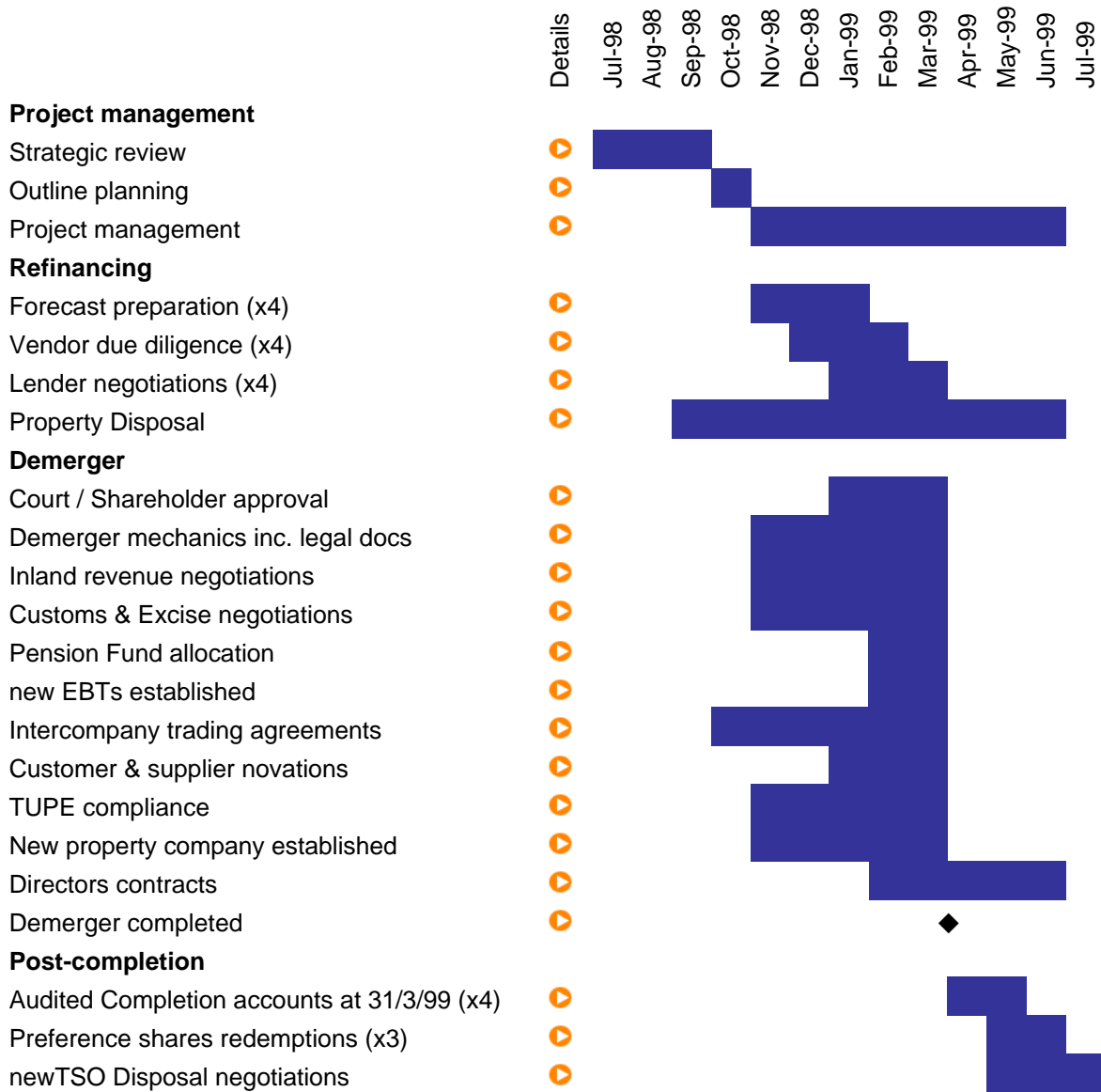


Case Study - TSO Tasks & Timeline

For more details, visit www.haddocks.com, or contact

James Haddock
Haddocks Limited
No 1 Cornhill
London, EC3V 3ND

Tel: 020 7743 6502
Fax: 020 7743 6503
james@haddocks.com



Disclaimer

Please note that Haddocks Limited itself was not involved in the transactions described here but the Company's approach and methodology are derived in part from James Haddock's involvement therein.

Referees for James Haddock are available on request.

Details

Project management

▶ Strategic review

Performed by DLJ and group management as possibility of successful flotation receded due to reduced Stock Exchange interest in "small" flotations

▶ Outline planning

Tasks and milestones identified - target date of end of March set

▶ Project management

development and maintenance of detailed project plan using MS Project; controlling and minuting regular project meetings attended by management and advisers (see organisation chart); and preparing board papers on various aspects of the process.

Refinancing

▶ Forecast preparation (x4)

Budgets reworked reflecting independence of each business to establish debt capacity. Rebased for actual year end figures.

▶ Vendor due diligence (x4)

two teams worked simultaneously preparing long form reports

▶ Lender negotiations (x4)

separate facilities and so separate processes including management presentations to shortlisted lenders

▶ Property Disposal

protracted negotiations with Post Office complicated by VAT issues requiring new corporate structure (two separate newcos) to ensure no VAT on disposal price of £6.5m. Also logistic issues regarding the two businesses that had occupied the site.

Demerger

▶ Court / Shareholder approval

highly complex scheme (S. 425 scheme of arrangement and S. 110 Reconstruction) required Shareholder approval under supervision of High Court.

▶ Demerger mechanics inc. legal documentation

existing balance sheets were restructured, two sets of hive-up agreements, eight newcos one of which was liquidated for the purposes of the scheme, novation of existing debt. Detailed financial model of demerger produced. Had to ensure compliance with financial assistance rules and IR requirements and minimised Stamp Duty charge.

▶ Inland revenue negotiations

TSO had substantial tax losses whose allocation to the new trading companies had to be negotiated. Also Inland Revenue clearance for the demerger was required.

▶ Customs & Excise negotiations

Confirmation that demerger was transfer of going concern obtained.

▶ **Pension Fund allocation**

Terms for the newcos membership and subsequent transfer out of the TSO pension scheme had to be agreed options and existing TSO options which had to be exchanged.

▶ **new EBTs established**

Each newco required an Employee Benefit Trust to hold shares to cover both new

▶ **Intercompany trading agreements**

A multitude of trading arrangements were in place which had to be formalised and the results incorporated in the financial forecasts

▶ **Customer & supplier novations**

All external contracts involving the newcos had to be assigned or preferably novated requiring counterparty consent which in some cases meant renegotiation of material contracts.

▶ **TUPE compliance**

demerger was a TUPE event for employees transferring to the newcos

▶ **New property company established**

Properties had to be transferred and new leases agreed and including putting buildings on a multi-user footing for the first time

▶ **Directors contracts**

Separation agreements for the group directors and new contracts with newcos for opco directors on new terms with appropriate incentives etc.

▶ **Demerger completed**

documents signed at 02.00 on 1/4/99 i.e. two hours late!

Post-completion

▶ **Audited Completion accounts at 31/3/99 (x4)**

audited by Ernst & Young and required as basis for make-good payments to ensure that post-demerger net assets were in the right place to allow repayment of debt and redemption of preference shares

▶ **Preference shares redemptions (x3)**

funded out of new debt but not combined with demerger for simplicity(!)

▶ **newTSO Disposal negotiations**

No disposals could be contemplated until the demerger was complete or the tax status would be jeopardised. New TSO sold to Apax Partners for £84m