

# Investment Banking

Integrated business focused on local client delivery with international access

## Scope of activities

We engage in a range of investment banking activities and position ourselves as an integrated business focused on local client delivery with international access. We target clients seeking a highly customised service, which we offer through a combination of domestic depth and expertise within each geography and a client centric approach.

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<b>Activities</b>	<ul style="list-style-type: none"><li>- Corporate Finance</li><li>- Institutional Research, Sales and Trading</li><li>- Direct Investments</li><li>- Private Equity</li></ul>
<b>Target market</b>	<ul style="list-style-type: none"><li>- Major listed and unlisted corporations</li><li>- Fund managers</li><li>- Government</li><li>- Parastatals</li></ul>

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## Strategic focus

**Mission:** To be a premier international investment bank distinguished by our leadership in chosen niches, our people and their approach, and our bond with our clients.

Our primary objectives are to secure our current positionings and to continue building our operations, with a strong focus on enhancing overall profitability

### UK and Europe

Our strategic objectives are to:

- Become a pre-eminent full service mid-market investment bank.
- Leverage our highly rated product and service offering internationally, specifically in the US and Europe.
- Offer additional corporate services such as private equity and debt advisory specialisation.
- Increase the use of capital to reinforce our mid-market offering.
- Achieve greater sector specialisation in Corporate Finance.

### South Africa

#### Corporate Finance

Our strategy is to:

- Take advantage of our leading position in the South African market.
- Improve the size and profile of our client base with a focus on servicing existing clients and undertaking new client initiatives.
- Identify appropriate investment banking transactions, mergers and acquisitions and IPO opportunities.
- Continue with our strategy relating to black economic empowerment.
- Improve cross-border activity.

#### Institutional Research, Sales and Trading

Our strategic objectives are to:

- Be the top rated South African specialist broker as determined by our target client base.
- Broaden our research base to ensure appropriate coverage and to reinforce our South African distinctiveness.
- Further leverage our research product into the UK and US and selectively target key European clients.
- Continue to grow related product offerings.

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## Direct Investments and Private Equity

Our strategy is to:

- Focus on quality, not quantity, of investments, in selected industries.
- Identify and pursue transactions with the potential for significant value unlocking in the short to medium term.
- Target platform investments that can be grown significantly through the implementation of an agreed strategy operating in industries that will benefit strongly from economic growth in South Africa.
- Co-invest with experienced executives and non-executives with a proven track record, strategic investors and empowerment partnerships built on trust.
- Concentrate on closer co-operation with black economic empowerment platform investee companies.
- Convert our current transaction pipeline.

## Australia

Our objectives are to:

- Build an integrated business model of advisory, private equity and direct investments, to maximise market opportunities.
- Continue to focus on global collaboration to enhance cross-border activity.
- Maintain a disciplined approach to Private Equity and Direct Investment activities in relation to deal origination, participation in competitive processes and transaction valuations.

## Management structure

### Joint Global Heads of Investment Banking

Bradley Fried  
Andy Leith

### UK and Europe

Regional Head	Bradley Fried
Investment Banking	David Currie
Investec Securities Institutional	
Stockbroking	Craig Tate
Ireland	Michael Cullen
Finance	Ray Milner
IT and Operations	Trevor Gatfield

### South Africa

Regional Head	Andy Leith
Corporate Finance	Kevin Kerr Hugo Steyn
Investec Securities Institutional	
Stockbroking	Craig Tate Kevin Brady
Finance and Operations	Andrew Birrell
Direct Investments	Khumo Shuenyane
Private Equity	Thomas Prins
Finance	Caroline Thomson Robert Slater

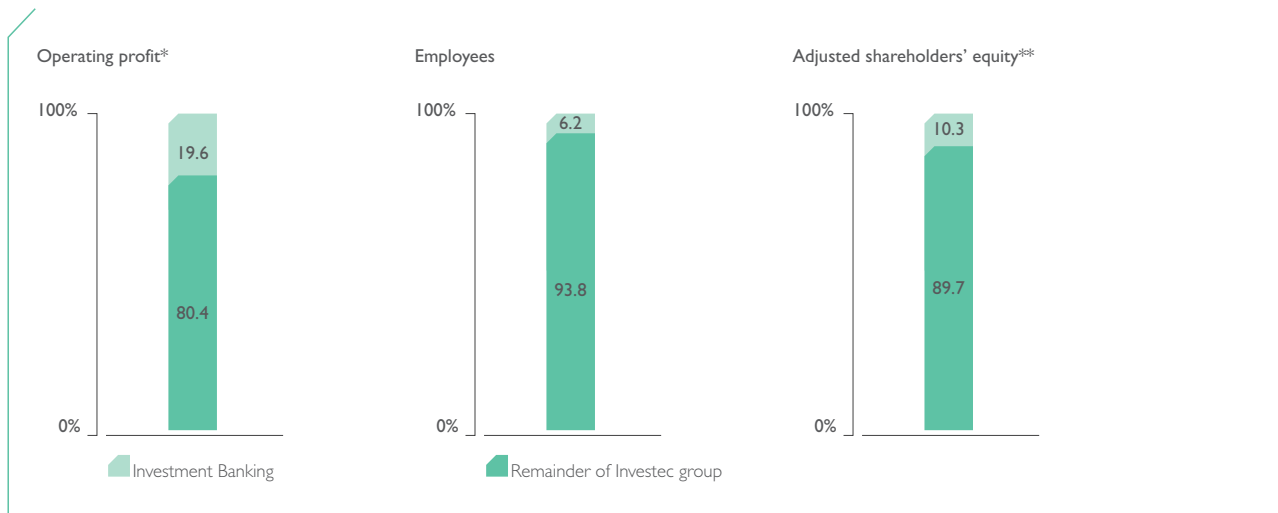
### Australia

Regional Head	Geoff Levy
Corporate Advisory	Ben Smith
Private Equity	John Murphy
Direct Investments	Geoff Levy

### Hong Kong

Regional Head	Richard Forlee
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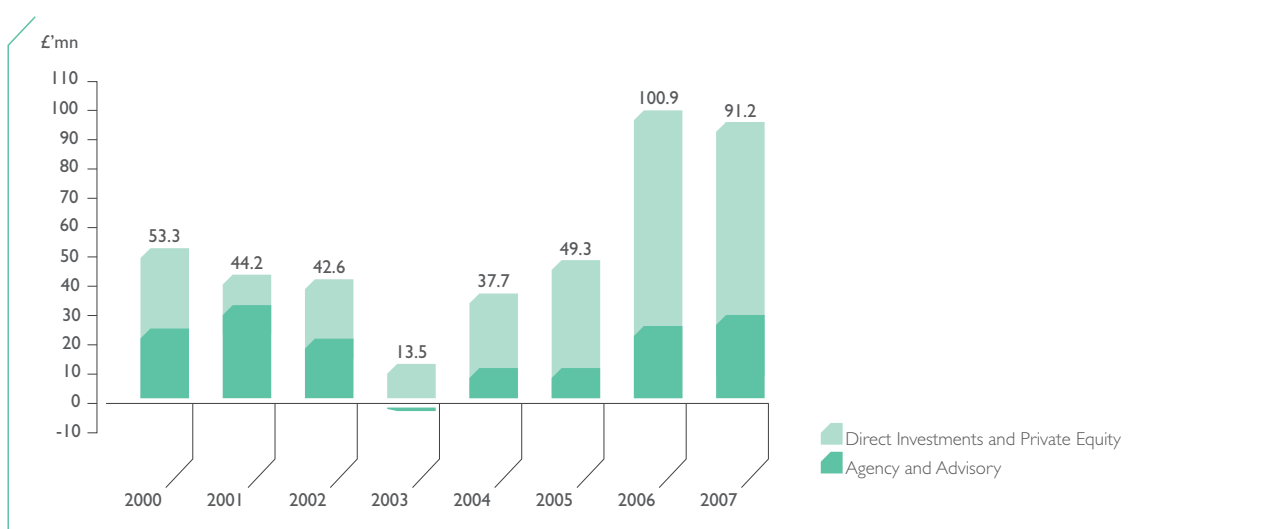
## Contribution analysis



\* Before goodwill, non-operating items and taxation and excluding Group Services and Other Activities.

\*\* As calculated on page 27.

## Operating profit<sup>^</sup> - track record



<sup>^</sup> Trend reflects numbers as at the year ended 31 March. The numbers prior to 31 March 2005 were reported in terms of UK GAAP. Amounts are shown before goodwill, non-operating items and taxation.

## Investment Banking

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### Overview and financial analysis

- Operating profit decreased by 9.6% to £91.2 million, contributing 19.6% to group profit.

£'000	31 March 2007	31 March 2006	Variance	% Change
Net interest income	(2 457)	2 216	(4 673)	>100.0%
Net fees and commissions receivable	91 904	82 633	9 271	11.2%
Principal transactions	73 719	97 864	(24 145)	(24.7%)
Other operating income and operating income from associates	45 629	307	45 322	>100.0%
Impairment losses on loans and advances	(1)	722	(723)	>100.0%
Admin expenses and depreciation	(117 559)	(82 812)	(34 747)	42.0%
<b>Operating profit before goodwill, non-operating items and taxation</b>	<b>91 235</b>	<b>100 930</b>	<b>(9 695)</b>	<b>(9.6%)</b>
Corporate Finance	15 890	11 608	4 282	36.9%
Institutional Research, Sales and Trading	14 394	14 982	(588)	(3.9%)
Direct Investments	18 148	34 218	(16 070)	(47.0%)
Private Equity	42 803	40 122	2 681	6.7%
<b>Operating profit before goodwill, non-operating items and taxation</b>	<b>91 235</b>	<b>100 930</b>	<b>(9 695)</b>	<b>(9.6%)</b>
UK and Europe	23 294	29 631	(6 337)	(21.4%)
Southern Africa	60 632	65 887	(5 255)	(8.0%)
Australia	7 309	5 412	1 897	35.1%
<b>Operating profit before goodwill, non-operating items and taxation</b>	<b>91 235</b>	<b>100 930</b>	<b>(9 695)</b>	<b>(9.6%)</b>
Adjusted shareholders' equity*	130 816	63 875	66 941	>100.0%
ROE (pre-tax)*	68.6%	171.8%		
Cost to income ratio	56.3%	45.2%		
Operating profit per employee (£'000)*	291.9	378.3		(22.8%)

\* As calculated on pages 27 and 33.

## Developments

### Corporate Finance and Institutional Research, Sales and Trading

£'000	31 March 2007	31 March 2006	Variance	% Change
Net interest income	(1 147)	43	(1 190)	>100.0%
Net fees and commissions receivable	91 544	79 768	11 776	14.8%
Principal transactions	12 774	10 095	2 679	26.5%
Other operating income and operating income from associates	(15)	-	(15)	100.0%
Impairment losses on loans and advances	(1)	(44)	43	(97.7%)
Admin expenses and depreciation	(72 871)	(63 272)	(9 599)	15.2%
<b>Operating profit before goodwill, non-operating items and taxation</b>	<b>30 284</b>	<b>26 590</b>	<b>3 694</b>	<b>13.9%</b>

The variance in operating profit over the year can be explained as follows:

- The Corporate Finance operations benefited from a strong deal pipeline across all geographies, particularly in South Africa, with a number of mandates closed successfully.
- The Institutional Stockbroking operations in South Africa were positively affected by increased volumes over the period. In the UK, commissions were negatively affected by regulatory changes and consequent competitive pressures.
- Principal transaction income reflects a solid performance by the dual listed arbitrage and SA/UK hedge book activities in South Africa and the Equity Trading business in the UK, partially offset by a weaker performance by the UK market making activities.
- The increase in expenses largely relates to a rise in headcount in certain businesses and an increase in variable remuneration.

## Corporate Finance

### UK and Europe

- We benefited from good levels of merger and acquisition (M&A) activity. The IPO market was subdued at the beginning of the year but activity levels improved significantly during the second half.
- Eight IPOs were concluded during the period, the most significant being Southern Cross Healthcare PLC, Clinphone PLC and Styles & Wood PLC.
- We completed 24 M&A transactions with a value of £2.5 billion (2006: 14 transactions with a value of £1.1 billion).
- We completed 21 fundraisings during the year, raising in aggregate £597 million (2006: 21 transactions, raising £634 million).
- We continue to build the quality and size of the corporate client list, gaining 25 new brokerships, with the total number of quoted clients now at 91. The average market capitalisation of these clients is £272 million.

### South Africa

- We maintained our strong positioning with a good level of activity.
- Our focus was on M&As, corporate restructuring activities, IPOs and black economic empowerment transactions.
- We retained all our major clients and gained several new mandates during the period, particularly for black economic empowerment transactions and IPOs.
- Corporate Finance transactions during the period increased to 140 (2006: 119), with a value of R52 billion (2006: R31.2 billion).
- Sponsor broker deals completed during the period increased to 161 (2006: 128), with the value increasing substantially to R70.1 billion (2006: R28.6 billion).
- The Corporate Finance division was ranked first in volume of M&A transactions and second in general corporate finance by volume in the Dealmakers Magazine Survey for Corporate Finance (2006 calendar year).
- The Sponsor division was ranked first in volume of M&A transactions and in general corporate finance in the Dealmakers Magazine Survey for Sponsors (2006 calendar year).
- The Sponsor and Corporate Finance divisions were also ranked first and second respectively in volume of M&A transactions in the Ernst & Young review for M&A (2006 calendar year).

### Australia

- There is increasing awareness and recognition of the Investec brand within the Australian market.
- We advised on 15 transactions (2006: 20) valued at approximately A\$8.7 billion (2006: A\$6.5 billion).
- We focused on building our capabilities in Brisbane and strengthening our presence in Melbourne.
- We continue to expand our sector specialisation and launched our resource advisory capability leveraging off opportunities in Western Australia.
- We experienced strong cross-border activity, particularly in the resources and renewable energy sectors, between Australia and the rest of the group.

## Institutional Research, Sales and Trading

### UK and Europe

- While volatile markets and unbundling affected the growth of secondary commissions compared to the prior year, trading revenues reflected upward momentum.
- Our sector build out is now complete with the introduction of two new sectors during the year, namely Speciality and Other Financials and Construction and Building.
- The quality of our research was highlighted in the Sunday Times/Starmine Survey published in January 2007, in which we were placed first across all UK brokers for FTSE 250 recommendations in the UK. We also achieved the number one ranking in the Investors Chronicle AIM survey.
- We recently established a sales desk in New York to accelerate our UK offering in that market.
- We continued to make substantial investments in our trading and execution capacity.

### South Africa

- Strong agency performance was driven by active market volumes and greater international penetration.
- We broadened our stock coverage and filled key gaps in our research offering to underpin our South African distinctiveness.
- Further to our stock association initiative, leading market share positions were achieved in the key dual listed shares.
- Our Prime Broking operation performed well, exceeding expectations in the growth of funds on the system and new client mandates.
- Good progress was made across our key product offerings.

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### Direct Investments and Private Equity

£'000	31 March 2007	31 March 2006	Variance	% Change
Net interest income	(1 310)	2 173	(3 483)	(>100.0%)
Net fees and commissions receivable	360	2 865	(2 505)	(87.4%)
Principal transactions	60 945	87 769	(26 824)	(30.6%)
Other operating income and operating income from associates	45 644	307	45 337	>100.0%
Impairment losses on loans and advances	-	766	(766)	100.0%
Admin expenses and depreciation	(44 688)	(19 540)	(25 148)	>100.0%
<b>Operating profit before goodwill, non-operating items and taxation</b>	<b>60 951</b>	<b>74 340</b>	<b>(13 389)</b>	<b>(18.0%)</b>

The variance in operating profit over the year can be explained as follows:

- Principal transaction income represents the year to date cumulative increase/decrease in the value of the division's direct investments and private equity portfolios, the profit/loss on realisation of these investments, and dividends and other income received. Further analysis is provided below.
- Other operating income relates to the operating results of two investments held within the Private Equity portfolio, which have been consolidated with the respective income and expenses reflected in other operating income and administration expenses. These investments generated a net loss after tax and minority interest of £2.3 million. Any realisation of these investments in excess of their carrying values will be recognised as income from principal transactions. The two investments are Global Ethanol Holdings Limited and Idatech LLC (see page 204 for further information).
- The increase in expenses largely relates to the consolidation of the two investments mentioned above (expenses amounted to £25 million), partially offset by a decrease in variable remuneration given lower profitability in certain of the divisions.

#### Value of trading investments on balance sheet at 31 March 2007

£'million	Listed	Unlisted	Advances	Total
UK Private Equity	9	6	-	15
SA Direct Investments	23	39	9	71
SA Private Equity	-	83	6	89
Australia	2	-	-	2
Hong Kong Direct Investments	2	5	-	7
	<b>36</b>	<b>133</b>	<b>15</b>	<b>184</b>

Note: excludes our two investments (mentioned above) which have been consolidated.

#### Value of trading investments on balance sheet at 31 March 2006

£'million	Listed	Unlisted	Advances	Total
UK Private Equity	11	7	-	18
SA Direct Investments	24	35	6	65
SA Private Equity	-	77	9	86
Australia	5	3	-	8
Hong Kong Direct Investments	10	-	-	10
	<b>50</b>	<b>122</b>	<b>15</b>	<b>187</b>

#### Analysis of operating profit for the year to 31 March 2007

£'million	Realised	Un-realised	Dividends	Interest and other	Income	Funding costs	Net income	Expenses	Net profit
UK Private Equity	1.3	(1.9)	0.4	36.6	36.4	-	36.4	(28.5)	7.9
SA Direct Investments	0.3	16.9	3.1	1.2	21.5	(4.6)	16.9	(4.1)	12.8
SA Private Equity	3.7	28.0	7.8	0.1	39.6	(1.7)	37.9	(7.2)	30.7
Australia	-	-	-	6.5	6.5	-	6.5	(2.3)	4.2
Hong Kong Direct Investments	6.2	1.5	-	0.2	7.9	-	7.9	(2.6)	5.3
<b>Total</b>	<b>11.5</b>	<b>44.5</b>	<b>11.3</b>	<b>44.6</b>	<b>111.9</b>	<b>(6.3)</b>	<b>105.6</b>	<b>(44.7)</b>	<b>60.9</b>

## Analysis of operating profit for the year to 31 March 2006

£'million	Realised	Un-realised	Dividends	Interest and other	Income	Funding costs	Net income	Expenses	Net profit
UK Private Equity	10.3	-	-	0.6	10.9	-	10.9	(3.1)	7.8
SA Direct Investments	2.3	31.6	0.5	1.9	36.3	(3.0)	33.3	(7.0)	26.3
SA Private Equity	13.4	17.5	6.0	0.7	37.6	(1.3)	36.3	(5.8)	30.5
Australia	-	0.8	-	2.9	3.7	-	3.7	(1.1)	2.6
Hong Kong Direct Investments	-	9.6	-	-	9.6	-	9.6	(2.5)	7.1
<b>Total</b>	<b>26.0</b>	<b>59.5</b>	<b>6.5</b>	<b>6.1</b>	<b>98.1</b>	<b>(4.3)</b>	<b>93.8</b>	<b>(19.5)</b>	<b>74.3</b>

## UK, Europe and Hong Kong

- We continued to seek appropriate investment opportunities, to enable us to leverage off the skills and knowledge base of the group and we also increased the resources in this area.

## South Africa

- The Direct Investments portfolio increased significantly from R697 million at 31 March 2006 to R1 012 million at 31 March 2007. This was driven by a good performance from the underlying investments and further investment acquisitions. The opportunistic investment side of Direct Investments was not as active this year compared to previous years because opportunities in this part of the business tend to arise in weaker stock market conditions.
- We continued to expand the capacity of our Private Equity investments through acquisitions and capital expenditure. The Private Equity portfolio was approximately R1 266 million at 31 March 2007 (March 2006: R922 million).

## Australia

- We completed the equity raising of A\$200 million for Investec Wentworth Private Equity Fund 3. The total size of the Private Equity Funds is A\$480 million.
- We successfully completed three new investments.
- The investment portfolio continued to perform strongly.

## Outlook

### Corporate Finance

- Black economic empowerment, IPOs and M&A transactions are expected to continue to drive activity in South Africa.
- The pipeline looks positive across all geographies and we continue to build our client base.
- An enhanced team structure, together with increased brand awareness and national reach, provides a solid platform for future growth opportunities across all areas of the Australian business.

### Institutional Research, Sales and Trading

- The UK business has strengthened its positioning in the market, while further growth is expected to come from hedge funds and increased distribution into the US and Europe.
- The South African business remains well positioned to capitalise on current market conditions. The focus on broadening the research product, combined with increased international leverage, the stock association programme and improved traction from new initiatives, has improved the outlook for the operation.

### Direct Investments and Private Equity

- We remain active in seeking direct investment opportunities, while continuing to unlock further value from the portfolio and building quality black economic empowerment platforms.
- The companies in our Private Equity portfolio are all trading in line with expectations and the outlook remains positive.