Bidcorp plc

Interim results for the six months ended December 31 2003

Conference Call : February 16 1004

Good morning and welcome to the Bidcorp PLC interim results conference call. I would like to hand the conference over to Mr. Brian Joffe.

Brian Joffe – Morning everybody on this lovely, sunny Johannesburg day. I welcome you and appreciate the time that you've taken to listen to us.

The results that we are reporting for Bidcorp are below expectation but I think that having said that many improvements have happened over the reporting period. I think that we have to view this against the backdrop of poor trading conditions which exist in the UK and Europe. There were quite a few factors which went against us in this particular period, it is no excuse but they did and Rodger Graham will touch on those in a short while.

We as a company can't say we're happy with what's going on but certainly, as I said, there have been some positive things that have happened. It has taken longer than we anticipated but I guess in the final analysis, it did in Australia as well.

Rodger over to you – if you could give an update and we'll take questions after that.

Rodger Graham – Thank you Brian, good morning to everybody from a grey London.

I have to also say the results are disappointing, they are not what we had hoped for or even expected. At the end of the 1st quarter Bidcorp was trading pretty much on expectations and it's the 2nd quarter of this half year that the disappointing results have come through. Perhaps if I just run through the divisional operations I can highlight some of those issues.

On the property side, we usually put that one at the end of this list so let's take it first this time. There was a property sale of some value that ought to have gone through in December but it got held up in the planning process and some of the legal tangles that you get into in the property market here in the UK. That didn't appear in our figures as we had expected it to be in the month of December. Other than that the property side was on track.

Shipping was an area which came down very rapidly in the last quarter. It started with the return of 3 large ships that we had chartered out to the Ministry of Defense for their war in Iraq. That war finished much more quickly than anybody expected and these 3 vessels were returned to us at least a month ahead of schedule. They had the option in the charter to do that but what it meant was that we had duplication of vessels and we ended up dry docking vessels earlier than we had wanted to. This is a statutory matter that you've got to do inside 2 years on every vessel so we did them earlier while we had spare vessels standing around. But it meant capex going out and it meant depreciation rising earlier than we would have anticipated it.

It also caused uncertainty on our routes, for example we've been running 3 smaller ships on the Zeebrugge route which meant the frequency of sailing was there. The capacity was not as high because the vessels were smaller and when we came to replace them with 2 of our larger vessels we ran into opposition from the customers who wanted to have the frequency of sailing as much as they wanted the capacity. So we ended up running extra vessels on that route to maintain the 3 ship service. The capacity which was promised by the customers didn't appear so we had the costs and we didn't have matching revenue.

That happened on the Dunkerque route as well and the shipping result over the last quarter has been severely impacted by increased costs of higher capacity without the revenue anticipated to match those costs and those figures came down rapidly towards the end of the quarter. Those extra ships are now gone and as we go forward into the next six months we're back to running 5 of our own vessels and the 6th vessel is out on charter. Not nearly as profitable a charter as they were but still washing its own face. We will stick to those 5 vessels and routes that we know and have established going into the next 6 month period.

The volume transport sector of the market, is under severe price pressure throughout the industry. The manufacturers are all in trouble themselves and are in turn passing that pressure onto all their service providers. We're no different and our volume transport business came under severe strain. We dropped volume on that side, some of it we dropped because we weren't prepared to match prices that manufacturers were insisting on. The other part of the revenue drop is attributable to the lower margins and lower prices we were being paid by the suppliers.

In response to that, the volume transport side of the business has re-organized itself completely. We were previously operating virtually 7 separate fleets, operating out of 7 separate bases around the UK and the manufacturer knew that he had a fleet servicing his contract alone. That has been totally re-organized and we are now operating with one fleet and servicing the entire country. It has taken all of the 6 months and a little bit longer to get that in place. We've had trade union activity, we've had strikes against the move and we've had manufacturers initially objecting to having their vehicles riding on trucks along with some other manufacturer's vehicles. But we're through all those now and only in January have we managed to get that into place and the benefits of that can only come into play once we have the whole fleet on the system. We have had all of the pain of the lower prices and some lower volumes in volume transport during this 6 month period.

The rest of the Automotive businesses – Wellesbourne is profitable, marginally so but profitable. Rescue and Recovery was profitable and quite nicely so but it was lower than it ought to have been because of the weather conditions in the UK. This has been the best winter on record and there has been very little bad weather to help us on the Rescue and Recovery side.

Traffic management which by now we had hoped would be in profit because we had arranged for a pound in the center of the metro that we service for collecting vehicles. That pound got held up after getting planning permission, the local residents wanted to see planting schemes for the site, where trees were going to go and what screening was going to take place. That held it up for months and now that all those are out the way there are squatters that have moved onto the site and that has stopped us moving on and getting that operation running. That ought to be overcome in the next short while as long as there are no other problems that get in the way.

The specialist transport side suffered from a few unexpected issues some of the big manufacturers, the prestige manufacturers, with who we hold contracts just didn't meet their launch dates and I guess it hurt them more than it hurt us. People like Aston Martin are running at least 4 months late on the launch of their new vehicles and Bentley are running late on their launches. Those gave far lower volumes and at higher prices than we had expected to get.

A number of manufacturers simply put a stop, as they came towards the end of the calendar year, to all promotional activities and testing activities. Those volumes all just disappeared in the last couple of months of the year.

All in all a lot of things have conspired against us and it was a very disappointing result to turn in. The brighter side is perhaps the balance sheet despite these losses gearing remains at 27% for the 6 months which is perfectly acceptable. I think at the moment we have no encumbered assets at all other than those which are still subject to H.P. agreements. Those H.P. dues are coming down rapidly and we repaid 3 million odd of H.P. dues in this 6 month period and by the end of June we should be down to less than a million outstanding on H.P. So that should start to flow back quite nicely and if we move into a better result than we had now it will help as well.

We would be happy to take questions now.

Michelle Olivier from BJM – Good morning gentlemen just a few questions. On the volume distribution side you've indicated your contract rates have reduced, firstly when are those rates re-negotiated? Is it on an order by order basis and what do you see for the next 6 months? Do you think it's stabilized or is it going to decline further?

Then on the shipping side, can you give us a sense, in terms of the additional services that you provide, what degree of turnover and costs that contributes?

Rodger Graham – On the volume transport side, Michelle those contracts are not on as you go basis. They are coming down in duration but they used to be 5 year contracts in the industry, some of them even longer. They would now normally be 2 or 3 years and the ones we are talking about are 2 and 3 year contracts. I think during the next 2 year period we're going to see a bit of a shake up in the volume transport industry, there have to be others who are in much more trouble than we are in knowing that they took the business at the prices we weren't prepared to take them at. I think over this 2 year period we'll see some significant change take place in the industry, I don't know how much more to say to you or what more I could comment on that.

The industry is in a waiting period at the moment because of those prices and everyone is scurrying to get their costs down as far as they can in the interim. Even the manufacturers are now agreeing to changes such as the one I described to you of putting all of the fleets into one whereas before they were strongly against that being allowed. So I think there will be changes in the structure and the way people do business to get the costs down.

On the shipping side we added 2 ships; we went from 5 to 7 so you can work roughly on a factor of 7 to 5 on our cost line. The revenue just didn't come in time, it is rising on those additional routes but it didn't get there in the time that we had anticipated or the time that the customers had indicated that it would. It was a sizable figure Michelle.

Michelle Olivier – Could you go through exactly what happened I just want to make sure I understand? Originally you had 6 vessels, when were those vessels contracted out to the MoD and so forth? I'm just not quite up to speed in terms of how the numbers of vessels have worked?

Rodger Graham – The 3 largest vessels were contracted out to the MoD in January/February of 2003 and they were due to come back round about September/October but they came back earlier as I said. We had chartered in enough vessels to run 1 vessel on the Dunderque route, 3 vessels on the Zeebrugge route and 2 vessels on the Vlissingen route. So we were running 6 vessels but those smaller vessels had a capacity that was just over half the capacity of the 3 larger vessels. As soon as the 3 vessels came back the capacity went through the roof.

Michelle Olivier – I think maybe I should just use this opportunity. What kind of increases in shipping rates have you experienced? On the specialist distribution side you've indicated that you're going to do further rationalization with cost savings coming through. Could you dimensionalize the extent of the costs savings that you anticipate?

Rodger Graham – The shipping rates move more by the mix of product that you carry than they do by the rate of negotiation for individual types. It is a competitive market and you don't have the ability to simply go out and raise your rates. We have been edging them slightly by a few percentage points each year and while this helps the benefit is in the mix of product you carry.

I don't want to be to public on this one but some of the mixes will give you a significantly better margin than will others, one example is accompanied traffic. If you have a driver on board your rates are double than what they are if you are simply carrying a trailer and it's cheaper. He gets into his truck and drives off at the other side; you don't need to have stevedores working it at the other side. It's as much mix as it is looking for rate increases.

With regard to the specialist transport, we have a European transport and recovery repatriation service, we have the specialist transport enclosed distribution side, we have some distribution linked into Wellesbourne and moving vehicles from there down to the greater London area and we have the transportation of the specialists' marques like Aston Martin etc. Those were all operating as separate fleets because they were servicing slightly different customer bases. What we are in the process of doing now is, as soon as the IT systems are in place which should be by the end of March, is to treat the fleet as one and the customers as separate.

There will be rationalization benefits that come out of that but it's going to be a case of wait and see what comes out of the pile, there will be benefits but what they are at this stage we're not sure.

There appear to be no further questions would you like to make any closing remarks?

Brian Joffe – Thanks very much I think that is basically it in a nutshell hopefully next time we report things will look a little bit better.

On behalf of Bidcorp PLC that concludes this morning's conference, thank you for joining us.