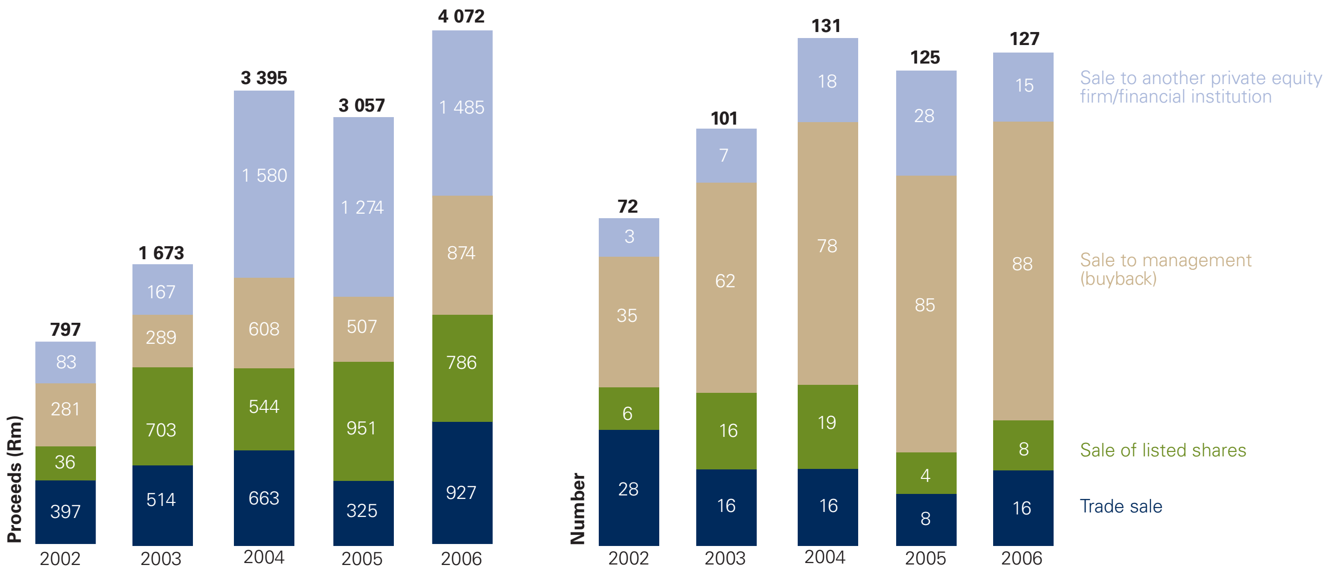


[30] Excludes VenFin's disposal of their interest in Vodacom

Disposals

The value of disposal[31] proceeds increased to R4.1 billion in 2006 from R3.1 billion during 2005. Disposals to other private equity firms or financial institutions was again the option which attracted the most transactions in value terms while sales to management (buybacks) also repeats the historic trend of attracting the highest number of transactions.

Figure 39: Analysis of disposals during the year based on proceeds and number[32]



The average proceeds per disposal have increased from R24 million in 2005 to R32 million in 2006.

The reported profit (proceeds less cost of investment) on disposals of R2.8 billion during 2006 was substantially higher than the R1.7 billion during 2005. Sales to other private equity firms or financial institutions being the main contributor of 2006 with R1.2 billion (2005: R662 million) followed by sales to management (buyback) with R678 million (2005: R307 million).

[31] Disposal proceeds exclude the proceeds on the repayment of preference shares/loans, share repurchases, proceeds from disposals for a nominal amount and dividend and interest payments.
[32] Excludes VenFin's disposal of their interest in Vodacom.

The implied exit multiple during 2006 was 3.3 times the aquisition price, higher than the 2.2 times multiple reported for 2005 disposals.

Figure 40: Disposal profits during 2006 (Rm)[33]

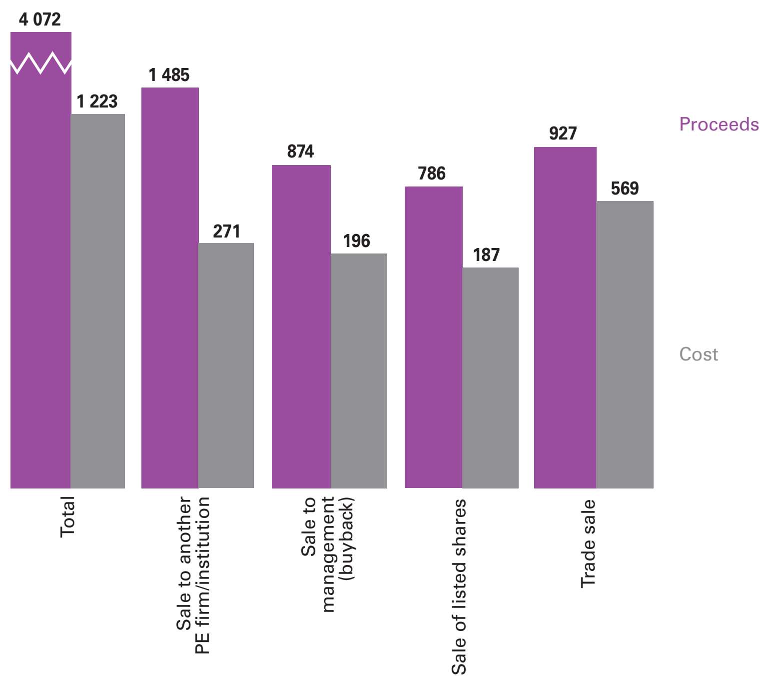
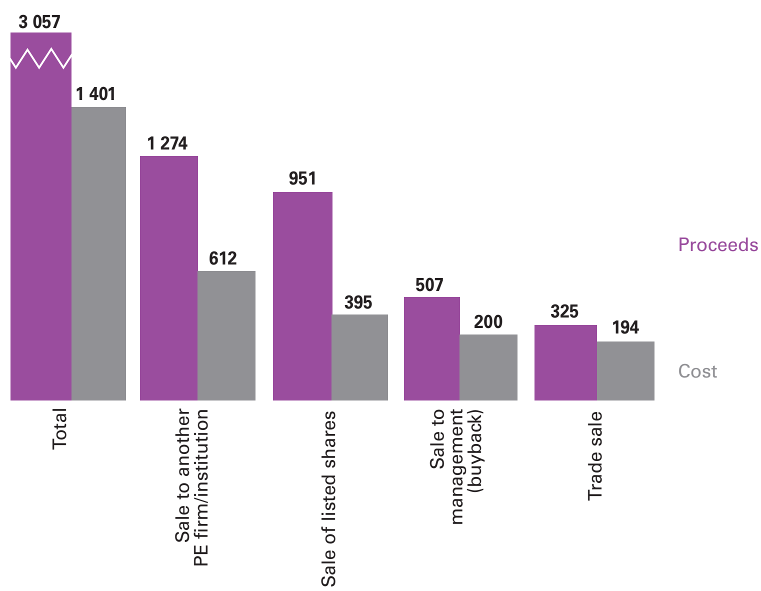


Figure 41: Disposal profits during 2005 (Rm)[33]



[33] Excludes VenFin's disposal of their interest in Vodacom.

The 2005 data reported includes the proceeds to the local private equity consortium members of the disposal of Waco to CCMP Capital Asia, JP Morgan Partners Global Fund and management. The reported transaction value of R5.4 billion (before accounting for net debt – ie, enterprise value) is the single largest foreign direct investment by private equity investors into South Africa as at 31 December 2006. The transaction is also currently the largest private equity transaction ever undertaken in South Africa. Our 2000 survey, released during April 2001, reported that Ethos Private Equity led a consortium buyout of Waco for a reported enterprise value of R2.4 billion during that year. This was the largest private equity transaction in South Africa at that time, which was surpassed by the R4 billion Brait Private Equity and Old Mutual buyout of Pepkor Limited reported in our 2003 survey.

Waco's record has been surpassed as Bain Capital's R25 billion bid for Edcon was approved by shareholders and regulators during April 2007. This has resulted in the largest private equity transaction ever undertaken in South Africa.

There were again no private equity exits via IPOs/listings during 2006. The partial exit via listing of the Kelly Group by Brait Private Equity during the first quarter of 2007 has been the first private equity IPO/listing exit since 2004's listing of Peermont Global, the first local private equity investment IPO/listing in many years.

The lack of IPOs/listings remains a concern for the South African industry since it is widely accepted that one of the strongest growth factors in private equity is a healthy institutional appetite for new IPOs/listings. Sustained long-term growth in the South African private equity market will be difficult to achieve unless there is an uptick in the appetite for private equity exits through IPO/listing.

Write-offs

The number of write-offs reported (including sales for a nominal amount) remained at the 2005 level of 32 investments. The net loss on these investments (cost less proceeds) however increased from R52 million during 2005 to R75 million during 2006.

Cancelled/expired funds

R128 million (2005: R780 000) of committed but undrawn funds at 1 January 2006 were cancelled and/or expired during 2006 and are thus no longer available for investment by the fund manager.

Performance

Background

Consistently measuring the performance of private equity funds is always difficult since private equity investments' valuations are, by their very nature, highly subjective. The overriding principle of the International Private Equity and Venture Capital Valuation Guidelines is to show a fair valuation of investments to the investor. These guidelines were released during 2005 and adopted by the majority of global private equity associations, including SAVCA and EVCA.

In reviewing the IRRs reported in this survey, a number of issues need to be considered:

- The IRRs reported reflect the consolidated/aggregated returns achieved by fund managers. The reported IRRs are thus not by fund where a Fund Manager manages more than one fund.
- The IRRs reported for South Africa are gross IRRs and therefore reflect returns prior to the payment of expenses such as management fees and carried interest. Although net IRRs are the most relevant performance measure to a third party investor, which is the basis shown for the US and Europe, we believe that only a few of the independent fund managers would have been able to calculate their returns on this basis.
- When assessing the performance of private equity, it is important to focus on long-term returns. Initial results over the first two or three years of a fund can be misleading if viewed in isolation. A high short-term IRR can be achieved through a few attractive divestitures, while low rates may result from new funds only just beginning their investment activity. Any consideration of returns over the short-term must be done in combination with scrutiny of the general level of investment and divestiture activity.
- Captive funds generally do not calculate and/or report IRRs. Their fee structures are not usually linked to the achievement of prescribed IRRs. Most of the funds that reported IRRs were, therefore, independent private equity funds.

South Africa

IRR

It has historically been difficult for us to reach a conclusion on the performance level of private equity and venture capital investments in South Africa due to the limited number of respondents reporting their performance in the survey Questionnaire. The lack of sufficient comparative historic data has even been mentioned as a key issue that limits the participation by institutional investors in the local private equity industry.

In view of this low historic participation level, in last year's survey we requested the Fund Manager's performance level in tabular format in the survey Questionnaire. This resulted in an increased level of participation in IRR reporting. The same methodology was used in the current year's survey Questionnaire.

Figure 42 presents the total IRR for realised and unrealised investments, while Figure 43 presents the IRR for realised investments only. Whilst the total IRR presents the total return of the fund since inception, including unrealised investments, the realised IRR only presents the returns of funds deployed and subsequently realised and returned to investors. This, therefore, presents a less subjective picture of fund returns (although it would exclude the negative effect of investments that are difficult to exit).

Twenty-nine of the forty participants (73%) in the survey claimed compliance with the International Private Equity and Venture Capital Valuation Guidelines in the valuation of their unrealised investments. These did not necessarily report their IRR performance shown below.

The 2006 results in the figure below include the IRR levels for 26 respondents (2005: 24), managing R28.9 billion at 31 December 2006 (51% of total funds under management) (2005: R19.4 billion/46%). Included are the responses from 18 independents (2005: 17) managing 86% of the funds under management by independent fund managers at 31 December 2006 (2005: 72%). We believe that participation levels are low for captives, especially Captives – Government, since these fund managers do not always measure IRRs as they generally have other "performance" measures, such as job creation and social contribution.

Figure 42: Total gross IRR since fund inception (realised and unrealised portfolio)

	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2006 No. of respondents	2005 No. of respondents	2006 No. of respondents	2005 No. of respondents	2006 No. of respondents	2005 No. of respondents
Below 10%	1	1	1	1	–	–
10% – 19.9%	4	3	–	2	–	–
20% – 29.9%	3	3	4	3	–	–
30% – 39.9%	–	1	3	1	3	3
> 40%	6	5	1	1	–	–

The 2006 results in the figure below include the realised IRR levels for 19 respondents (2005: 18), managing R26.2 billion/49% of total funds under management at 31 December 2006 (2005: R17.8 billion/42%). Included are the responses from 13 independents (2005: 13) managing 72% of the funds under management by independent fund managers at 31 December 2006 (2005: R9.3 billion/66%).

Figure 43: Realised gross IRR since fund inception (excludes unrealised portfolio)

	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2006 No. of respondents	2005 No. of respondents	2006 No. of respondents	2005 No. of respondents	2006 No. of respondents	2005 No. of respondents
Below 10%	2	2	2	2	–	–
10% – 19.9%	1	1	1	2	–	–
20% – 29.9%	1	1	1	1	–	–
30% – 39.9%	1	2	3	1	1	1
> 40%	3	2	1	1	2	2

The paper "Is Private Equity a Suitable Investment for South African Pension Funds?",[34] presented at the Convention of the Actuarial Society of South Africa during October 2006, documented the results of an investigation into the investment performance of a sample of 11 South African private equity funds over a 13-year period. The investigation found that the average aggregate gross IRR for the sample of funds since inception was 34.8%[35], a performance premium of 18% per annum relative to listed South African equities.

The paper concludes that the sample of the funds is representative, as the sample set has attracted over R10 billion in commitments since 1992. The authors of the paper thus "safely assumed that the sample set of firms and funds represents a credible proportion of the SA private equity opportunity set available to SA pension funds".

In summarising their findings, the authors of the paper, conclude that, besides others, private equity in South Africa:

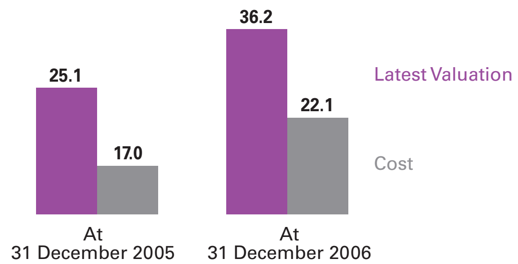
- displays significant positive absolute returns
- displays a significant premium relative to conventional asset classes and, in particular to South African listed equity and small caps
- displays significantly better risk-adjusted performance than other asset classes
- has no or a low correlation to the performance of other asset classes, suggesting diversification benefits
- takes time, typically at least two to three years, for the above benefits to materialise due to fees being deducted in the early years while investments either are not made or are not significantly revalued

[34] Paper prepared by I. Missankov, R. van Dyk, A. van Biljon, M. Hayes and W. van der Veen
[35] Average aggregate net IRR (after management fees and carried interest) was 28.3%, a 6.3% lower than the gross IRR.

Investments at latest valuation

The valuation of investments made at a cost of R22.1 billion was shown to be R36.2 billion at 31 December 2006. This represents 73% of all unrealised investments at 31 December 2006 (2005: R17 billion/64%). The latest valuation was not provided for all other investments or the respondents indicated that investments are only valued on a cost basis.

Figure 44: Unrealised investments at year end – cost compared to valuation (Rbn)



The data above indicates that the implied "exit" multiple – ie, assuming investments are disposed of at the valuation value, is a multiple of 1.6 times the aquisition price at 31 December 2006 and a 1.5 times multiple at 31 December 2005. This reflects the possible conservative nature of valuations as the actual exit multiple for disposals during 2006 was 3.3 times their original investment value.

US and Europe

Internationally, the net returns[36] achieved by private equity investments have outperformed the public equity markets over the medium and long term. The returns for various investment horizons for the US and Europe are shown below.

Figure 45: US and European returns

	US at 30 September 2006[37]					Europe at 31 December 2006[38]		
	1 Year %	3 Year %	5 Year %	10 Year %	20 Year %	3 Year %	5 Year %	10 Year %
Early stage	2.9	5.5	-5.4	38.3	20.5	2.1	-4.8	-1.2
Development	N/A	N/A	N/A	N/A	N/A	7.2	1.2	7.2
Balanced	10.7	12.8	1.8	16.8	14.6	15.9	5.1	11.1
Later stage	27.8	10.5	2.7	9.4	13.9	N/A	N/A	N/A
All venture capital	**10.8**	**9.4**	**-1.0**	**20.5**	**16.5**	**8.7**	**0.5**	**5.5**
Buyouts	23.6	15.6	9.2	8.8	13.2	13.2	7.2	13.6
Mezzanine / Generalist	-8.1	4.7	2.9	5.9	8.4	4.5	-0.8	7.2
All private equity	**19.0**	**13.2**	**5.9**	**11.2**	**14.0**	**11.0**	**4.3**	**10.3**
NASDAQ	5.5	7.8	8.7	7.1	11.4			
S&P500	9.7	9.9	5.2	7.5	9.7			

36 Gross IRRs, before management fees and carried interest, are reported for South Africa while net returns are shown for Europe and the US.
37 NVCA and Thomson Financial – press release of 29 January 2007
38 EVCA and Thomson Financial – preliminary performance figures released 13 March 2007

US

Private equity funds, including venture capital and buyout, continued to outperform the public markets across all the time horizons at 30 September 2006, with the exception of the five-year returns compared to the NASDAQ. Five-year performance for venture capital continues to inch towards positive territory at -1% in Q3 2006, up from -3% in Q2 2006. This negative return continues to reflect the aftermath of the Internet bubble burst. Ten and 20 year returns for venture capital are 20.5% and 16.5% respectively.

Mark Heesen, the NVCA President, commenting on the performance figures: "… performance has remained very predictable for the last several quarters with the five-year return numbers gradually improving and all other time horizons remaining extremely consistent. As an industry, we appreciate this stability because the numbers continue to outperform the public markets. The next year should be very interesting as firms make decisions on companies that have been in their portfolios for some time now."

Joshua Radler, Assistant Project Manager of Thomson Financial, adds: "The next few years could be a telltale for private equity as the younger funds with the post-bubble strategies have yet to make their mark."

Europe

The preliminary performance figures for 2006 from Thomson Financial indicate that 2006 was a strong year for European private equity. The top quarter of all private equity funds provided returns to their investors of 29.1% (top quarter earlier stage funds – 23.5%, top quarter later stage funds – 37.6%). These returns were consistently higher than those of 2005.

The three-year investment horizon return has almost doubled during 2006, increasing to 11% from 6.9% in 2005, with later stage and earlier stage funds showing returns of 13.2% and 8.7% respectively. The 10-year returns for later stage funds are 13.6% and 5.5% for earlier stage funds.

The performance over the last 27 years indicates that returns of 10.3% have been achieved, net of management fees and carried interest (earlier stage funds: 6.4%, later stage funds: 13.7%).

Commenting on the 2006 preliminary performance figures released on 13 March 2007, Gemma Postlethwaite, the Vice President of Thomson Financial, said: "The European private equity industry is continuing to show strong, consistent returns (at 10.3% long-term average net IRR) which are driving record fundraising as investors continue to increase their allocation by shifting their assets from public equities and fixed income into both buyout and venture capital. Despite jitters in the stock market in the last few weeks, the strong IPO and M&A activity combined with relatively cheap debt constitute ideal conditions for private equity firms to continue generating strong returns."

Investment professionals

The figure below illustrates, the industry remains dominated by white males who constitute approximately 51% of all private equity investment professionals. The second largest group are black males contributing 14% of the total reported numbers. Indian, coloured and black professionals employed by the private equity industry increased by 23 during 2006 (23% increase).

Only 66 females of all population groups were reported as being private equity investment professionals at 31 December 2006. Although this is an unacceptably low number, it does represent an increase of 8 from 31 December 2005 (14% increase).

Figure 46: Racial and gender constitution of private equity fund management professionals at the end of 2006 and 2005

	At 31 December 2006						At 31 December 2005					
	White	Indian	Coloured	Black	Not specified	Total	White	Indian	Coloured	Black	Not specified	Total
Male	178	26	17	50	–	271	184	18	1	56	–	259
Female	34	6	4	22	–	66	31	4	2	21	–	58
Not specified	–	–	–	–	14	14	–	–	–	–	12	12
Total	212	32	21	72	14	351	215	22	3	77	12	329

The industry showed an overall 7% increase from 329 professionals at the end of 2005 to 351 professionals at the end of 2006.

Datatables

	Total funds under management at year end	Undrawn commitments at year end	Fund raising activity during the year	Investment activity during the year	Funds returned to investors during the year	Proceeds from disposals during the year
	R billions	R billions	R billions	R billions	R billions	R billions
2006						
Early stage funds						
• Independents	0.883	0.414	0.001	0.154	0.001	0.001
• Captives – Other	0.285	0.158	–	0.010	0.030	0.030
• Captives – Government	2.000	1.667	–	0.130	–	–
• Captives – Financial Services	–	–	–	–	–	–
	3.168	2.239	0.001	0.294	0.031	0.031
Later Stage Funds						
• Independents	21.164	16.317	11.060	1.154	3.126	2.105
• Captives – Other	6.321	1.399	–	0.779	0.314	0.173
• Captives – Government	8.095	0.298	–	–	–	–
• Captives – Financial Services	17.486	5.797	0.180	3.767	2.895	1.763
	53.066	23.811	11.240	5.700	6.335	4.041
	56.234	26.050	11.241	5.994	6.366	4.072
2005						
Early stage funds						
• Independents	0.894	0.565	0.014	0.077	–	–
• Captives – Other	0.116	0.004	–	0.007	–	–
• Captives – Government	2.000	1.747	–	0.203	–	–
• Captives – Financial Services	–	–	–	–	–	–
	3.010	2.316	0.014	0.287	–	–
Later Stage Funds						
• Independents	13.054	7.216	2.195	0.812	1.670	1.347
• Captives – Other	7.545	2.470	–	1.016	0.860	0.710
• Captives – Government	5.023	0.243	–	–	–	–
• Captives – Financial Services	13.903	3.741	–	2.397	1.484	1.000
	39.525	15.986	2.195	4.225	4.014	3.057
	42.535	13.670	2.209	4.512	4.014	3.057

Participants

Name	Min investments (Millions)	Max investments (Millions)	Contact	Contact telephone
ABSA Capital Equity Investments	R50	R650	André Pieterse	011 350 2587
Actis Africa	$10	$100	Garth Jarvis	011 778 5900
AMB Private Equity Partners	R25	R200	Andrew Hall	011 215 2000
Argil Venture Capital	R3	R15	Paul Dixon	011 772 3427
Aureos SA Advisers	$0.5	$6	Ron den Besten	011 884 2066
Biotech Venture Partners	R2	R12	Heather Sherwin	021 462 2152
Brait Private Equity	R5	R1 000	Antony Ball	011 507 1000
Business Partners	R1*	R250*	Jo' Schwenke	011 470 3000
Capricorn Capital Partners	R10	R150	Gavin Chadwick	011 666 0700
Collins Private Equity	Nil	R25	Bruce Chelius	031 303 9811
Ethos Private Equity	R5*	R1 000*	André Roux	011 328 7400
Glenhove Fund Managers	R5	15%	Alun Frost	011 263 9500
Global Capital	R20	Unlimited	Larry Nestadt	011 728 0255
HBD Venture Capital	R10	R25	Julia Long	021 970 1000
iCapital Fund Managers	R6	R15	Rowan Williams	011 268 6165
Industrial Development Corporation	R1	*	Call Centre	0860 693 888
Kagiso Trust Investments	R20	R50	Afzal Patel	011 537 0520
Lireas Holdings	R0.1	R5	Russell Spring	011 481 6607
Medu Capital	R30	R70	Nhlanganiso Mkwanazi	011 268 9140
Nedbank Capital Private Equity	R20	R500	Dave Stadler	011 295 8316
Old Mutual Investment Group	R1*	*	Mark Gevers	021 509 2400
RMB Corvest	R10	R500	Neil Page	011 268 0555
RMB Ventures	R25	R250	Jake Archer	011 282 8475
Southern African Enterprises	$1	$5	Richard Swai	011 283 1630
Sanlam Private Equity	R100	R250	Cora Fernandez	011 778 6610
Sasfin Private Equity Fund Managers	R5	R30	Malcolm Segal	011 445 8001
Shanduka Fund Managers	R20	R75	Ray Govender	011 305 8900
Sphere Private Equity	R10	R50	Aadil Carim	011 215 8300
Standard Bank Private Equity	R50	*	Jan Hugo	011 636 7725
The Median Fund	R0.05	R2	Joseph Stoltz	021 527 5980
Treacle Private Equity	R10	R90	Christoff Botha	011 463 7476
Vantage Risk Capital	R30	R300	Luc Albinski	011 880 5730
VenFin	R10	R500	Hein Carse	021 888 3200
WIP Private Equity	R10	Unlimited	Shaun Rosenthal	011 715 3500

*Fund dependent

Note: Only those participants who completed a Questionnaire and did not object to the disclosure of their participation in this survey are included above.

Glossary

BEE Black Economic Empowerment (BEE), as defined in the Financial Sector Charter, means the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies.

The definitions used in this survey for BEE companies are stated below:

"Black companies" refers to companies that are more than 50% owned and are controlled by black people. Control is defined as the authority and power to manage assets, the determination of policies and the direction of business operations.

"Black people" refers to all Africans, Coloureds and Indians who are South African citizens and includes black companies.

"Black empowered companies" refers to companies that are more than 25% owned by black people (but not more than 50%) and where substantial participation in control is vested in black people.

"Black influenced companies" refers to companies that are between 5% and 25% owned by black people and with participation in control by black people.

"Not empowered companies" refers to companies that are less than 5% owned by black people.

Captive fund Those funds making investments mainly on behalf of a parent or group, typically an insurance company, bank or institutional asset manager, often from an indeterminate pool of money.

Carried interest A fee enhancement for a private equity fund manager for achieving a benchmark return or "hurdle rate". The fee is often set at 20% of the value of returns achieved in excess of the benchmark return.

DFIs Developmental Funding Institutions

Draw down A draw down or capital call occurs when third party investors (called limited partners in the US) provide cash to a private equity fund for investment into a portfolio company. The draw down reduces the outstanding commitment due from the investor.

EVCA	European Private Equity and Venture Capital Association
Follow on investments	Investments into companies where at least one round of funding has already been made.
GDP	Gross Domestic Product
Gross IRR	IRR before the deduction of management fees and carried interest.
Gross realised IRR	Gross IRR on the total realised portfolio of investments.
Independent fund	Those private equity companies, managers or funds raising and disbursing capital which has been sourced mainly from third party investors.
IPO	Initial Public Offering. The first time that a company's equity is sold on a stock exchange.
IRR	Internal Rate of Return
JSE	JSE Limited (formally the Johannesburg Stock Exchange)
KPMG	KPMG Services (Proprietary) Limited
M&A	Mergers and acquisitions
NVCA	National Venture Capital Association (US)
PwC	PricewaterhouseCoopers
SAVCA	The Southern African Venture Capital and Private Equity Association
Total funding	Total funds raised by all providers of capital during a transaction. This could include the purchase consideration, funds to pay advisors fees, funds required for immediate working capital requirements, etc. This could be in the form of equity, shareholder loans, senior, mezzanine and junior debt and working capital facilities.
US	United States of America
€	Euro
$	US Dollar

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