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**Case Study Analysis:
The Privatization of Dairibord Zimbabwe,
Ltd. and the Role of the Dairibord
Employee Stock Ownership Trust**

Final Report

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**THE PRIVATIZATION OF DAIRIBORD ZIMBABWE, LIMITED
AND THE ROLE OF THE
DAIRIBORD EMPLOYEE STOCK OWNERSHIP TRUST**

CASE STUDY ANALYSIS

This case study is intended to provide a detailed review of the Dairibord Zimbabwe, Ltd. privatization transaction and the role of the Dairibord Employee Stock Ownership Trust (DESOT) to ascertain lessons learned from the Dairibord experience and to help determine the extent to which the privatization and the role of the DESOT could be a model for developing future privatization initiatives involving substantial levels of employee ownership. The United States Agency for International Development (USAID) provided technical assistance to Dairibord and the DESOT in conjunction with its Zimbabwe Enterprise Development (ZED) project, of which promotion of employee ownership initiatives is a major component.

POSITION OF THE COMPANY

Dairibord Zimbabwe, Ltd. ("Dairibord") was founded on July 1st, 1994 following a government-mandated change in its legal status. Under the Government's Economic Structural Adjustment Program (ESAP) the Dairy Marketing Board ("DMB") was transformed from a parastatal to a commercial company; it was simultaneously renamed. At the time of its restructuring pursuant to the ESAP, Dairibord was established as a public company under the Companies Act. The restructuring recast the former DMB's balance sheet with a debt/equity swap that converted long-term loans into share capital. The result was a public company that had only one shareholder, the Government of Zimbabwe.

Thus, Dairibord began its existence as a debt-free, profitable enterprise with positive cash flow. Coincident with the restructuring was the deregulation of the dairy industry which allowed dairy farmers to sell their raw milk into a free market. Previously, the volume and price of all milk sales were controlled by the Government through DMB.

Dairibord is presently one of the largest manufacturing and marketing companies in Zimbabwe. It has factories all across the country: Bulawayo, Chipinge, Chitungwiza, Gweru, Harare, Kadoma, and Mutare. The new powder plant in Chitungwiza has assumed strategic importance because of its capacity to receive and process approximately 300,000 litres of milk per day. This permits Dairibord to operate through plant shutdowns and absorb milk surpluses. The latter capability is significant in relations with milk suppliers as it offers the suppliers greater flexibility in production

scheduling. Dairibord's sales are highly seasonal, with supplies abundant during the spring rainy season and tighter in the dry summer weather.

Dairibord produces an extensive range of dairy products that are sold both domestically and abroad. It is estimated that Dairibord controls from 30% to 80% of the various markets in which it competes, depending on the product. The company's product breakdown is given below in Chart 1.

Chart 1	
Sales Revenue Percentages by Product	
1995/96¹	
Product	% of Sale
Pasteurized Milk	21%
UHT ² Milk	14%
Lacto	14%
Sterilized Milk	13%
Powders	7%
Cheeses	5%
Flavored Milk	3%
Butter	3%
Yogurt	3%
Ice Creams	3%
Fresh Cream	2%
Exports	12%
TOTAL	100%

Dairibord employs approximately 1,600 individuals. The company is governed by a seven-member Board of Directors, headed by its Chairman, Mr. C. Miller. Corporate management consists of six officers, who serve at the pleasure of the Board of Directors. They are led by Mr. A. Mandiwanza, Chief Executive and supported by a professional staff of Senior Management and regionally-based General Managers. An organization chart is provided in Exhibit I.

Exhibit II gives an overview of the company's revenue and profitability since the fiscal year ended June, 1992 through June of 1996. Revenues have grown at a compounded rate of approximately 20% annually over that period. After a small loss in 1992

¹ Dairibord's fiscal year ends June 30.

² Ultra-high temperature milk, which offers long life at room temperature.

Dairibord has experienced steady profits, with an average Net Profit Margin³, including the loss year, of 2.75%. Excluding 1992 the average Net Profit Margin over the past four years was 3.50%.

By converting debt to equity the 1994 financial restructuring improved the company's financial condition substantially. In the year prior to the 1995 restructuring the ratio of equity to capital-employed had fallen to 69%. With the transformation of debt to equity in 1995 the ratio of equity to capital-employed rose immediately to 91% and remained above 89% in 1996.

The recapitalization that accompanied Dairibord's restructuring from a parastatal to a commercial company can be seen to be an unqualified success from a financial standpoint. But the Government's intentions in changing the company's status to a commercial company were not completely fulfilled. It was also the Government's goal to introduce additional shareholders to Dairibord by commencing the privatization process.

THE POLITICAL ENVIRONMENT

Zimbabwe is a landlocked country in Southern Africa with a population of approximately 11,000,000. At the time of its initial western colonization by the Portuguese in the 16th century the country was occupied by the indigenous Shona tribe. The Portuguese and other indigenous African tribes attempted to exploit the region for its mineral wealth, with varying degrees of success. By the late 18th century one of these other indigenous tribes was accumulating considerable political military power south of the Limpopo River just across what is now Zimbabwe's southern border. This aggressive tribe became known as the Zulu and acted to subjugate neighboring tribes at about the time Portuguese influence in the region was beginning to wane. One of the neighboring tribes, the Ndebele people, fled northward from Zulu hegemony and established a capital near Bulawayo.

In 1859 the chief of the Ndebeles allowed Robert Moffat and his son John to establish a London Missionary society mission near Bulawayo. During that same time David Livingstone, who was married to Robert Moffat's daughter Mary, also passed through the region on his way to the Congo River Basin and Tanzania. The missionaries were closely followed by the fortune hunters. The most famous of these was Cecil Rhodes, who by 1888 had already made his fortune in the Kimberly diamond mines of South Africa. In that year he managed to wangle a mining concession from the local Ndebele leader and the next year formed the British South Africa Company, for which he was

³ Net Profit/Revenue.

granted a royal charter from the British crown. In 1890 Rhodes mustered the "Pioneer Column", an army of 500 settlers who established several important bases in the area, including Fort Salisbury. By the late 19th century politics in Zimbabwe was a four-cornered affair, with the oncoming British and the receding Portuguese largely comprising the European influence and the local Shona and Ndebele tribes representing the dominant indigenous factions; the Dutch-descendant Boers were just offstage to the south in what is presently South Africa. The two European powers competed for influence and the Shona and Ndebele were traditional rivals. The British had allied with the Ndebele against the Portuguese and their local partner, the Shona. However, owing to an apparent confusion the British attacked the Ndebele and drove them out of the area. By 1895 the country became known as Rhodesia.

After several insurrections in which the Shona joined with the Ndebele attempting to drive out the British, the latter's superior firepower and technology subdued the region. In 1899 an all-white Legislative Council was installed to govern the colony whose mandate was clearly by and for the whites. By 1910 white immigration had begun in earnest with some 24,000 European settlers having arrived. In 1922 the whites voted to become a self-governing colony rather than a province of the Union of South Africa, where the British had recently subdued the Boer Republics of Transvaal and the Orange Free State. A complex of laws effectively excluded blacks from any representation or participation in government and in 1934 labor laws introduced *apartheid*, which called for separate development of the races. Middle-class blacks formed voters' associations in the 1920's and 30's to resist the racist structures; the resistance took on a more activist tone beginning in the 1940's. In 1953 Southern Rhodesia, Northern Rhodesia and Nyasaland were joined into a Federation and, led by the British government and local mining and industrial concerns, some of the economic segregation policies were eased to allow blacks to enter skilled professions. However, white farmers, skilled workers and small businessmen felt threatened by nationalist activism among blacks and resisted any progress toward parity between the races on any level. By 1959 blacks began to organize behind the African National Congress under labor activist Joshua Nkomo. The ANC was promptly banned and resorted to strikes and sabotage. The party was resurrected as the Zimbabwe African Peoples Union in 1961; ZAPU was also banned in short order. Internal squabbles within ZAPU caused dissidents to establish a splinter party, the Zimbabwe African National Union under Robert Mugabe, Ndabangingi Sithole and Leopold Takawira. Like ZAPU, ZANU was banned and its leaders imprisoned. At around the same time the Federation of Rhodesia and Nyasaland broke up, with Northern Rhodesia becoming Zambia while Nyasaland became Malawi.

One year after the 1963 breakup of the Federation, Ian Smith took over as president and immediately began pressing for Rhodesian independence. British Prime Minister outlined conditions under which he would consider granting independence, some of which were related to steps toward racial equality. Realizing that racial equality measures stood no chance with the dominant white Rhodesian Front party, Smith engineered Rhodesia's Unilateral Declaration of Independence in 1965. Britain reacted by declaring the UDI an illegal action; in 1968 the United Nations joined Britain in imposing economic sanctions against the country. However, the sanctions were widely ignored by many of Rhodesia's trading partners. Simultaneously, organized black resistance increased, especially after Frelimo, another black liberation group, succeeded in liberating large areas of neighboring Mozambique. ZANU guerrillas established bases there to escalate the conflict. Following suit, ZAPU set up bases for its Zimbabwe People's Revolutionary Army (ZIPRA) in Zambia and Tanzania in close coordination with the African National Congress party in South Africa.

The ZANU military forces were organized as Zimbabwe African National Liberation Army, or ZANLA, and began to acquire training in Maoist China. As their communist ties and military capabilities strengthened, the Rhodesian government retaliated with forced relocations to counteract conscription by the guerrillas of local youths. Nevertheless, the white Rhodesian population began to reassess its position in light of relentless attacks by black guerrillas. The 1974 overthrow of the rightist Portuguese government gave new impetus to the conflict along the Mozambiquean border in Zimbabwe, such that the United States and South Africa felt compelled to intervene. In a December conference in Lusaka, Zambia attended by nationalist groups united under Abel Muzorewa, none other than Kenneth Kuanda of Zambia and John Vorster of South Africa persuaded Ian Smith to release from detention high-ranking members of the nationalist movement so that they could participate in peace negotiations. Nkomo, Sithole and Mugabe -- by then a ten-year Smith detainee -- were among those released. The talks quickly collapsed and Mugabe, a highly respected teacher, crossed over to Mozambique where he replaced Sithole as head of ZANU.

During the ensuing years a loose coalition of nationalist groups, including ZIPRA and ZANLA, continued to pursue their military campaign. Beginning in 1976 Smith attempted a series of conciliatory gestures, culminating in the founding of Zimbabwe-Rhodesia in 1979. Although Muzorewa was appointed Prime Minister, the power-sharing arrangements and settlement policies underlying the new Zimbabwe-Rhodesia continued to be skewed; Zimbabwe-Rhodesia was scorned by nationalists and by the international community. Also in 1979 Margaret Thatcher was swept into office as Prime Minister of Britain. One of her first orders of business was to pressure Smith to make meaningful concessions. The result was the Lancaster House Agreement in

December, which called for over-representation by whites in a new parliament and for sturdy protections against confiscation of property. Nevertheless, parliament would have an 80% black majority⁴. In March of 1990 a carefully monitored election saw Mugabe and ZANU win 57 of the 80 black seats in parliament; Nkomo and ZAPU won 20 seats and Muzorewa's UANC won just three. Mugabe was sworn in as prime minister.

Mugabe tried to maintain political balance between the various parties but rivalries soon escalated into armed conflict. Following such an incident he had five Nkomo supporters arrested and relieved Nkomo of his cabinet position the next year. A ZAPU insurgency in 1983 prompted Mugabe to call out his North Korean trained Fifth Brigade to quell the disturbances but there were thousands of civilian casualties. The conflict amounted to tribal friction between the majority Shona (largely ZANU supporters) and the minority Ndebele Shona (largely ZAPU supporters). Nkomo fled to England until Mugabe, sensing that the discord played into the hands of Zimbabwe's enemies, relented and guaranteed Nkomo's safe passage home. Mugabe then moved to consolidate power in 1988 by abolishing the law that guaranteed whites parliament seats. He also imposed strict controls on currency, foreign exchange and trade. In 1990 he proposed a review of the land ownership decrees that offered a form of protection to white landowners.

ESAP

Not unexpectedly, the Commercial Farmers Union (consisting mainly of white farmers) resisted any change in land ownership arrangements that would further jeopardize their investments. Mugabe was clearly pragmatic enough to appreciate the wealth, technology and skills that the country's white population represented but his proposed land reform played well at the polls and was consistent with his long-held centralized economic theories. However, widespread fraud was uncovered by the press in a 1990 election; it was met by student protests at the University of Zimbabwe. Later that year a drought of unprecedented proportions began to gnaw at the country's fragile economic underpinnings.

To facilitate aid from the world financial community Mugabe in 1991 unveiled the Economic Structural Adjustment Program (ESAP) which had been crafted by the International Monetary Fund and the World Bank. ESAP consisted mainly of market-based economic reforms designed to promote long-term economic growth and address the country's critical unemployment situation. Specifically, this 5-year plan called for:

⁴ In a country where just 3% of the population is white.

- reducing the budget deficit from ten per cent to under five per cent of GDP;
- new investment incentives and regulations;
- relaxation of foreign exchange controls;
- import liberalization and tariff reduction;
- easing of price, wage and labor regulations;
- generally reducing the role of government in the economy; and
- privatization of government-owned companies.

It was, in short, a U-turn on Mugabe's basic economic philosophies. Nor was it an instant and universal success. The combination of the drought and the removal of price controls caused price levels to skyrocket. Overall inflation surged, prompting the government to dampen demand with ultra-high interest rates. With the economic brakes locked from the sharp rise in interest rates the economy slowed precipitously. The consequence was widespread hardship and discontent. Drought-related crop failures made the country a net importer of food, which further destabilized the local currency and stimulated large-scale migration to the urban areas, with attendant increases in unemployment and crime.

As a concession to popular displeasure with its more severe consequences, Mugabe also built into ESAP an indigenization plank. Indigenization in this context meant transfer of wealth and assets to indigenous -- i.e. black -- peoples of Zimbabwe. While it is unclear whether indigenization was consistent with IMF and World Bank restructuring principles, it was popularly received as a palliative. One of the most controversial steps toward indigenization was the 1992 Land Acquisition Act, under which five million hectares of mostly white-owned commercial farmland was seized⁵ by the government for the resettlement of one million black subsistence farmers.

Political Background to the Dairibord Privatization

Employee ownership is widely viewed as an essential feature of ESAP, since it qualifies as market-oriented capital formation as well as a kind of indigenization. Employee ownership in the privatization of Dairibord is particularly sensitive because farmers were also offered equity stakes in the company since they supplied the raw milk on which it relied. However, the large-scale farmers — who tend to be white — were accorded a different position in the transaction than the small farmers — who tend to be black. As is the case in most employee-ownership-oriented privatizations, it is necessary to understand the political and cultural background to develop a true understanding of the transaction itself.

⁵ To ease international consternation at expropriation the former landowners were to be compensated in government bonds. However, at the time the bonds were essentially worthless due to their terms in light of high rates of inflation.

DAIRIBORD PRIVATIZATION TRANSACTION

The Dairibord privatization was actually a culmination of a two-year process in which the Dairy Marketing Board (DMB), a parastatal monopoly which controlled the entire production and distribution of dairy products in Zimbabwe, first undertook restructuring and commercialization reforms as a prelude to privatization. During the commercialization process DMB renamed itself as Dairibord Zimbabwe, Ltd. (Dairibord) and divested itself of retailers, depots, distribution and transportation facilities to focus the company exclusively on dairy production. This restructuring exercise was accomplished through a variety of franchising agreements and outsourcing contracts in which Dairibord employees were transferred to new, independent companies intended to support the distribution and sale of dairy products. Significantly, many of those employees who were divested from Dairibord in this process were given an opportunity to obtain ownership of these new businesses which, of course, remained dependent upon Dairibord for a large part of their work. The success of the commercialization project relieved Dairibord of a broad range of financial obligations and rationalized its business focus to concentrate on dairy production. This not only helped return Dairibord to profitability but also established a positive feeling for the idea of employee ownership among Dairibord employees. They were able to see the benefits that private ownership conferred on many of the enterprising former Dairibord employees now working as independent contractors⁶ in their own companies. That experience helped to create support for the idea of obtaining a significant ownership for the employees in the forthcoming privatization of Dairibord.

Initially, the government approved the following guidelines for interest groups wanting to obtain a stake in the Dairibord privatization:

Public...	15.00%
Zimbabwe Government...	45.00%
Reserved for technical partner...	10.00%
Large-scale dairy producers...	10.00%
Small-scale dairy producers...	5.00%
National Investment Trust...	10.00%
Employees through ESOT...	<u>5.00%</u>
TOTAL	100.00%

⁶ An example of this phenomenon is the former canteen, laundry and depot workers. They appeared to encourage current Dairibord workers to seek employee ownership to the greatest extent possible. Their influence was especially felt among the rank-and-file Dairibord employees.

However, by the time the privatization transaction was completed on June 30, 1997, Dairibord employees had acquired a total of 10% of the company's equity through the Dairibord Employee Stock Ownership Trust (DESOT). It must be stated at this point that the transaction was only the first stage of its privatization completed from 100% state ownership to majority private ownership. Nevertheless, as Zimbabwe's first privatization of a state-owned enterprise, Dairibord represents an important step in the process of reforming Zimbabwe's economy. In addition, the ownership participation of the employees through the DESOT represents an important manifestation of the government's efforts to promote indigenization of economic assets.

Four different merchant banking firms were selected to represent the interests of the company in both marketing Dairibord's shares and negotiating with prospective investors. Barclay's Bank was tapped to represent the company with the large scale farmers and the strategic investor; Heritage Bank represented small farmers and the National Investment Trust; Trust Merchant Bank (TMB) represent Dairibord's interest in regard to Dairibord employees and public investors and also served as the coordinator for the banking consortium. The Dairibord employees, however, chose to retain the services of National Merchant Bank (NMB) to be their independent financial advisor for the DESOT. Also, the United States Agency for International Development (USAID) provided technical assistance to Dairibord and the DESOT in conjunction with its Zimbabwe Enterprise Development (ZED) project, of which promotion of employee ownership initiatives is a major component.

The closing date for the privatization was June 30, 1997, with shares allocated to investors -- including the DESOT -- as of July 10, 1997. The ultimate allocation of shares was:

Public...	15.00%
Zimbabwe Government...	40.00%
Warehoused for technical partner...	10.00%*
Large-scale dairy producers...	10.00%
Small-scale dairy producers...	5.00%
National Investment Trust...	10.00%
Employees through DESOT...	<u>10.00%**</u>
TOTAL	100.00%

** The technical partner (not yet identified) has an option to obtain an additional 15% of the Dairibord shares.*

***The Dairibord employees have an option to obtain an additional 10% of the shares.*

At first glance, such a distribution of shares seems to indicate that the transfer of Dairibord ownership from the Zimbabwe government to the private sector was largely successful. The government transferred a larger share to the private sector than previously planned, thereby raising additional funds; the Dairibord employees obtained a larger stake and an option to further increase that stake in the future; and the public offering of Dairibord shares was ten times oversubscribed. The Dairibord privatization was indeed successful in establishing a precedent for privatization in Zimbabwe and in transferring significant ownership to the private sector, but a closer analysis of the transaction suggests that the privatization was not as comprehensive as might have been hoped. This will become clearer in analyzing each of the ownership groupings.

1) Government of Zimbabwe — The government reduced its ownership stake from the initially proposed 45% to 40% in order to accommodate increases in the stakes for the strategic investor and for the Dairibord employees. Under Zimbabwe law, however, a 25% stake provides significant veto power for approval of board candidates and other major issues, so the Government has yet to relinquish significant control authority over the operation of Dairibord. As noted below, the Government granted the Dairibord employees an option to acquire an additional 10% of Dairibord shares and provided a similar option for the yet-to-be-identified strategic investor to acquire an additional 15%. It is unclear at this time what the Government's plans are for the remaining 15% of the shares it owns which are not pledged to shareholder groups.

2) National Investment Trust — The 10% stake for the NIT was actually purchased by an institutional investor (the National Social Security Office, or NSSO) which is warehousing the shares for the NIT. The NSSO is obliged to resell the shares to the NIT when funding for the NIT becomes available. That sale will take place at current fair market value. The initial offer price for the shares was Z\$1.20 and the price had already increased to Z\$2.20 when Dairibord shares were registered on the Zimbabwe Stock Exchange (ZSE) on September 15, 1997. If the shares are not purchased by the NIT within three years, the institutional investor may sell the shares on the ZSE. The institutional investor will vote the NIT's shares until such time as the shares are sold the NIT but, since the NSSO is itself a parastatal, one would have to assume that these shares are still under the nominal control of the Government. Once the shares are purchased from NSSO, the NIT will then resell them to Zimbabwean citizens according to a plan that has yet to be developed. The net result is that, though the concept of indigenization through the NIT is in place and the shares have indeed been transferred from the Government to quasi-private hands, this 10% of Dairibord ownership is in a sort of limbo. It is still nominally under the control of the Government and subject to further political and financial uncertainties in regard to the final distribution of shares to Zimbabwe citizens.

3) Strategic Investor — As with the NIT shares, this 10% stake has been sold to an institutional investor which is warehousing the shares for up to three years pending the completion of a block sale to a strategic investor, after which time the shares could presumably be sold. The Government also granted the strategic investor an option to obtain an additional 15% stake. This temporary expedient is even more of a concern than the uncertainties associated with funding of the NIT. Because a strategic investor was not brought in as part of the initial privatization transaction, not only has a potential strategic partner missed out on its ability to purchase shares at the original discounted price of Z\$1.10, but they have also lost any potential leverage they may have had to finance their investment on more advantageous terms by being part of the initial privatization transaction. It is likely to be much more difficult to attract a strategic partner for a minority stake in a company that is already partially privatized. If that is the case, it remains to be seen what, if any, control the Government may exercise over this warehoused 10% stake and the 15% option, particularly since the Government's own stake would fall below 25% if both the Dairibord employees and the strategic investor fully exercise their options to obtain additional shares.

4 & 5) Large and Small Producers — One source reported that the large producers did not take up their full allotment of 10%, though this is unconfirmed and, if so, the shares were presumably included in the shares sold to the public. We have no details at this time on the terms of how the producers purchased and/or financed their shares, though Old Mutual was involved in structuring the financing package for the large producers and the NSSO financed the small producers (which again raises the question of Government control in the near term).

6) Public Investors — The Dairibord public offering was ten times oversubscribed. That's certainly good news in terms of the public's (i.e., professional investors') confidence on the prospects of the Dairibord and of privatization in general. It is also evidence that the Dairibord offering was significantly underpriced. That may have been the Government's intent to ensure that the first privatization was successful but, given the Government's need to maximize its returns from privatization, it represents an important consideration for future privatization transactions. Interestingly, the public offering was not listed on the ZSE but sold by TMB directly to investors. The Dairibord shares were subsequently listed on the ZSE on September 15.

7) Dairibord Employees — The Government initially allocated 5% for the Dairibord employees. The employees lobbied for a 20% stake and were prepared to finance that stake with promises of significant wage and benefit concessions over a period of five years. The Government eventually allowed the Dairibord employees to acquire a 10%

stake with an option to acquire an additional 10% stake at a future date. NMB structured the financing arrangements whereby a 5-year note for Z\$40 million was sold to the Post Office Savings Bank to finance the acquisition of the shares by the Dairibord employees. The financing was backed by a guarantee on the part of Dairibord to withhold a portion of participating employees' wages over a period of five years. The withheld amounts come from five sources:

- A fixed salary reduction of 10% on wage rates as of June, 1996⁷
- A 10% reduction of Annual Bonuses⁸;
- A 10% reduction of Productivity Bonuses⁹;
- A percentage of Annual Leave Allowances;
- Dividends on stock held in the DESOT calculated at a fixed payout ratio¹⁰.

Technical advisors enlisted by the USAID provided extensive analytical support in assisting Dairibord in the calculation of the appropriate mix of sources for the financing structure. Exhibit III gives a review of the cash flow sources and uses for a hypothetical transaction involving approximately 12% of Dairibord's shares. These types of scenario permutations, involving dozens of combinations of dividend levels, wage reductions, stock prices, etc. were used in evaluating the financial feasibility of the transaction that was eventually struck.

The ultimate success of the privatization is a testament to the perseverance of the principals at Dairibord. The company's Domestic Board¹¹, consisting of nine management representatives and nine workers, provided a consistent and reliable line of communication that fostered confidence between the various parties to the deal and expedited the overall process. The importance of solid management/worker communication lines in general and of the Domestic Board in particular is discussed in the next section.

⁷ Wage concessions are deducted from employee salaries by the company and transferred to the DESOT. The DESOT was also guaranteed that 25% of any future salary increases would be withheld in the same manner for transfer to the DESOT.

⁸ A more or less guaranteed annual payment that has been described as thirteenth month's salary.

⁹ A bonus that varies with profitability and other operational indicators, but which has recently been as much as one month's salary.

¹⁰ NMB may waive its call on the DESOT dividends and has done so on the first post-privatization dividend, which indicates the DESOT has sufficient cash to meet interest payments and that NMB recognizes the benefits of providing the DESOT participants with a cash return on their ownership holdings.

¹¹ All Domestic Board representatives are *ex officio* positions, with certain management worker slots gaining a seat.

DAIRIBORD EMPLOYEE STOCK OWNERSHIP TRUST (DESOT)

The Dairibord employees acquired their 10% stake in the company through the Dairibord Employee Stock Ownership Trust, or DESOT. The DESOT is managed by a committee of eight Dairibord employees who were elected to their position by the company's rank-and-file employees. The eight DESOT committee members then selected an independent outsider to serve as DESOT chairman.

The DESOT acquired its 10% stake in Dairibord through a 5-year note which was structured and underwritten by NMB and sold to the Post Office Savings Bank (POSB) for Z\$40 million. The note was backed by a guarantee on the part of the company to withhold 10% of participating employees' wages over a period of five years. The guarantee was limited only to the withholding of wages -- Dairibord itself assumed no financial liability for the transaction which was backed entirely by the employee wage concessions. An astonishing 97% of the employees committed to reducing their overall compensation by 10% over five years in order to acquire their ownership stake.

The DESOT note pays an interest rate of 19.75%, payable annually, with the principal due at the end of five years. To finance the interest payments, the employee wage concessions are transferred from the DESOT to NMB and invested in conservative money market investments at market rates that have been as high as 23%, though the rates have recently dropped back to 20%. NMB believes that it will be able to earn a return on the DESOT investments at a sufficient rate to meet the interest obligations without having to dip into the principal. Fortunately, the cost of the DESOT's 10% stake was actually closer to Z\$39 million which leaves approximately Z\$1 million in liquidity for either the payments on the DESOT note, if needed, or to purchase shares of departing participants for eventual resale to new employees. In addition, the Dairibord employees' wage concessions began in April 1997, giving the DESOT time to earn additional returns before assuming the liability of the note payments. Over time, the growing level of DESOT holdings will earn large enough returns to easily meet the annual interest payments. At the end of the 5-year period the principal will be paid to the POSB with any remaining cash returned to the DESOT.

The DESOT Trust Deed is a legal document based on Zimbabwean trust laws and establishes the procedures for the management of the trust. It is governed by a set of procedural Rules which form a part of the overall document. A copy of the Trust Deed is attached as Exhibit IV. The trust is administered by the DESOT committee which keeps track of both the number of shares that have been allocated to the individual employee accounts and how many of the shares have been paid for through wage concessions and how many are still encumbered by the DESOT-related debt. All of the

shares are considered to be owned by the DESOT and allocated to individual employee accounts based on their respective wages. Employees also receive the value of any dividends paid on the DESOT shares, irrespective of whether the shares have been paid for through the wage concessions.

If an employee leaves the DESOT prior to fully paying for his or her shares, the DESOT will purchase the shares that have already been paid for through wage concessions, but only after another employee has agreed to assume the liability for the unpaid shares by agreeing to reduce their wages to pay for the shares. The shares that are purchased from the departing employee will then be resold to Dairibord employees at the current fair market value.

The implementation of the DESOT has had a very positive effect on the Dairibord employees according to several members of the DESOT committee who were interviewed for this article. It is easy to see why. As noted above, the DESOT acquired its shares at the initial Z\$1.10 offering price and three months later the shares had doubled in value. In addition, Dairibord expects to pay a dividend of 5.5 cents per share in the near future (NMB is waiving its right to demand that any dividends be applied to debt repayment). Given that the lowest paid Dairibord employees own approximately 9,000 shares each (top management owns approximately 10 times that amount, with the majority of the employees falling somewhere in the middle of that range), the dividend, which will be paid in cash to the DESOT participants, will result in pre-tax income of at least Z\$495 per employee. Finally, Dairibord expects to be able to grant salary increases to Dairibord employees next year, with only 25% of that increase earmarked for deferral to the DESOT for debt repayment.

In fact, the DESOT's success to date has made the DESOT committee members eager to develop a strategy for acquiring the additional 10% stake available to them per agreement with the Government. If the Zimbabwean laws can be changed to facilitate the use of credit to allow the DESOT to acquire the shares backed by the company's guarantee, they are ready once again to be first in line to implement employee ownership reforms.

FINDINGS

It is indisputable that the Dairibord privatization process is seminal within Zimbabwe and throughout Southern Africa. With trained management, a motivated workforce and a dominant market share the company's prospects are outstanding. By beginning its privatization program with such a strong business the Zimbabwe government has demonstrated its commitment to the goals of market-based economic reform,

indigenization and the overall objectives of the ESAP. Necessarily the government did not attain every single one of its tactical goals in the privatization. It is rather to be commended for adhering to its initial timetable and coming away with such a positive result. The conclusions that follow are intended to point to areas in which a good outcome might be protected or improved in this or other future situations.

The Strategic Investor

Dairibord's plant and equipment are modern and well-maintained. Its business strategies are demonstrably effective. However, it is insulated to a substantial degree by its enormous market share in virtually every line and its history as a monopolistic competitor. As the entire region continues to develop, competitive, market-based conditions will emerge as more of a reality for Dairibord. Anticipating this, the company and the government had all along earmarked a significant equity interest for a Strategic Investor from whom it could obtain the latest technology and learn the most advanced marketing techniques. It was felt that a world-class consumer foods business would view Dairibord as a wildly attractive chance to gain a foothold through a solid business investment.

Nevertheless, the strategic investment has not yet materialized. It is understood that discussions are under way but, as was discussed above, it may be more difficult to entice a savvy strategic investor after the deal has been done. The other equity interests may at this point be so entrenched that an investment attractive to an experienced industry participant may be hard to find. It is true that the government did not permit the lack of a strategic partner to dull the enthusiasm of the moment and put a chill on the transaction process. The conclusion may, however, be to impound into future analysis some explicit synergy variable that will be added to the value of the company when it is present and subtracted when it is not. While that value is clearly not missed at present, these types of values are built over the long term. Some recent erosion of share in certain of the company's markets may be indicative of this point.

Employee Communications

On the communications front the effort has only now begun. A consistent and dependable multi-level employee communications effort will also add substantial values over the long term, not only to Dairibord but to the country overall. If the company can create a core of well-informed employee-owners who bring an investor's perspective to the workplace the company's value will surely be enhanced. Moreover, with equity ownership such a core group will be a contributor to the establishment of a

professional middle-class in the country, which is essential to long-term economic growth.

Therefore, the employee communications task becomes a political as well as a strategic commercial imperative. The company is already well on its way. The company newsletter serves a vital communications purpose. The Domestic Board is a crucial communications link, as is the DESOT committee. In addition, effective worker meetings have been held in outlying plants. All of these are excellent programs that merit continued support. Other communications tools could include an internal analysis and dissemination of the six value drivers¹² as they apply to Dairibord, as well as how individual workers can affect these measures. Hot-line information access on a continuous basis for businesses that operate multiple shifts can also be effective. Mentoring programs can be used to broadcast the ownership perspective. Perhaps most important, though, is the recognition that employee communications is a continuous, integral process rather than a discrete function or series of events.

Documentation

One of the early impediments to the DESOT was the fact that relevant law in Zimbabwe is not as well-developed as it is in other parts of the world where employee ownership is more commonplace. This was an advantage for Dairibord in that the documentation did not need to conform to a particular standard but could be tailored to suit. However, because Dairibord is a pioneering company it may become the standard for others. It would be unfortunate if future deals modeled after Dairibord revealed flaws in the documentation that jeopardized the workers' wealth accumulations.

To avoid this it is not too late to commence a documentation review to ensure that the legal framework of the transaction will withstand every foreseeable threat to the workers ownership interests. Ameliorative amendments at this early stage will scarcely be discernible, but later the stakes will be higher.

Similarly, the development of objective guidelines for fiduciary standards and the management of trust assets would help establish a precedent for prudent oversight and protection of employee assets held in trust.

¹² Value drivers are 1) increasing revenues, 2) increasing profits, 3) lowering effective tax rates, 4) using current assets more efficiently, 5) using fixed assets more efficiently, and 6) reducing the cost of capital.

Benefits Administration

A concept closely related to a possible documentation review is review of the basic mechanics of the benefits administration. The idea would be to ensure that each employee gets what he or she has been promised in the transaction. Again, minor amendments at this fairly early point could accomplish a great deal of good or avoid considerable harm and ill-will.

ESOP Financing

The Dairibord employees remain quite interested in exercising their option to acquire an additional 10% stake in their company. Their ability to finance the initial 10% stake through the DESOT was limited by what they could guarantee through their wage and benefit concessions. Any opportunity to finance the acquisition of additional shares through ESOP financing techniques that would allow them access to the credit capacity of the corporation would undoubtedly be looked upon quite favorably. Indeed, the Dairibord employees would almost certainly be interested in exploring how they could again break new ground in demonstrating the viability of employee ownership concepts for facilitating economic reform and indigenization of the Zimbabwean economy.

SUMMARY

Again, there is no question but what the privatization of Dairibord is an accomplishment of enormous significance and proportion. The challenges outlined above are endemic to any modern, successful business. It can be said with confidence that in view of their performance to date there is little doubt that the company's management and employees, with the assistance of the Zimbabwe government and its allies, will continue to rise to the occasion.

EXHIBIT I
DAIRIBORD ORGANIZATION CHART

EXHIBIT I

ORGANIZATION CHART

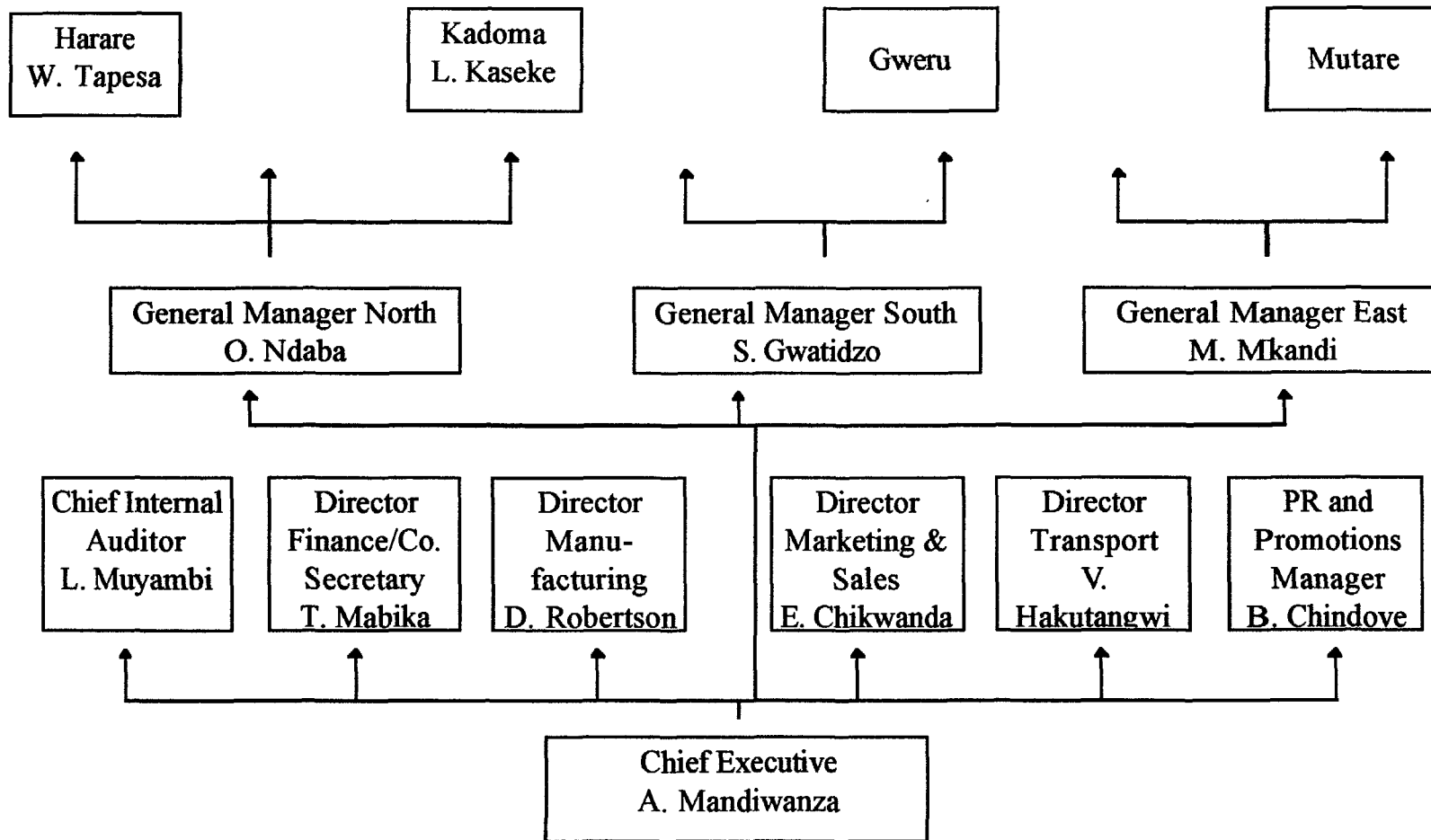


EXHIBIT II

DAIRIBORD

CHART OF HISTORICAL REVENUE AND PROFITABILITY

EXHIBIT II

REVENUES AND PROFITS: 1992 - 1996

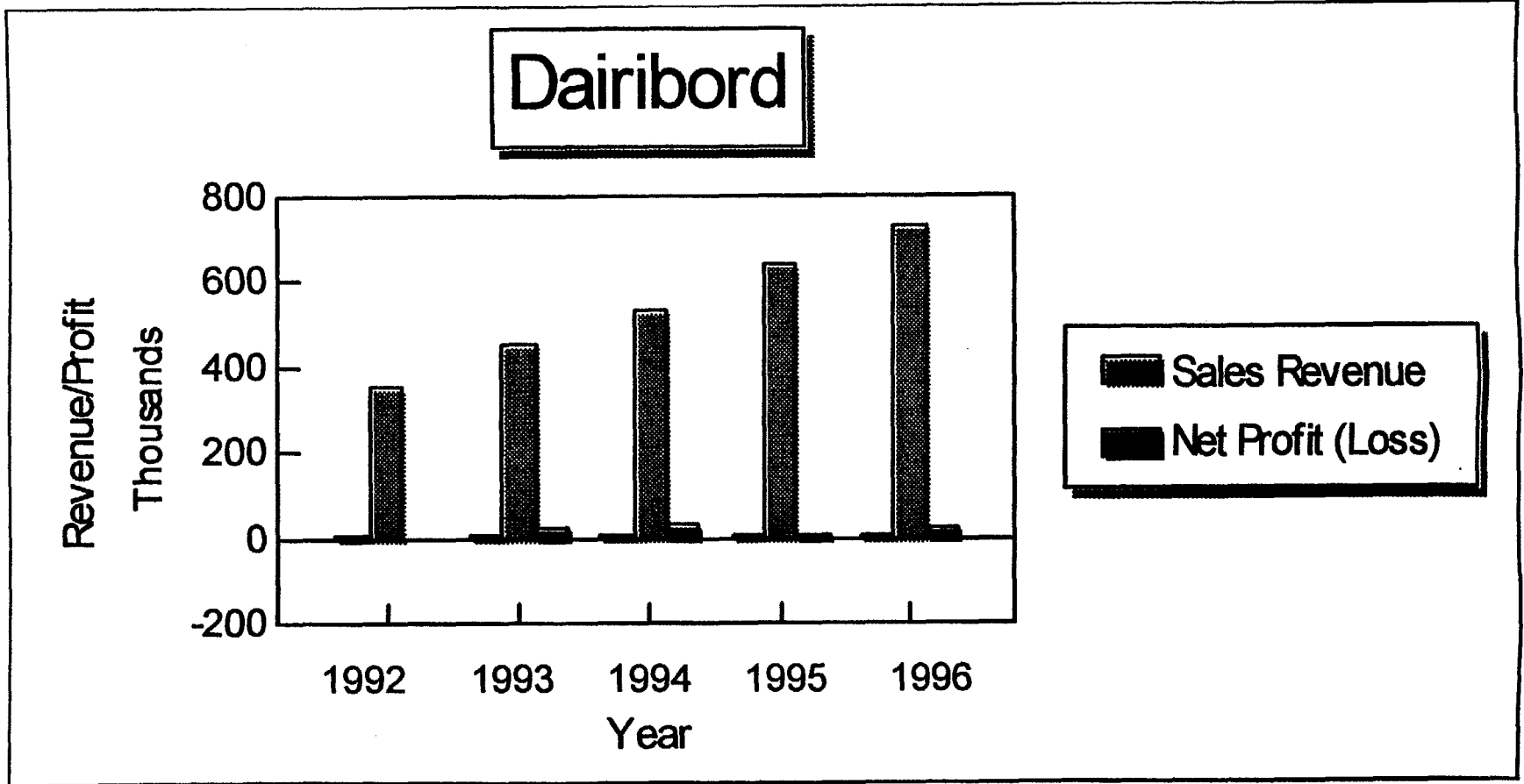


EXHIBIT II (cont'd.)

EQUITY AND CAPITAL EMPLOYED: 1992 - 1996

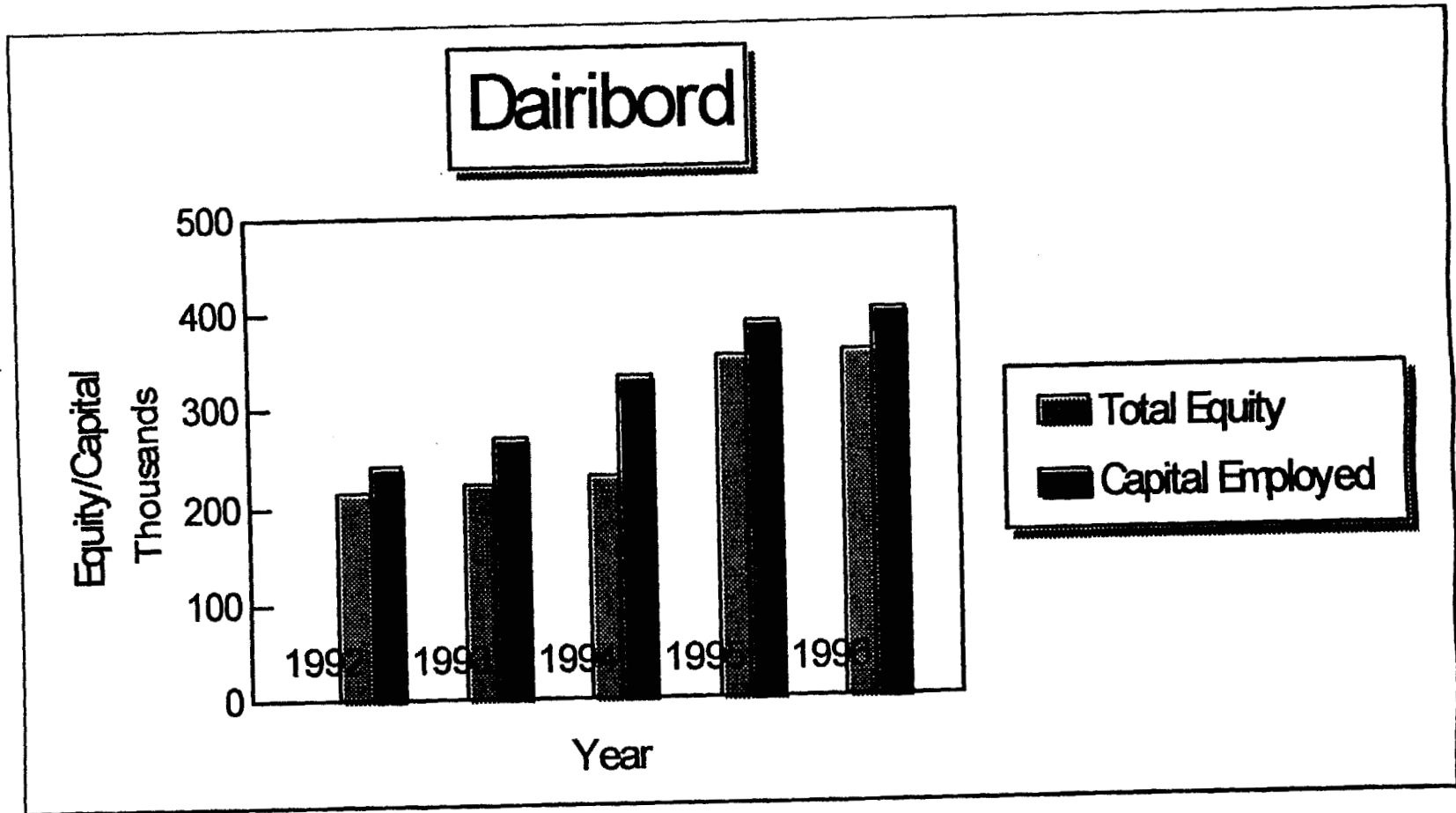


EXHIBIT III

PROJECTED SOURCES AND USES FOR DESOT FINANCING

Employee Ownership Analysis

(\$ IN 000)

10.00% Percent Gross Pay Reduction Case
 Translates to NET Pay Reduction, @40% = 16.67%
 GIVES Employee Ownership Percentage = 12.29%

Assumptions:

Total Value of DZL Shares = \$400,000
 DZL Pre-tax Profits, 1997-2001 = \$50,000
 Corporate Tax Rate = 37.50%
 Dividend Payout Ratio (on Post-Tax) = 50.00%
 Recipient's Tax on Dividends = 15.00% Will trust have interest deduction?
 DIVIDENDS PAID IN FOLLOWING YEAR
 ALL OTHER ASSUME FULL YEAR

Handwritten notes:
 10.00%
 16.67%
 12.29%

Individual Tax Rate = 40.00%
 Pre-tax Post-Tax
 Annual DZL Payroll, @ \$6.5MM/Mo. = \$78,000 \$78,000
 Annual Bonus, @ 1 Mo. Salary = \$6,500 \$3,900
 Leave Day Value, @ 1 Mo. Salary = \$6,500 \$3,900
 Productivity Bonus, @ 10% of Pre-Tax = \$5,000 \$3,000
 Salary Reduction Percentage 10.00%
 Salary Reduction Amount \$7,800

Annual Interest Rate on Debt = 25.00%
 Loan Amortization, Equal Annual (Yrs.) = 5

Employee Ownership Percentage = 12.29%
 Employee Ownership Debt = \$49,167
 Parity: Amount Differential (\$0)

Dairboard Zimbabwe Ltd.

Employee Ownership
 Sources & Uses Statement

	1997	1998	1999	2000	2001	
Pre-tax Profit	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	
Corporate Taxation	(\$18,750)	(\$18,750)	(\$18,750)	(\$18,750)	(\$18,750)	
Post-Tax Profit	\$31,250	\$31,250	\$31,250	\$31,250	\$31,250	
Dividend	\$15,625	\$15,625	\$15,625	\$15,625	\$15,625	
<u>SOURCES (All After Tax to Employees):</u>						
Div. to Employees (Assume Full Year)	\$1,632	\$1,632	\$1,632	\$1,632	\$1,632	
Annual Bonus, @100% (Assume Full Year) *	\$3,900	\$3,900	\$3,900	\$3,900	\$3,900	
Annual Leave, @50% (Assume Full Year) *	\$1,950	\$1,950	\$1,950	\$1,950	\$1,950	
Prod. Bonus, @100% (Assume Full Year)*	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	
Sal. Reduct., As Given (Assume Full Year)	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	
TOTAL SOURCES	\$18,282	\$18,282	\$18,282	\$18,282	\$18,282	Total \$91,412
<u>USES:</u>						
Debt Principal Balance	\$49,167	\$43,176	\$35,688	\$26,327	\$14,626	
Debt Interest	\$12,292	\$10,794	\$8,922	\$6,582	\$3,657	Total
Principal Payment	\$5,991	\$7,489	\$9,361	\$11,701	\$14,626	\$49,167
TOTAL USES	\$18,283	\$18,283	\$18,283	\$18,283	\$18,283	Total \$91,413
Parity	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)
Sum Differential Percentage						-0.00%

EXHIBIT IV

DAIRIBORD DEED OF TRUST AND DESOT RULES

DESOT RULES

1. INTRODUCTION:

- 1.1 The Dairibord employees share option trust has been established with the intention of permitting employees to acquire shares in Dairibord Zimbabwe (Private) Limited and to participate in profits thereof.
- 1.2 Whatever percentage the employees will acquire from the Government of the Republic of Zimbabwe in Dairibord Zimbabwe Limited will be held by the Dairibord Employee Share Option trust which will create units, each unit being equivalent to one share in Dairibord Zimbabwe Limited.
- 1.3 Participating employees will be permitted to purchase units in the trust at a purchase price per unit to be decided by the trustees.
- 1.4 Participating employees shall not opt out of the trust or sell their shares before a period of 18 months has elapsed from the date they would have purchased some units in the trust. Thereafter, participating employees may sell their units at any time as provided in these rules.
- 1.5 Participating employees will be entitled to receive such amounts as they would receive by way of dividends as if they were holders of the equivalent number of shares in Dairibord Zimbabwe Limited.

2. DEFINITIONS

In these rules, unless the context otherwise requires, the following words and expressions shall mean:-

- 2.1 "employee" - any permanent employee employed by Dairibord Zimbabwe Limited.
- 2.2 "Participating employee" - any employee or retired employee who holds any unit;

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- 2.3 "Permanent employee" - those employees of Dairibord Zimbabwe Limited who have successfully completed a probationary period and have received written confirmation that they are permanent employees.
- 2.4 "Retired employees" - any employee of Dairibord Zimbabwe Limited who retires at or after pensionable age, or on early retirement or resigns from Dairibord Zimbabwe Limited for any reason whatsoever.
- 2.5 "Rules" - means these rules.
- 2.6 "Share" - a fully paid ordinary share in the capital of Dairibord Zimbabwe Limited.
- 2.7 "Trust" - the Dairibord Employee Share Option Trust.
- 2.8 "The Trustees" - the trustees from time to time of Dairibord Employees Share Option Trust.
- 2.9 "Unit" - a unit as provided in clause 5.
- 2.10 "Dairibord" - Dairibord Zimbabwe Limited.

Where the context so admits, the singular shall include the plural and vice versa and the masculine shall include the feminine.

3. APPLICATION

The trust shall control shares which represent % of the issued share capital of Dairibord which is The trust shall also control any further shares which may in the future be specifically allocated to it by the Government of the Republic of Zimbabwe.

4. ELIGIBILITY

Persons eligible to participate in the trust shall be all permanent employees of Dairibord.

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5. CREATION OF UNITS

Subject to the terms and conditions of this trust, the trustees may create units in such numbers they may think fit, save that the maximum number of units shall not exceed the total number of shares in Dairibord held by the trust and each unit shall represent a single share.

6. ALLOCATION OF UNITS

These will be allocated to participating employees on the basis of their ability to make monthly contributions for their purchase. The trustees may prescribe the minimum number of units for which applications may be made as well as the maximum number of units which can be allocated to an employee.

7. APPLICATION FOR UNITS

7.1 An application from a person permitted to join the trust shall be made in writing and shall be signed by the employee personally and shall be delivered to

7.2 The said application shall specify the amount the applicant can contribute per month for the purchase of the shares in question.

7.3 The trustees shall within.....days of the date of an application, advise the employee as to the availability of units for purchase and the value of such units and shall issue a participation certificate to the employee in respect of the units sold to him

8. PARTICIPATION CERTIFICATES

Participation certificates shall be in such form as may from time to time be decided by the trustees. The participation certificate shall bear a distinctive number and shall specify the number of units represented thereby and the name of the holder.

9. PRICE OF UNITS

- 9.1 The price for units purchased from the trustees shall be at a price fixed by the trustees.
- 9.2 The trustees shall allow the participating employee to pay for his units by way of monthly payments deducted from his salary by Dairibord and paid to the trust.
- 9.3 The price of the units shall be stated in any participation certificate issued by the trustees.

10. SALE OF UNITS DURING EMPLOYMENT

- 10.1 All the participating employees shall hold the units allocated to them for an initial period of eighteen (18) months from the date they are allocated to them.
- 10.2 Thereafter, a participating employee may sell his units to the trust which in turn shall sell it to any permanent employee of Dairibord. The price for the said units shall be equivalent to the market price for the shares in Dairibord Zimbabwe Limited.
- 10.3 Any sale in terms of clause 10.2 shall be confirmed by request in writing to the trustees, accompanied by the relevant participation certificate, to record the sale of all or any part of the units comprised in the participation certificate provided that no participating employee shall be entitled to sell part only of the units comprised in a participation certificate if such sale would result in his being a holder of less units or such any other number as prescribed by the trustees.
- 10.4 On termination of his employment for any reason, the participating employee may elect to continue making contributions for the acquisition of the units in the trust and shall therefore remain a participating member of the trust.

11. SALE OF UNITS ON DEATH OR INSOLVENCY

- 11.1 In the case of the death or insolvency of any participating employee, the duly recognised executor of the deceased or the legal representatives of the insolvent, shall have the option to continue making contributions for the acquisition of the units in the trust and in exchange, they would

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receive the beneficial interest in the trust that would have accrued to the participating employee had he not died or become incapacitated. This option must be exercised not later than sixty (60) days following the incapacitation of the employee or the next scheduled trust contribution date whichever is earlier.

- 11.2 If the heirs of the participating employees do not make an election in terms of clause 11.1., they shall surrender all the units held by the deceased or the insolvent to the trust which shall be obliged to pay the said heirs or the legal representatives the price for such units at the market rate provided that the trustees shall be entitled to deduct from the said purchase price any other amounts which may be due by the participating employee to the trust.

12. REGISTER

- 12.1 A register of the participating employees and the participation certificates shall be kept by the trustees who shall enter in the register:-
- 12.1.1 the names and addresses of the participating employees.
 - 12.1.2 the number of units held by every participating employee;
 - 12.1.3 the distinctive number of the certificate or certificates;
 - 12.1.4 the date at which the name of every such person was entered in respect of the units standing in his name;
- 12.2 Any change of name or address on the part of any certificate holder shall forthwith be notified to the trust which, on being satisfied thereof, and on the compliance with such formalities as it may require, shall alter the register or cause it to be altered accordingly;
- 12.3 The executor or trustee of a deceased or insolvent participating employee shall be the only persons recognised by the trustee as having title to the units represented thereby.

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13. REGISTRATION OF TRANSFER OF UNITS

- 13.1 Where all of the units are sold, the trustees shall cancel the participation certificate of the seller and issue a new participation certificate to the purchaser and shall amend the register of units accordingly.
- 13.2 Where part of the units are sold, the trustees shall cancel the participation certificates of the seller and shall issue a balance participation certificate for the balance of such units held by the seller and shall issue a new participation certificate to the purchaser and shall amend the register of units accordingly.

14. PAYMENT OF DIVIDENDS

Dairibord shall pay to the trust any dividends due in respect of shares in Dairibord held by the trust.

15. CALCULATION OF PROFITS

Any participating employee shall be entitled to receive from the trust for every year ending, such amount as he would be entitled to receive by way of dividend as if he were the holder of ordinary shares fully paid in Dairibord.

16. NOTIFICATION AND PAYMENT OF DISTRIBUTIONS

- 16.1 The trustees shall, on finalisation of the accounts of Dairibord for each financial year, notify each participating employee of the amount to which he has become entitled by way of distribution under his participation certificate and shall pay such amount to him at the time when the holders of ordinary shares in Dairibord receive their dividends.
- 16.2 Distribution payments shall be made by cheque. Any monies payable by the trustees to a participating employee shall be paid by cheque sent through the post to the registered address of any such participating employee. Every such cheque shall be made payable to the order of the person to whom it is sent and payment of the

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cheque shall be a satisfaction of the monies payable.

- 16.3 Where an authority in that behalf shall have been received by the trustees in such form as the trustees shall consider sufficient, the trustees shall pay the amount distributable to the participating employee to his bankers or other agent and the receipt of such bankers or other agent shall be a good discharge thereof.

17. PRODUCTION OF CERTIFICATE

Before making any payment in terms of clause 16 above, the trustees shall be entitled to require a participating employee to produce his participation certificate and sign a receipt for the amount payable and shall be entitled to endorse a note of the payment on the participation certificate.

18. NO CESSION OR ASSIGNMENT

- 18.1 No participating employee may cede, assign or pledge any units held by him or any rights thereunder.

- 18.2 If the employee assigns, mortgages or charges his interest hereunder or parts with the possession of his participation certificates, the trustees shall be entitled to declare his participating certificate and any accrued rights thereunder, to be forfeited and thereupon a certificate shall become forfeited and shall be handed to the trustees for cancellation.

19. CHANGE OF ADDRESS

- 19.1 The employee shall forthwith, notify to the trustees any change of his address and allow his new address to be endorsed on the participation certificate.

20. NOTICES

Notices may be served on the participating employee either personally or through the post addressed to him at the address

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appearing on the participation certificate.

21. VOTING RIGHTS

Every participating employee shall have one vote in respect of all unit he holds and he is entitled to exercise his vote in respect of any issue affecting the trust and its shares in Dairibord if it is referred to him by the trustees. It is hereby recorded that the trustees will strive as much as possible to consult the participating employees on all major issues affecting the trust except where they have to take urgent decisions and it is not practical to call a meeting of the participating employees.

22. ADMINISTRATION AND AMENDMENT OF THESE RULES

- 22.1 These rules may be altered in any respect by the majority vote of the participating members in a general meeting.
- 22.2 Any amendments to the rules shall be advised in writing to all participating employees.
- 22.3 Upon any question arising as to the interpretation of these rules or administration of the trust, the decision of the trustees shall be final.

23. UNITS NOT REPRESENTED BY CERTIFICATES

The trustees shall be deemed for the purposes of these rules to be the holder of each unit during such time as they shall be no other person entitled to be regarded as the registered of the unit.

24. ANNUAL GENERAL MEETING

An annual general meeting of participating employees shall be held within thirty (30) days of the annual general meeting of Dairibord. The annual general meetings shall be held at such times and places as the trustees shall appoint.

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25. EXTRA ORDINARY GENERAL MEETING

- 25.1 All general meetings other than general meetings shall be called extra ordinary general meetings.
- 25.2 The trustees may, whenever they think fit, convene an extra ordinary general meeting, and extra ordinary general meetings shall also be convened on the request of participating employees holding not less than 10% of the units in issue at the time.

26. NOTICE OF MEETINGS

At least fourteen (14) days notice shall be given of any general meeting. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the place, the day and the hour of the meeting and, in the case of special business, the general nature of that business, and shall be given to all participating employees and trustees.

27. OMISSION

The accidental omission to give notice of a meeting to, or the non receipt of a notice of a meeting by any person entitled to receive shall not be invalidate the proceedings at that meetings.

28. PROCEEDINGS AT GENERAL MEETINGS

- 28.1 The business to be conducted at general meetings shall be confined to:-
- 28.1.1 receiving reports from the trustees on the number of units in issue, the average price at which units are being traded over any proceeding period, the valuation of units for repurchase by trustees in terms of clause 9, the results of Dairibord as set out in its annual audited accounts and any other matter the trustees may wish to report on.
- 28.1.2 Making recommendations to the trustees on any matter relevant to it.

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- 28.2 At any general meeting, a recommendation to the trustees shall be put to the vote of the meeting and shall be decided on a show of hands.
- 28.3 A declaration by the chairman that a recommendation has on a show of hands, been carried unanimously, or by a particular majority or lost, and an entry to that effect in the book containing the minutes of the proceedings of meetings, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such recommendation.
- 28.4 No business shall be transacted at any general meeting unless a quorum of participating employees is present at the time when the meeting proceeds to business. A quorum shall be..... participating employees and trustees present in person.
- 28.5 If within half an hour from the time appointed for the meeting, a quorum is not present, the meeting, if convened upon requisition of members shall be dissolved; in any other case it shall stand adjourned to the same day in the next week, at the same time and place or to such other day and at any such other time and place as the trustees may determine, and if at the adjourned meeting a quorum is not present within half an hour of the time appointed for the meeting, the persons present shall be a quorum.
- 28.6 The chairman of the trustees shall preside as chairman at every general meeting failing which, he shall delegate any one of the members of the trustees to preside as chairman at such meetings.
- 28.7 A chairman may, with the consent of any meeting at which a quorum is present and shall if so directed by the meeting, adjourn the meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

29. DISSOLUTION.

The trust may only be dissolved after it has paid in full all the loans it would have secured for the purposes of purchasing the shares in Dairibord from the Government of the Republic of Zimbabwe. Such dissolution can only occur on a resolution passed by three quarters of the majority of the participating

- 11 -

employees at a duly constituted general meeting of the trust's members. On the dissolution of the said trust, each participating employee shall elect whether to retain his units which represent some shares in Dairibord as a single shareholder or may decide to merge them with others or to dispose of them on the open market. Shares in Dairibord shall then be issued to participating employees in exchange for units on the basis of one share for each unit.

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DEED OF TRUST

DAIRIBORD EMPLOYEE

SHARE OPTION TRUST

and

RULES

Deed of Trust
For

Dairibord Employee Share Option Trust represented by the Chairman of the Interim Committee of Dairibord Employee Share Option Trust.....

He being duly authorised
("DESOT")

PREAMBLE

- A. WHEREAS, DESOT wishes to purchase certain shares in Dairibord Zimbabwe Limited, a private company duly incorporated according to the laws of Zimbabwe, from the sole shareholder of the said shares in Dairibord Zimbabwe Limited, namely, the Government of the Republic of Zimbabwe, for and on behalf of its members.
- B. DESOT, through its Interim Committee has been mandated to negotiate with the Government of the Republic of Zimbabwe for the purchase of the shares in question.

NOW THEREFORE THESE PRESENTS WITNESS:

1. **DEFINITIONS**

- 1.1 "Company" means Dairibord Zimbabwe Limited.
- 1.2 "Employee" shall mean all permanent employees of Dairibord Zimbabwe Limited.

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- 1.3 "Participating employees" shall mean those employees who have elected to be members of DESOT and to subscribe for shares in DESOT and allocated same by DESOT.
- 1.4 "Permanent employees" shall mean those employees who have successfully completed such probationary period required by Dairibord Zimbabwe Limited and have received written confirmation that they are permanent employees.
- 1.5 "Retired employees" shall mean any employee of Dairibord Zimbabwe Limited who retires at or after pensionable age, or on early retirement or on ill health or who resigns from Dairibord Zimbabwe Limited for any reason whatsoever, whether voluntarily or not.
- 1.6 "Rules" shall mean the rules of DESOT annexed hereto and as amended from time to time in terms of such rules.
- 1.7 "The Trust" shall mean the Dairibord Employee Share Option Trust established in terms of this deed.
- 1.8 "The Trustees" shall mean the Trustees appointed in terms of clause 4 as read with clause 9.
- 1.9 "The Trust Fund" shall mean the monies collected from the participating employees' salaries and wages, dividends from the shares, the trust will have acquired in Dairibord Zimbabwe Limited and any income derived from any investment made by the Trustees.
- 1.10 "Units" shall mean units issued by the Trustees in terms of this Deed.

2. NAME OF TRUST

The trust created in terms of this deed shall be known as the Dairibord Employee Share Option Trust.

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3. OBJECTS OF THE TRUST

The aims and objects for which the Trust has been constituted are:-

- 3.1 To acquire some shares in Dairibord Zimbabwe Limited from the Government of the Republic of Zimbabwe, and to hold same for and on behalf of the participating employees of Dairibord Zimbabwe Limited.
- 3.2 To establish, operate and control a scheme for the distribution of shares and dividend payments received from the company to participating employees of the company.

4. APPOINTMENT OF TRUSTEES

- 4.1 In accordance with clause 9 of this Deed, the first trustees for the purposes of this Deed shall be appointed by the Domestic Board of Dairibord Zimbabwe Limited, which said Board is the equivalent of the National Employment Council for Dairibord Zimbabwe Limited and shall be not less than 5 or not more than 9.
- 4.2 The first Trustees of this Trust shall be as follows:-
 - (a)
 - (b)
 - (c)
 - (d)
 - (e)
 - (f)
 - (g)
 - (h)
 - (i)

5. POWERS OF TRUSTEES

The Trustees shall have general control of the Trust's assets and shall strive to attain the objects for which the Trust is established. The Trustees shall have full and plenary power and authority to do all such things and take all such steps as may appear to be necessary or desirable

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to the Trustees to give effect to the objects and intentions of the Trust, or as may be necessary or incidental to the administration and control of the Trust and, without limiting their general powers in any way, they shall also have the following powers:-

- 5.1 To negotiate with the Government of the Republic of Zimbabwe on the purchase of as many shares as they deem necessary in the company.
- 5.2 To allocate its shares as units to participating employees on such terms and conditions as it deems necessary.
- 5.3 To invest the Trust's fund and also such income from the Trust which may not be immediately required for the purposes of the Trust in such manner as they may think fit and to realise... and transpose any securities, assets, investments and property from time to time and at such times as they in their sole discretion shall determine or consider to be in the best interest of the Trust.
- 5.4 To purchase, sell, let and hire, exchange, dispose of or exploit any movable and immovable property in due and customary form.
- 5.5 To expend trust funds on maintenance, construction, improvement, alterations, rates and taxes, insurance premiums and other charges in and pertaining to any immovable property.
- 5.6 To advance and lend money to any person, company, corporation, association or institution either with or without security and upon such terms and conditions as to repayment or otherwise as the trustees may in their sole discretion, deem fit.
- 5.7 To borrow from time to time, such sums of money in such terms and conditions as they may consider fit for the purposes of the Trust, with power from time to time to consent to any variations or alterations of the terms of any such loan together with all interest in respect thereof, and they shall be entitled to mortgage, either generally or specifically, or pledge any assets constituting portion of the trust fund, and if considered fit to borrow afresh on security or otherwise, for the purpose of repaying any such mortgage or pledge.

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- 5.8 To guarantee the performance of contracts and obligations of any person or persons, company or companies and to make loans of any capital sums upon such security and conditions and at such rate of interest and to such person or persons, company or companies, as they may deem fit, and, in the case of loans to any beneficiary or to companies in which they hold shares on behalf of the trust fund or in which any beneficiary holds shares, to lend money with or without interest and with or without security.
- 5.9 To exercise voting powers attached to any shares the trust may hold in emergency cases only, but if they have time, to refer to the members of the trust any issues requiring them to take a vote.
- 5.10 To open and operate banking accounts and to draw, endorse, discount or negotiate bills of exchange, promisory notes, cheques or other negotiable instruments.
- 5.11 To administer funds, investments or property, movable or immovable, in trust for or at the instance of persons, companies or organisations associated with the trust by virtue of and in the course of its principals, object in accordance with terms of such trust.
- 5.12 To generally do all such things as may be incidental or conducive to the attainment of the objects and exercise of the powers of the trust.

6. ADMINISTRATION OF TRUST ASSETS

The trustees shall hold the assets of the trust and income derived therefrom upon trust for the following purposes:-

- 6.1 The trustees shall control the creation, issue, purchase and sale of units to participating employees in accordance with the rules of the trust in force from time to time.
- 6.2 The trustees shall make payments to participating employees of any amounts due in respect of units held by such participating employees.

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- 6.3 All costs incurred in the administration of the trust shall be borne by the trust.

7. APPOINTMENT AND REMOVAL OF TRUSTEES

- 7.1 There shall be a minimum of not less than 5 trustees and not more than 9 trustees whom:-
- 7.1.1 The Chairman shall be a non-employee of the company and he shall be chairman of the Board of Trustees;
- 7.1.2 The trustees shall be appointed in the first instance, by a domestic board and thereafter, by participating members of the trust.
- 7.1.3 They shall hold office for a period of years.
- 7.2 Any one of the trustees shall vacate office if:-
- 7.2.1 If he is adjudged insolvent or compounds with his creditors.
- 7.2.2 he is convicted anywhere of theft, fraud, forgery or uttering a forged document, purgery and is sentenced to imprisonment without the option of a fine or to a fine of any amount;
- 7.2.3 he is certified insane;
- 7.2.4 he resigns his office by notice in writing to the Chairman of the Trustees;
- 7.2.5 he is removed by any competent court for misconduct from any office of trust;
- 7.2.6 any order is made under any Act disqualifying him from acting as a trustee;
The trustees shall not incur any personal liability by reason of any loss or damages sustained in or about or in consequence of the failure, depreciation or loss of any investments made by them in good faith. As remuneration for their services, the trustees may receive a fee determined by the members of the trust from time to time in a general meeting. Trustees shall be entitled to be reimbursed in respect of expenses incurred

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while engaged in the business of the trust. Any trustee who is legal practitioner, accountant, or other person engaged in any professional business, shall be entitled to be paid all usual professional and other charges for business done by him or her or his or her firm in relation to the trust and also his or her reasonable charges in addition to disbursements for all other work and business done and all time spent by him or her in his or her firm in connection with matters arising from the operation of the trust including matters which may or should have been attended to in person by a trustee not being a legal practitioner or other professional person but which the trustees might reasonably require to be done by a legal practitioner or other professional person.

8. TRUSTEES NEED NOT GIVE SECURITY FOR THE DUE ADMINISTRATION OF THE TRUST

The trustees shall not be required to give security for the due and faithful administration of the assets of the trust, and for the due discharge of their trust, and any Master of the High Court of Zimbabwe or any corresponding or like official or officials having jurisdiction are hereby directed to dispense with such security.

9. PROCEEDINGS AT MEETINGS:

- 9.1 A meeting shall only be called by the Chairman or any two other trustees on 14 days written notice to all trustees provided that:-
- 9.2.1 A written resolution signed by all trustees;
or
- 9.2.2 Resolutions made at a meeting at which all trustees are present;
shall have the same effect and validity as a resolution of the trustees duly passed at a properly convened and constituted meeting of the trustees.

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9.2.3 a quorum at a meeting of which proper notice has been given in terms of clause 9.1.1 shall be five trustees. If within half an hour from the time appointed for the meeting, a quorum is not present, it shall stand adjourned to the same day in the next week at the same time and place and if at the adjourned meeting, a quorum is not present within half an hour of the time appointed for the meeting, the persons present shall be a quorum.

9.3.3 All matters shall be decided by a vote and where an equality of vote arises, the chairman shall have a casting vote.

10. MINUTES OF ACCOUNTS

10.1 The trustees shall keep minutes of all their meetings and shall also keep a proper set of accounts in respect of the transactions of the trust which accounts shall be audited annually by an auditor to be appointed by the trustees.

11. CUSTODY OF DOCUMENTS

11.1 All securities, title deeds and other documents belonging to or relating to the trust shall be deposited with and retained by such board of persons as the trustees and at their discretion may decide.

11.2 It shall not be necessary for any stocks, shares, securities and/or investments of the trust to be registered in the name of the trustees or any of them, but they may from the trustees' discretion, be registered in the name or names of any nominee or nominees of the trustees or in the name of the trust itself.

12. AMENDMENTS TO TRUST DEED

The trustees may, by majority decision and after approval by the participating members, at any time, amend or vary any of the terms and conditions of this

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trust deed. A quorum for any meeting of the trustees called for the purpose of considering a resolution to amend this trust deed, which shall be called on fourteen (14) days written notice to all trustees, shall be all trustees present in person. If within half an hour from the time appointed for a meeting, a quorum is not present, the meeting shall stand adjourned to the same day in the next week at the same time and place, and if at the adjourned meeting a quorum is not present within half an hour of the time appointed for the meeting, those trustees present shall be a quorum. Thereafter, such resolution shall be referred to the members in an annual general meeting and will require a two third majority vote of those members present to pass it.

13. ACCEPTANCES

The trustees declare that they accept the appointment of trustees with all the relevant rights, duties and obligations conferred upon them in terms of this deed.

14. HEADINGS

The headings in this deed shall not be read as part hereof, having been inserted merely for convenience of reference.

DATED AT HARARE THIS DAY OF FEBRUARY, 1997.

AS WITNESSES:

1.....
2.....

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