

COMPANY PROFILE



NATIONAL
EMPOWERMENT
FUND

Growing Black Economic Participation



NEF MANDATE

The NEF was established by the National Empowerment Fund Act No 105 of 1998 ("NEF Act"), to promote and facilitate black economic equality and transformation. Its mandate and mission is to be the catalyst of Broad-based Black Economic Empowerment (BB-BEE).

NEF OBJECTIVES

- To foster and support business ventures pioneered and run by black enterprises.
- To improve the universal understanding of equity ownership among black people.
- To contribute to the creation of employment opportunities.
- To encourage the development of a competitive and effective equities inclusive of all persons in South Africa.
- To encourage and promote savings, investments, and meaningful participation by black people.
- To provide black people with the opportunity of, directly or indirectly, acquiring shares or interest in state allocated investments (SAIs) that are being restructured or in private business enterprises.
- To generally employ schemes businesses and enterprises as may be necessary to achieve the objectives of the NEF Act.

MISSION

The National Empowerment Fund (NEF) mission is to be the catalyst of Broad-based Black Economic Empowerment in South Africa.

We enable, develop, promote and implement innovative investment and transformation solutions to advance sustainable black economic participation.

VISION

Our vision is to become the leading provider of innovative finance and investment solutions for an inclusive economy.

VALUES

- Service excellence
- Result-orientated
- Innovation and continuous improvement
- Ownership and accountability
- Recognition and reward
- Respect, empathy and fairness
- Honesty and integrity
- Open and honest communication
- People development.





STRATEGIC BACKGROUND

The South African government has the responsibility for growing and transforming our national economy for the benefit of all citizens in our nation. To fulfil this responsibility, government has set economic priorities that include: creating jobs to eradicate poverty, bringing black business into the first economy, developing capacity, skills development, spreading opportunities across the country and establishing diverse and globally competitive industries.

The NEF's specific role in the existing developmental finance arena is to achieve BB-BEE objectives as articulated in the Codes of Good Practice ("the Codes") emanating from the Broad-based Economic Empowerment Act of 2003. In this regard, the NEF plays a catalytic role through financial and non-financial support that will accelerate the meaningful participation by black individuals, communities and businesses in the South African economy. The Codes take into consideration preferential procurement, broadening the reach of black equity ownership while preventing the dilution of black shareholdings, and encouraging black employment and the development of black talent into senior management. The NEF product offering was designed to address the funding challenges relating to the achievement of the various pillars of the Codes.

In pursuing its mandate, the NEF differentiates itself from commercial and other development financiers by assuming primarily equity-based risk in order to meet the challenges of access to capital faced by most black entrepreneurs. This approach, which balances risk against reward, as is embodied in the NEF Empowerment Dividend, within a framework of sound commercial fundamentals. This investment methodology enables the NEF to support national priorities such as BB-BEE, Department of Trade and Industry ("dti") industrial policy objectives and the targeted government programmes such as the Accelerated and Shared Growth Initiative for South Africa ("ASGISA"). In line with these initiatives, the NEF has targeted the following sectors for support, namely arts and culture, tourism, textiles, agri-processing, the automotive industry, mining and chemicals, ICT, aerospace, audio-visual and exports. The NEF however provides funding across all economic sectors except for certain prohibited sectors.

The NEF's mission complements the work of other development finance institutions ("DFIs"), by encouraging collaboration in viable projects and the pooling of joint expertise. Where feasible, private sector financiers and institutions are also involved with the NEF in various capacities.

Strategic Intent

The ongoing efforts of the NEF and fellow DFIs as well as other industry research reveal that most black entrepreneurs are still faced with challenges and still lack the creditworthiness to raise business capital. As a consequence they cannot pursue growth opportunities or bid for preferential contracts to develop their enterprises into substantial and sustainable businesses.

Realising that BEE still has a long way to go, and that BEE funding mechanisms must evolve with market realities, the NEF continuously reviews its strategy and operations to find quicker, more efficient methods and product development initiatives through which to deliver on its mandate of furthering BEE.

In order to more effectively serve the demands on an evolving BEE financing market, the NEF's core business was split between Fund and Asset Management divisions. These are supported by operational and logistic functions such as HR, marketing and communications, finance and legal services.

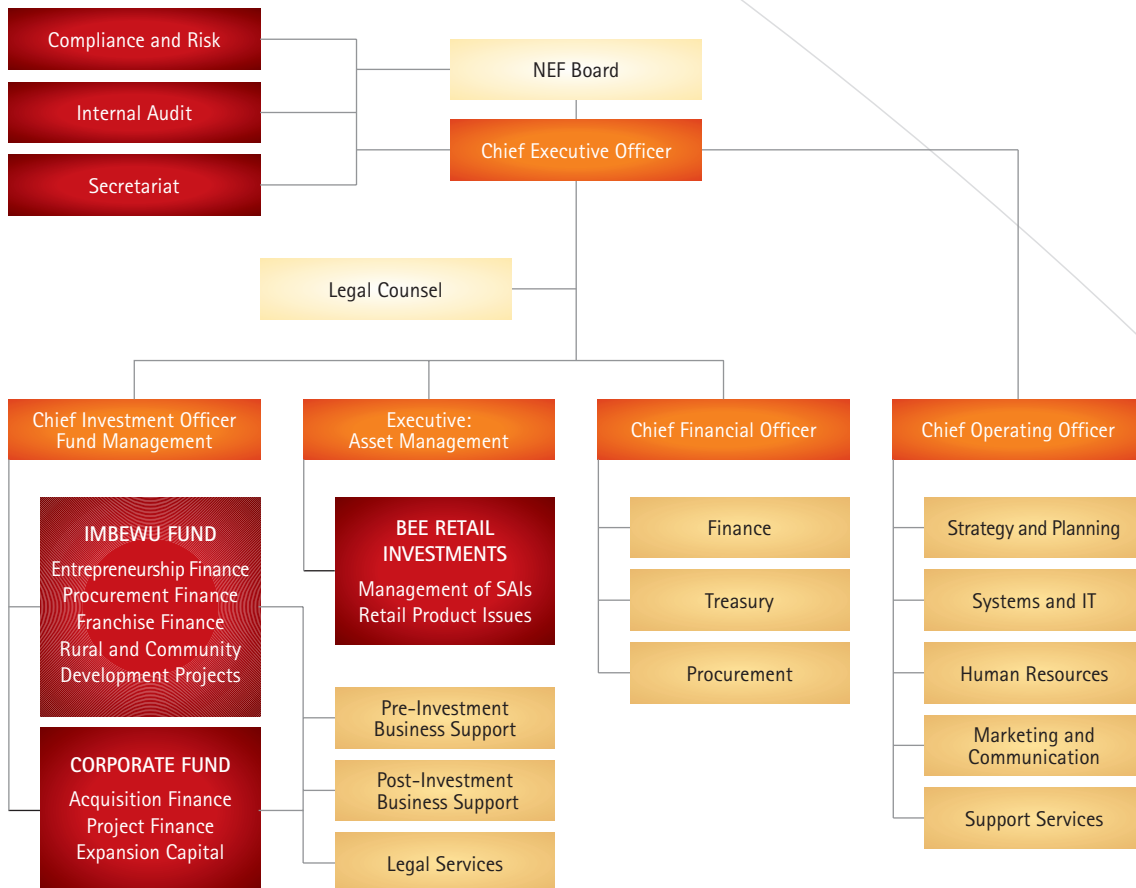
A "cradle to grave" philosophy was introduced to streamline processing of applications and investments. A distinct unit now manages pre-investment screening, with a post-investment team monitoring and mentoring the invested portfolios sustainability. This approach structures and focuses NEF expertise for maximum functionality.

The NEF will go on evolving as the economic environment – and the needs of black entrepreneurs and organisations – continue to change. To achieve mid-term goals, the NEF's mission will be guided in terms of the following key themes:

- Amending funding products and criteria as the BB-BEE environment evolves.
- Unlocking private sector co-funding, particularly in terms of the Codes of Good Practice.
- Developing retail saving and investment products that match consumer demands.
- Providing funds for strategic projects.
- Establishing close relationships with private sector funders such as commercial banks.
- Effectively marketing the NEF's fund and asset management offerings.

Structure of the NEF

The NEF is structured as shown in the accompanying organogram:



Executive (Member of Exco)
 Senior Manager
 Manager

FUND MANAGEMENT DIVISION

Headed up by the CIO NEF's Fund Management Division fulfils the NEF mandate by providing funding to black entrepreneurs to support new and existing business ventures with start-up, franchising and expansion capital, and with the acquisition of equity interests in existing businesses for transformation purposes.

The division services its clients through two funds, each targeted at a particular market:

THE IMBEWU FUND

This fund is designed to promote the creation of new businesses and the provision of expansion capital to early stage businesses. The iMbewu Fund aims to cultivate a culture of entrepreneurship by offering debt, quasi-equity and equity finance of up to R20m comprising:

- Start-up finance for new businesses
- Expansion capital for existing small businesses
- Financing of preferential procurement contracts
- Financing of rural and community development projects with social upliftment benefits. Community groups, including co-operatives, may apply
- Financing of franchised operations.

This is done by the following suite of products:

a) Entrepreneurship Finance

Imbewu Entrepreneurship Finance provides risk capital to new businesses and to early stage businesses owned and managed by black people meeting the following criteria:

- BEE applicant should be actively involved in the business
- Minimum black ownership of 50.1%
- Industry experience in consortia i.e. from BEE party or non-BEE partners
- NEF mentorship programme, participation is obligatory
- Capital structure should be sustainable. NEF to provide shortfall in equity/quasi-equity capital
- Business with clear value add – sustainable business model
- Business should employ minimum of 5 people
- Maximum NEF funding of R5m
- The NEF investment horizon is 5 to 7 years
- NEF will target a nominal pre-tax IRR of between 12% to 18% on its funding.

b) Procurement Finance

iMbewu's procurement finance product is a debt product aimed at financing working capital requirements associated with procurement contracts. The product enables BEE groups to access preferential procurement opportunities whilst simultaneously providing mechanisms aimed at mitigating NEF investment risk. The key features of the NEF product would be as follows:

- Primarily short to medium term debt product
- Repayment terms matched to contract terms
- NEF funding generally limited to R10m
- Active BEE management participation
- Minimum black ownership of 50.1%
- Industry knowledge within the Borrower's management structure
- NEF will seek to co-finance with commercial banks to mitigate risk
- NEF reserves the right to oblige applicant to participate in the NEF mentorship programme.

c) Franchise Finance

The Imbewu Franchise Finance is geared towards enabling black people to leverage the infrastructure available within the franchise industry in order to gain access to economic opportunities whilst reducing investment risk. The criteria of the product are:

- NEF has a preference to fund top 40 rated franchises
- Active management participation by BEE parties
- Minimum BEE shareholding of 50.1%
- Transactions will be structured with sustainable capital structure, NEF funding to bridge shortfall in equity

- BEE party to have pre-qualified with franchisor
- NEF funding generally limited to R5m
- NEF will target a nominal pre-tax IRR of between 12% to 15% on its funding
- The NEF investment horizon is 5 to 7 years.

d) Rural and Community Development Projects

The rural and community development projects facilitates community involvement in projects promoting social and economic upliftment. In accordance with the BB-BEE Act, it aims to increase the extent to which workers, cooperatives and other collective enterprises own and manage business enterprises. Also, it supports the BB-BEE Act objectives of empowering local and rural communities.

Rural and community development requires:

- Involvement of black managers at a senior operational level as owners
- Active presence of black investors at board level, including women, as owners
- Substantial ownership by black employees
- Joint ventures between black and non-black partners with the objective of skills transfer
- Minimum BEE shareholding of 50.1%
- NEF will invest using debt, equity and quasi-equity instruments
- NEF will target a nominal pre-tax IRR of 10% to 12%
- NEF funding generally limited to R20m
- The NEF investment horizon is 7 to 10 years.

THE CORPORATE FUND

This fund is designed to improve access to BEE capital and has three products, Acquisition Finance, Project Finance and Expansion Finance. These products provide capital to Black owned and managed enterprise, black entrepreneurs who are buying equity shares in established white owned enterprises, project finance and BEE businesses that are or wish to be listed on the JSE. Funding ranges from R5m to R100m and details of the three products are provided below:

a) Acquisition Finance

This product caters for BEE applicants seeking to buy equity in existing businesses and provides funding from R5m to R100m.

Key features are:

- Focus on medium to large companies
- Focus on partnerships with existing management teams and other equity investors
- Minimum BEE ownership of 25.1% post NEF investment
- Active BEE involvement in investee companies
- BEE financial contribution determined on case by case basis
- Investment instruments to include debt, equity and mezzanine finance
- Typical investment horizon of 4 to 7 years
- Security to include personal suretyship.

b) Project Finance

This product provides capital of R5m to R25m per project for BEE applicants seeking to participate in medium-sized green-fields projects with total funding requests of between R10m and R200m.

Key features are:

- Minimum 25.1% BEE shareholding
- Investment instruments to include debt, equity and mezzanine finance in support of BEE
- BEE specific financial contribution assessed on a case by case basis
- NEF's exposure to the project not to exceed 50% of total project costs
- Proven management experience within consortium
- Active BEE involvement in investee companies
- Debt funding raised from the market to match equity funding provided by NEF and other project sponsors
- NEF funding limited to R25m
- NEF investment horizon is 5 to 10 years
- Security to include personal suretyship.





c) Expansion Capital

NEF will provide funding of R5m to R100m to entities that are already black-empowered, but seek expansion capital to grow the business.

Key features are:

- Investment instruments to include debt, equity and mezzanine finance in support of BEE
- BEE Shareholding should be minimum of 25.1%
- Pricing based on instrument, risk matrix, security package etc.
- Typical investment horizon of 4 to 7 years
- Active BEE involvement in investee companies
- Security to include personal suretyship.

d) Strategic Projects Finance

The strategic project finance will facilitate the acquisition of equity in large strategic projects where the NEF assumes the role of BEE partner. The NEF will warehouse equity on behalf of BEE participants with the aim of driving transformation within large national projects of a strategic nature.

NON-FINANCIAL BUSINESS SUPPORT

Pre-Investments Business Support Unit

Applicants for funding may be excellent entrepreneurs, but often struggle to navigate the necessary application procedures and manage their businesses. The NEF therefore assists with funding advice, business planning and general assistance to help ensure that applications are of sufficient quality to complete all steps in the application process.

The first point of contact for many potential clients, the PIU's primary functions are to:

- Provide information on NEF products and procedures
- Control and assist in drawing up funding applications
- Identify applications that will qualify for funding
- Keep clients informed on the progress of their applications
- Advise applicants and assist with drawing up business plans.

Post-Investments Business Support Unit

Black businesses need to be robust and self-sustaining for BB-BEE to succeed. Recognising this fact, the NEF established structures to monitor its clients for risk and provide advice when needed. Although start-ups are inherently higher risk, the rewards for success are jobs and increased capital for further start-ups.

The unit is responsible for:

- Monitoring and preparing management information on investments
- Administering investment contracts
- Coordinating mentorship programmes
- Facilitating investment valuations with fund managers
- Working with distressed assets and recommend solutions such as liquidations, turnarounds and restructurings
- Conducting strategic reviews.

Legal Services Unit

The LSU provides legal services to the entire NEF and drafts legal agreements, assists with due diligence reviews and registers necessary documents.

ASSET MANAGEMENT

The Asset Management Division headed up by the Asset Management Executive Manager, develops and offers retail savings instruments to broad-based groups of black people. These retail products are designed to create black wealth through participation in State Allocated Investments (SAIs) received by the NEF. MTN and Uthingo shares are the first SAIs, with dividends received being ploughed back into funding capital. Further SAIs and savings instruments are being rolled out from time to time.

The division is tasked with:

- Carrying out government's objectives of encouraging a savings and investment culture among black people
- Providing opportunities for black people to acquire shares or interests in private or public companies
- Helping develop an effective equity market in South Africa that has meaningful black participation.



HOW TO APPLY FOR FUNDING

Completing the Application Form

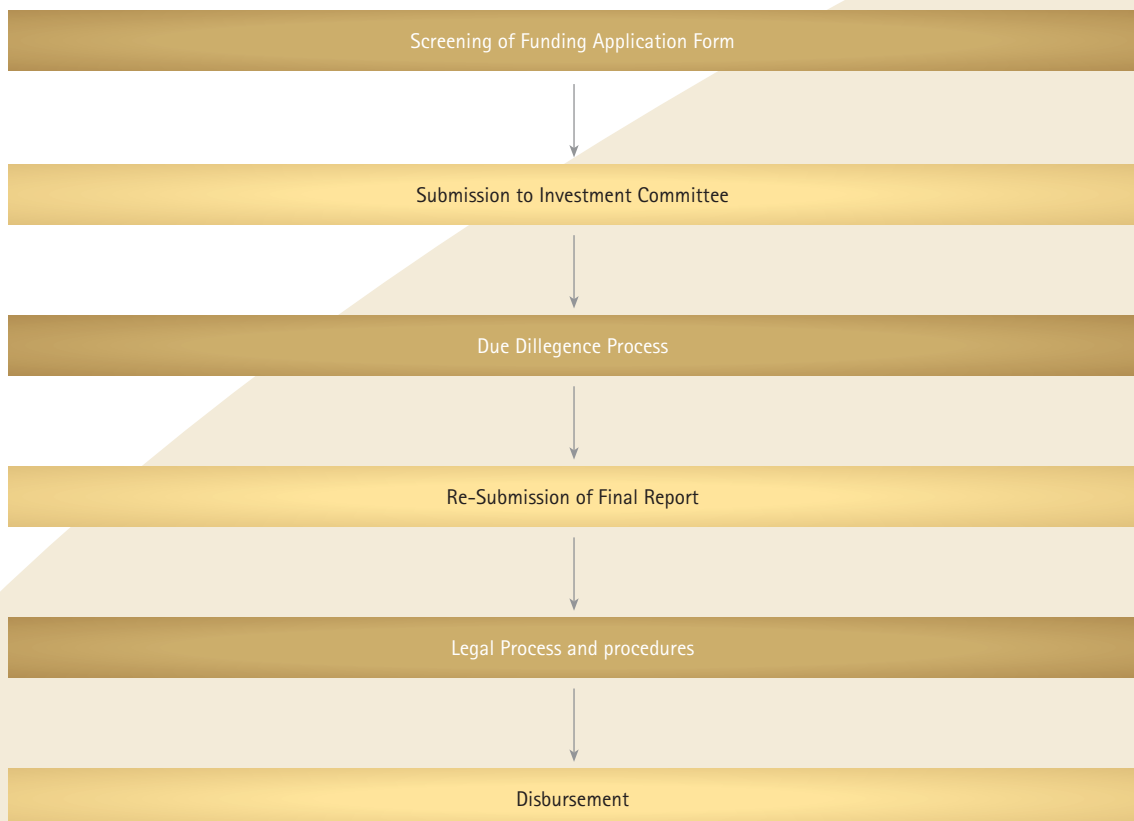
Having read and understood how the NEF is structured to assist black entrepreneurs and businesses, the next logical step is to do a self-needs analysis to see how the NEF is able to assist you and your business needs. To engage them is as simple as taking the first step of filling in an application form that will present your business case for assessment based on the criteria described below. Your proposal needs to contain comprehensive information to support the commercial viability and the financial position of your business and a business plan guideline has been provided on the application form, to highlight the various topics you need to cover when making your submission.

Funding criteria:

The NEF funds entrepreneurial individuals and groups that further BB-BEE in South Africa. The merits of your application for funding will be qualified in terms of:

- Commercial viability of the project
- Compliance with all relevant laws and regulations
- Black managerial and operational involvement
- Percentage of black ownership or interest
- Return on investment
- Job creation
- Geographic location of business (rural/urban/disadvantaged area)
- Black women empowerment
- Community involvement
- Possibility of co-funding (private or public sector).

Once your application has been received it will be entered into a deal-flow pipeline when it has fulfilled the mandatory requirements and it will go through various processes, summarised by the diagram below, towards final approval and disbursement of the funds.

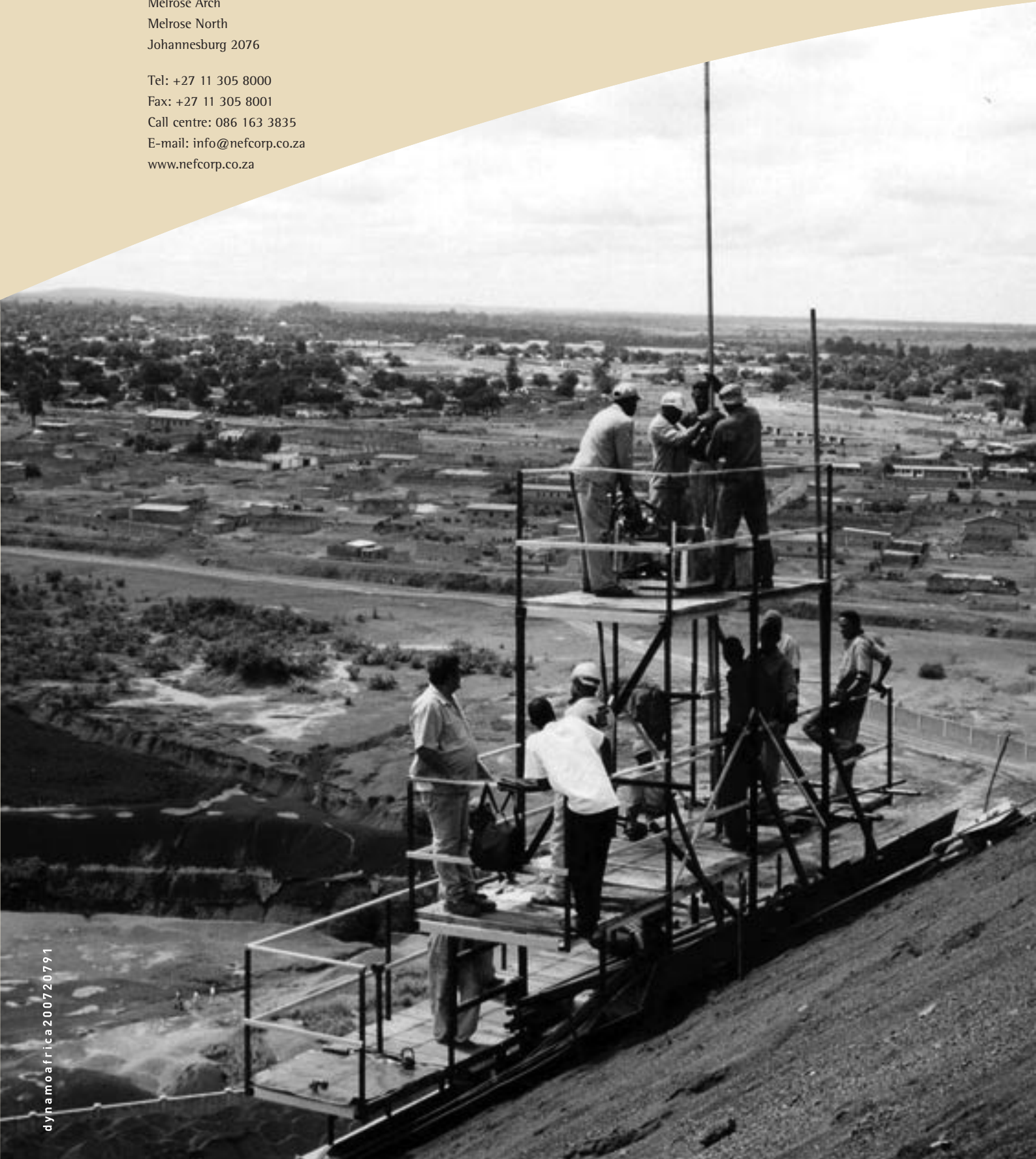


For more information contact NEF on:

West Block
187 Rivonia Road
Morningside
Johannesburg 2057

P O Box 31
Melrose Arch
Melrose North
Johannesburg 2076

Tel: +27 11 305 8000
Fax: +27 11 305 8001
Call centre: 086 163 3835
E-mail: info@nefcorp.co.za
www.nefcorp.co.za



NATIONAL EMPOWERMENT FUND

West Block
187 Rivonia Road
Morningside
Johannesburg 2057

P O Box 31
Melrose Arch
Melrose North
Johannesburg 2076

Tel: +27 11 305 8000
Fax: +27 11 305 8001
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E-mail: info@nefcorp.co.za
www.nefcorp.co.za