Individually we sparkle together we shine

At Bidvest individual talents fuse with the dynamics of an organisation that comprises many diverse companies and constellations. Thoughts turn into action, ideas become benchmarks and new stars are born.

Introduction

Recovery is officially under way in most international markets. However, Bidvest's much-improved performance should not be seen simply as the product of more favourable economic conditions. Challenges persist in almost every region in which Bidvest is represented. The sole exception is Asia.

The move out of recession has been hesitant. This is the recovery no one quite believes in; at least, not yet.

Bidvest teams performed wonders by achieving a substantial turnaround on last year when operational results and headline earnings per share came under severe pressure. It was a strong performance and I congratulate my colleagues on the achievement. As a result, our final distribution to shareholders rose by 18,4% to 225,0 cents.

Strength in diversity

Results such as this are only possible by working together. Unity of purpose certainly characterises the Bidvest universe, yet our workforce is one of the most diverse in the world.

This fact was underlined earlier in the year when we formally introduced our Nowaco and Farutex colleagues to the rest of Bidvest. To ensure everyone understood how happy we were to greet them and how we embrace diversity, key articles in *Bidvoice*, our Group magazine, were translated into Polish, Czech, Slovakian, French, Flemish and Dutch.

It's often said of South Africa that we're the world in one country. Bidvest is rapidly becoming the world in one company. At every step of the way we prove there's strength in diversity.

International markets

Certainly, our diversified international businesses made a strong contribution, despite generally adverse trading conditions. The UK and continental Europe have a long way to go before shaking off the after-effects of recession. Challenges are also evident in Australia and New Zealand, though sustained recovery appears to be under way in Asia.

Re-imagining Africa

Continuing reverberations from the international financial crisis have had a notable side-effect – a thorough reappraisal of Africa, its progress and potential.

Previously, international concern about sovereign debt and dubious reporting tended to centre on sub-Saharan Africa. Today, there is broad recognition that fundamental change is taking place. Africa has upped its game. Talk sovereign risk in 2009/10 and the chances are you are discussing Greece, Ireland, Portugal and Spain rather than Africa.

So-called "frontier markets" to our north bounced back from the international crisis a lot faster than some. Many now report continued growth.

Namibian success

What about Bidvest in Africa? Bidvest Namibia listed on the Namibian Stock Exchange on October 26, with new Namibian owners and strong local empowerment partners firmly in place. The listing was a huge success and Bidvest Namibia is looking to significantly grow the business in its home market. Bidvest is also interested in further growth across sub-Saharan Africa.

Scanning sub-Sahara

In the past, some have criticised Bidvest for not investing more in Africa. This had nothing to do with Afro-pessimism. We believe in Africa's potential. We look at various markets to our north, note the growth of a new middle class and burgeoning demand for services and are greatly encouraged.

Internationalisation at Bidvest is driven largely by our foodservice interests. In recent years, the search for value has taken us to Asia, the Middle East and more recently emerging Europe. Results to date justify the priority we gave these regions. That does not mean we have turned our back on Africa.

We continually scan sub-Saharan jurisdictions for possible openings. When we identify the right partners and the right value proposition, we will not be afraid to seek "frontier market growth".

South Africa

Our domestic market officially moved out of recession in the first quarter of the Bidvest year, but at an annualised 0,9% few noticed. By the opening quarter of calendar 2010, annualised growth of 4,6% was reported, yet unemployment continued to rise.

Job losses and a household debt-to-income ratio close to 80% help explain the challenge faced by Bidvest's South African businesses. Consumers are still hard pressed and sales projections are looking flat.

Growing jobs

Regrettably some jobs were lost at Bidvest as we had to streamline operations for a new future, but we still grew more jobs than we shed. Last year's staff complement stood at 103 449. By year-end it was up to 105 752.

We also increased training investments – up from R209,8 million to R242,0 million. In the process, we prioritised South African training spend to ensure the development of critical skills within historically disadvantaged groups.

In South Africa, BEE continued to be an integral part of our business and these companies achieved major BEE improvements. Every second procurement rand is now spent with a BEE supplier. Independent audit confirms that Bidvest is a level 4 contributor with unconstrained operational capacity. This means that

Cyril Ramaphosa
Non-executive chairman

Highlights

- Hesitant macro-recovery, but strong Bidvest rebound
- Distribution to shareholders of 225,0 cents, up 18,4%
- Bidvest Namibia off to great start as an NSX-listed company
- We boost staff complement to 106 000 despite tough trading conditions
- Continued people investment takes training spend to R242,0 million
- Every second South African procurement rand now spent with a BEE supplier
- Sustained effort shines through across Bidvest
- External measurement of Bidvest highly positive
- Our people eager to embed sustainable business practice

Bidvest is now a 100% contributor to BEE and our suppliers can claim full BEE expenditure points when doing business with us.

2010 FIFA World Cup™ effects

Despite job and debt worries, South Africans were determined to be perfect hosts for the 2010 FIFA World Cup™. Unfortunately, initial estimates of the number of foreign visitors were not realised, largely as a result of international belt-tightening in the immediate aftermath of recession. Those who made the trip were bowled over by the reception, the facilities, infrastructure and the natural beauty of our wonderful country.

South Africa's international image was greatly improved and it was highly satisfying to see Africa and the entire world celebrating with us. African pride and self-belief soared.

Challenges

Here in South Africa, the challenge is to maintain the team spirit and draw continued benefit from restored morale. This may not always be easy.

Labour relations in South Africa's public sector have deteriorated. Transport workers engaged in a long and costly strike. Threatened strikes at Eskom were averted by a settlement well above inflation. Pay negotiations with public sector workers became increasingly acrimonious as our year drew to a close. Ultimately, strikes affected schools, hospitals and other services.

The 2010 FIFA World Cup™ created a sense that a new dawn was breaking. It is imperative we work together and capitalise on this positive mood and can-do attitude.

Sustainable development

Two years ago, we defined sustainable development at Bidvest as a fresh way of thinking that inspires and enables a new generation of entrepreneurs to create business value that integrates evolving financial, social and environmental needs and expectations.

Change continues. Influential bodies like the King III committee encourage long-term thinking as short-term actions have long-term impact. Yesterday's profligate lending still has profound consequences for business today. Humankind currently exploits the resources of 1,3 planets with little thought for replenishment.

We have to interrogate how we do business and exploit relationships and resources, not only to turn a profit today, but to store goodwill and natural bounty for generations to follow. We must look after the general environment the way we look after the environment in our own homes, with care.

When such a philosophy harnesses Bidvest's people-power, opportunities materialise and projects are launched to strengthen our competitive position. Our people internalise issues, make them their own and drive them until targets are achieved.

Bidvest people have now reached the stage where they are taking personal control of sustainability initiatives. This was recently confirmed by our employee sustainability engagement survey.

Research showed that our people are eager to embed sustainable business practices into their activities. They want to be involved and want to make a difference.

This is just what the board wanted to hear. Our businesses have been collating sustainability data for several years while building awareness of the need to cultivate diversity, nurture customers, practise ethical behaviour, reduce, reuse and recycle resources.

Our people in the UK and Europe work in jurisdictions where environmental impacts are rigorously regulated. They don't merely comply, they lead. Their experience is now being shared to avoid duplication while fast-tracking smart solutions.

I am happy to report progress was maintained in a year of huge recessionary pressure. Our people are proud to belong to a company committed to sustainable business practice. It's part of being Proudly Bidvest.

On a mission

There's no such thing as Mission Control at Bidvest. Our teams are encouraged to reach for the stars in their own way.

The Group attitude is summed up by an old advertising industry watchword – if you reach for the stars, you might not quite get one, but you won't end up with a handful of mud, either.

That philosophy has come into play as never before. Some businesses achieved record profits, some came close. Others were thwarted by adverse conditions. But sustained effort shone through wherever you looked.

External measurement

Performance is closely monitored by all our businesses. We set great store by internal benchmarking, but we are just as keen to learn what external parties think of us.

Numerous and varied awards, appraisals and accolades were granted to Bidvest and our chief executive. Bidvest was ranked 37th of the world's top companies, the JSE reaffirmed our status as a founding constituent of the JSE Socially Responsible Investment Index, we received reporting and transformation awards and our chief executive was named one of South Africa's top 25 business leaders. Details of these awards and others are provided on the facing page.

Future

Economic recovery may or may not gather traction in the year ahead. It appears prudent to expect patchy performance across Bidvest geographies. Diversification will enable us to capture the upside where it occurs while using local initiative to minimise impacts in markets that achieve no or low growth.

Bidvest's 2010 rebound moves us marginally above the peaks of two years ago. Our teams are highly motivated and poised for further gains. Investment has been maintained in people and infrastructure. I have every confidence Bidvest will secure real growth in the year ahead.

Cyril Ramaphosa
Non-executive chairman

External appraisals

BusinessWeek top company ranking

Bidvest was ranked 37th on BusinessWeek's list of the world's top 40 companies, one of only three South African companies to feature on the list. The global rankings were published by management consulting firm AT Kearney and BusinessWeek.

Forbes Global 2000 – the world's 2 000 largest public companies

Forbes Global 2000 is a list of the world's largest and most influential companies in terms of US dollars based on a composite ranking which includes sales, market value, assets and profits. Bidvest is currently ranked 969th.

Empowerment rating 2010

Bidvest, a level 4 contributor, with an unconstrained operational capacity, has a verified rating from Empowerdex.

Credit ratings

Fitch Ratings affirmed Bidvest's national long-term rating at A+(A plus)(zaf) with a stable outlook and short-term rating at F1(zaf). A+ (zaf) ratings denote a strong credit risk relative to other issuers in the same country.

Moody's Investors Service assigned Bidvest a first-time national scale short-term rating of P-1.ZA and an A1.ZA national scale long-term issuer rating, with a stable outlook.

JSE Social Responsibility Investment Index

Based on an assessment of the Group's policies, performance and reporting on economic, social and environmental sustainability, the JSE has reaffirmed Bidvest as a founding constituent of the SRI Index. Bidvest, one of 30 best performers out of 109 listed companies included in the research, is one of 67 constituents of the index. Bidvest was assessed as having a low environmental impact. The index is the first of its kind in an emerging market and the first to be launched by a stock exchange.

Carbon Disclosure Project 2009

The United Nations-sponsored Carbon Disclosure Project provides investors with information about carbon emissions and climate change exposure of the world's major corporations. Bidvest's disclosure was ranked second in South Africa.

Excellence in reporting awards

Bidvest received an excellent rating in the Ernst & Young excellence in sustainability reporting awards and a merit at the ACCA (Association of Chartered Certified Accountants)/JSE sustainability reporting awards. Bidvest was the consumer services sectoral winner in the IAS annual reporting awards from the Investment Analysts Society of Southern Africa.

FTSE/JSE Africa Index Series ranking

In the June 2010 FTSE/JSE Africa Index Series quarterly review, Bidvest was ranked 21st in both the FTSE/JSE All Share Index and Top 40, eighth in the FTSE/JSE Industrial 25, with a total market capitalisation of R42,7 billion.

Morgan Stanley International Emerging Market Index 2010

Bidvest is considered to have an 85% free float for the MSCI SA Index and a weighting of 2,25% in the MSCI South Africa Index and 0,17% in the MSCI Emerging Markets Index.

WBS Journal top 25 business leaders

Brian Joffe selected by the WBS (Wits Business School) Journal as one of South Africa's top 25 business leaders, having made a significant impact on business over the last five years.

Ask Africa Trust Barometer 2009

The 2009 Ask Africa Trust Barometer, run in conjunction with Finweek magazine, voted Bidvest as the "most trusted company in entrepreneurial/founder companies"; seventh overall among the 375 companies measured; first in the industrials and chief executive Brian Joffe the second most trusted CEO.

Company confidence predictor

Bidvest performed well with its ratings across the total of 24 characteristics ensuring a ranking in the top order of industrial companies; also placed in the top order of "company basics", "people" and "communications", and performed exceptionally well for "ethics" and "future prospects".

In "company basics" it shows notable strength in "is financially sound and secure", "has a clear edge over its competitors" and "has a strong cash flow".

It has firmly solidified its standing in "people" by holding its position in "is a well managed company", the "quality of its people" and "has an effective chief executive".

In "ethics" it has made substantial gains across the four characteristics of evaluation viz. "is reputable, honest and trustworthy" (for which it is ranked first), "lives up to its promises – company results match expectations" (ranked second), "company results are a true reflection of company performance" (ranked first) and "believes in full disclosure – is transparent, open and honest" (ranked second).

As for "communications" Bidvest has held its own in the top order of companies and is particularly impressive in "chief executive and senior management easily approachable".

In "future prospects" it has held its first position in "is alert to new ideas to improve its profitability" and as has been stated earlier leads the field overall in this category.

It has also held its position in the "social relations" category for "has good labour relations" which could be critical in the South African environment of the persistent threat of labour unrest.

Headline numbers

Pleasing results for the year reflect the dedication and work ethic of Bidvest people in all regions. Headline earnings per share moved 15,1% higher to 1 070 cents despite the impact of R61,2 million in acquisition charges, mainly attributable to our new eastern European businesses, Nowaco and Farutex.

Revenue eased lower to R109,8 billion (2009: R112,4 billion) but trading margin improvements – up to 5,1% from 4,6% – led to significant growth in trading profit (R5,6 billion versus R5,1 billion in 2009).

Currency rates had a material impact on results following strong rand gains versus sterling and the euro. The negative impact on translation of the earnings of foreign operations was equivalent to 4,2% of HEPS.

Mismatch

In many national markets in which we are active, official figures showed a return to growth. However, consumer and business behaviour in those same geographies continued to reflect considerable caution and trading conditions remained difficult.

The contradiction is explained by the initial shock of recession and the extent of economic contraction. Shock effects have not yet receded while "growth" since then has still not taken economies back to the levels of prosperity and confidence achieved in 2007.

For Bidvest, the high watermark was 2008. A disappointing year followed as recession set in. Our 2010 performance takes us slightly above the record levels achieved in 2008. It is cause for satisfaction that a lot of hard work is bearing fruit. However, we still need to catch up that period of lost growth. Everyone at Bidvest is aware that challenges persist and we can't afford to let up.

Concerted efforts by operational management to optimise inventory levels and manage debtor delinquencies ensured all regions registered an improvement in returns on funds employed. Our managers kept an eye on the bottom line, but they also kept an eye on the future. Bidvest businesses continued to invest in infrastructure even as they reduced costs and pursued efficiencies.

Group capital expenditure topped R2,7 billion.

Entrepreneurial model

Deliberate focus on the decentralised, entrepreneurial Bidvest model drove these improvements.

At Bidvest we've always believed that people make profits, businesses only report them. We empower people by refusing to create elaborate structures and systems. We keep things simple, local and flexible.

Value is realised by turning a good business into a great business. But more fundamental than that is turning good people into great people. The Bidvest model is a way of doing that. We encourage local entrepreneurs to build the operations they control by applying the disciplines that turn small businesses into big ones.

We may operate in a global economy, but each individual is pivotal; each team important. Being the best you can be wherever you happen to be is the reason for Bidvest success.

Application of our decentralisation philosophy led to renewal and resurgence across all regions.

Refocus and renewal

At many other organisations, "focus" refers to the building of a homogenous business in which activities are deliberately restricted to a single industry. "Focus" for Bidvest managers refers to intense concentration on every aspect of their operations with the aim of growing value, no matter what industry they work in. Their in-depth understanding of their business, customers, suppliers and markets helps them pursue efficiencies while exploring new opportunities.

New opportunities might occur in a related industry or in an entirely new sector. One area of focus might lead into another area of focus. This does not deter entrepreneurial managers empowered by Bidvest's decentralised philosophy. They home in on growth potential, even though it means straying from strict adherence to what was previously considered to be their home "turf".

Philosophy at work

Constant evolution is necessary to stay abreast of new opportunities, and transition was evident at several Bidvest businesses. These changes were introduced at the beginning of the new period, though preparations were under way in the second half of 2010.

One effect of change is the creation of a cluster of businesses with a financial service focus.

McCarthy Fleet Services, previously part of Bidvest Automotive, has been moved into Bidvest Bank, considerably widening the bank's base of operations. In future, asset-based finance activities will complement travel-related financial services. The bank's footprint has also grown. There are now 100 branches in the network.

At the same time, Bidvest Financial Services (housing the businesses previously branded as McCarthy Insurance Services and McCarthy Finance) has become a freestanding business and in future will widen its base by seeking new business to augment income streams from and off the dealership floor.

Parameters widen, though activities remain largely the same. Our people have considerable experience of short-term insurance, asset finance, foreign exchange and lending and deposit-taking among corporate clients. New arrangements create synergies and critical mass and consolidate our existing financial service activities.

Changes at Automotive

Change enables Bidvest Automotive to concentrate on trading performance within well-defined areas of expertise while facilitating succession planning. Bidvest Automotive chief executive Brand Pretorius plans to retire in early 2011.

Each component of today's leaner business is led by experienced managers rooted in their sectors, with Graham Damp taking responsibility for the core motor retailing operations at McCarthy Motor Group.

Foodservice realignment

Senior management responsibilities at Bidvest Foodservice have been reallocated. Bernard Berson now holds overall responsibility across all operational geographies. This creates a single reporting line and ensures knowledge- and experience-sharing across regions.

Brian Joffe
Chief executive

Highlights

- Bidvest back to record highs
- Trading profit up to R5,6 billion on 5,1% trading margin
- Capital expenditure tops R2,7 billion
- Our businesses generate R8,0 billion in cash as ROFE rises to 38,7%
- Rededication to decentralised, entrepreneurial model drives turnaround
- Strong performance by Asia Pacific region
- Resurgence at leaner Bidvest Automotive
- Financial service cluster takes shape
- Acquisition opportunities to be examined in 2011

Synergies to speed innovation and reduce duplication will be aggressively pursued.

The decentralised basis of operations is unaffected. In the UK, refocus of 3663 First for Foodservices into distinct wholesale and logistics businesses made separate management teams responsible for performance in their areas of specialisation. Significant performance gains were achieved.

Changes at our foodservice, automotive and financial service businesses were only recently implemented. The main benefits will begin to accrue in the new period.

Regional review

Our regional businesses were subject to a wide range of economic influences as each geography went through a different phase of the business cycle.

Bidvest Asia Pacific returned a strong result. Asian markets appear to have shrugged off most of the effects of the international financial crisis. However, the core business in Australia found trading conditions became progressively worse as the year drew to a close. Challenges persist in New Zealand.

Bidvest Europe held up relatively well in economic conditions bedevilled by the sovereign debt crisis. The United Kingdom has exited recession, but austerity measures give rise to fears the exit could be short-lived. Our leaner UK structures are appropriate in such an uncertain environment.

In continental Europe, our Benelux businesses are under pressure as their national economies contend with the immediate aftermath of recession. In central and eastern Europe, there is little prospect of rapid recovery, but we are positioned to take advantage of further market weakness.

Trading conditions in southern Africa remained challenging. However, our recently listed Namibian business put in another strong performance and is well placed to secure further growth.

In South Africa, the slowdown in construction activity has been severe; so have spending cutbacks across the corporate and retail sectors. However, Bidvest Automotive maximised trading opportunities as vehicle sales showed signs of revival.

Brand Bidvest

A growing number of our businesses are eager to spotlight their Bidvest links and have incorporated "Bidvest" into the company name. International examples include Bidvest Australia and Bidvest New Zealand. Our foodservice logistics operation in the UK recently relaunched as Bidvest Logistics. In South Africa, Bidvest Bank has demonstrated the strength and credibility of the Bidvest name.

At operational level, the decision rests with local teams. They have the job of leveraging most value from their local markets. If leveraging the Bidvest name will help, they shouldn't hesitate to do it.

2010 FIFA World Cup™ effects

In South Africa, the successful staging of the 2010 FIFA World Cup™ provided an insight into the gains that flow from a positive international image and a reputation for good order and efficient management.

Media coverage highlighted the country's huge attractions as a tourist destination while showcasing our modern infrastructure. Our sporting facilities were shown to be world class. This creates an opportunity to build both mainstream and sports tourism – service sectors with a proven ability to generate long-term jobs growth.

Tourism infrastructure was expanded ahead of the tournament. New hotels were built while existing hotels were expanded and upgraded. South Africa therefore faces a long-term challenge – filling world-class stadiums by continuing to attract big international events and filling good quality hotel rooms by attracting a continual stream of visitors.

Every obstruction to the free flow of visitors should be removed and red tape cut. We should encourage air charter traffic as well as more scheduled flights.

Good order, good humour

High-visibility policing kept crime in check and eased international concerns about personal security. South African police officers showed themselves to be efficient, well resourced and capable of doing a good PR job for the country by dealing with a substantial influx of foreign visitors in a helpful and engaging manner. Good order was accompanied by good humour.

In recent years, rising crime has created a national challenge. Yet over the period of the 2010 FIFA World Cup™, crime went down while national morale went up. Recent statistics indicate that these gains in the battle against crime have extended into the post-2010 FIFA World Cup™ period.

The South African Police Service has a thankless task. Police officers often receive poor pay, yet put their lives on the line to get the job done. They pulled out all the stops during the 2010 FIFA World Cup™. The men and women in blue did a marvellous job. These officers deserve credit for a job well done.

The Bidvest benefit

The principal 2010 FIFA World Cup™ benefit for Bidvest's South African businesses was motivational. Some of our operations benefited from contract gains, but every business benefited from the surge in national pride.

Staff members joined the national celebration and put on their Proudly Bidvest soccer shirts to do it.

Trading conditions remained challenging and our people were under considerable pressure. In this environment, the 2010 FIFA World Cup™ provided a further boost to the already strong team spirit.

Cash up, debt down

Businesses in all regions concentrated on the trading and housekeeping basics. Get the fundamentals right and the rest will usually follow.

At Group level, cash generation showed continued improvement, up from R6,8 billion to R8,0 billion. Net debt came down from R4,1 billion to R3,8 billion and is now at about 70% of its peak level, although some of these gains are due to improvements in the exchange rate. Working capital fell by R700 million, despite R1,7 billion in debt funding to buy the Nowaco and Farutex businesses. The transaction was effective from July 1 2009.

Nowaco acquisition

The Nowaco group acquisition for €250,0 million demonstrates the advantage of buying into people as opposed to buying solely on the basis of a balance sheet.

During on-the-ground discussions with managers in Czech Republic and Poland we found we were talking to Bidvest people. At that stage, they might not have thought of themselves in that light, but that's how they looked to us – pragmatic, self-reliant, hands-on and close to their customers.

These entrepreneurs have built Nowaco group from close to a zero base into the leading delivered wholesaler to the foodservice and independent retail markets in central and eastern Europe.

Since the deal was done, economic conditions have worsened, but local teams buckled down and still performed to pre-acquisition expectations; much as you would expect of Bidvest teams anywhere. After expensing R53,4 million in acquisition costs, Nowaco group contributed

R4,1 billion to revenue and R92,1 million to profit.

Jobs challenge

Growing unemployment is a concern in almost every economy in which Bidvest is active. However, with an unemployment rate of 25% the problem is particularly acute in South Africa.

The South African government recognises the urgency of the situation and recently acknowledged that it did not react quickly enough to the threat of recession. The economic slowdown then compounded the job-creation challenge. This frank acknowledgment is welcome, as is the pledge to redouble efforts to create jobs.

This is the greatest single challenge facing our government, but it would be a mistake to consider the challenge in isolation. One in four of the working population is without a job yet the country suffers from a longstanding skills shortage.

Jobs and schooling linked

Education and training are the keys to growth, while sustained economic growth is the only way to eradicate unemployment.

The way forward is to ensure that young people leave school with a good basic education and can be easily assimilated into the workforce. With a solid educational grounding they can absorb training and upskilling, thereby becoming productive members of their teams in a relatively short time.

As productive workers, they can drive further growth, opening up further opportunities for more young people.

Business has training responsibilities, but the primary responsibility for creating educated entrants to the workforce rests with government.

Education indaba

It is obviously in the interests of both parties – business and government – that educational standards improve. When interests coincide, partnerships can sometimes be helpful. Certainly, the idea of a public-private partnership to foster better educational outcomes should be explored.

A national indaba involving policy-makers and business leaders could usefully be called to examine the problem and consider solutions. Educators would then have a chance to question business people about their requirements.

In my view, the issue is not one of grades and symbols, but the quality of education and the qualities possessed by young people who have progressed through the educational system.

Do they have a high level of comprehension when a task is outlined to them? Can they read and write, add, subtract and carry out basic mathematical calculations? Are they confident young people who show initiative? How do they compare when measured against the educational "products" of other national education systems?

Have they the discipline to learn and carry on learning? Education is a journey, not a destination, and our young people need to commit to it.

Adopt a school

Business needs well-educated, confident and competent young people if it is to grow. What can business do to help drive the improvements most South Africans regard as urgent? Should businesses be encouraged to join in a national adopt-a-school programme? Targeted assistance by business for under-resourced schools could become the catalyst for better scholastic performance.

What about teaching standards? The quality of our teachers is crucial to a quality outcome. What needs to be done to support teachers and the teaching profession in general? Can business help?

An education indaba could examine these questions and many more.

Fulfilling national potential

If our goods and services are to be internationally competitive, our businesses and workers have to add value by being more efficient and productive. To become a winning nation, South Africa has to harness the undoubted talents of its resourceful population. The first, most crucial step is a good education for every child.

The world is changing. The BRIC nations – Brazil, Russia, India and China – are fast becoming the drivers of global growth. South Africa has the opportunity to join them, not only as a provider of natural resources, but as a source of world-class products – if we can educate and train a new generation to fulfil its potential.

Partnership

In many other spheres, private sector partnership with government could prove a highly effective means of leveraging South Africa's national potential. To facilitate the partnership, both parties should have a clear understanding of their roles.

Government's major role is surely that of infrastructure provider, using tax receipts to create the infrastructure necessary to support long-term growth. This level of investment would normally be beyond the means of any private-sector player. The initially low level of returns is also a disincentive to private-sector investment in major items of national infrastructure. However, once the investment has been made, business is in a position to utilise the infrastructure to derive profit and create jobs. For its part, government can then maintain its income stream through taxes on resultant profits and wages.

In South Africa, confusion arises because government does not restrict itself to infrastructure provision. In many cases it lays out the "pitch" and then decides to play on it.

In the process, business models become confused. State-owned operations try to measure themselves according to criteria used by private-enterprise players. They seek a return on investment and profit growth when they should measure their performance on the quality and extent of the infrastructure they provide.

For example, profitability is not necessarily the best measure of performance at a monopoly power provider such as Eskom. A more appropriate measure, in my view, would be its ability to produce power at the lowest cost while assuring reliability of supply.

A government that concentrated on its role as a facilitator of growth through focused infrastructure provision would be the natural partner of businesses looking to create jobs. At the moment in South Africa, the state is both a possible partner and a potential competitor.

Interest rates

What can be done in the short term to foster growth and employment in South Africa? One form of stimulus is readily at hand – interest rates.

Between December 2008 and September 2010, the South African Reserve Bank cut interest rates eight times to 6,0%. This is helpful, but there are grounds for arguing that rates are still too high in comparison with Europe and North America.

In this environment, the rand has enjoyed a prolonged period of strength, undermining the pricing advantages South Africa's manufactured exports should enjoy on world markets. Further rate cuts would address the issue while encouraging business to invest in new capacity and take on new workers.

Holding our headcount high

Bidvest makes a significant economic contribution to the communities in which it operates. Families depend on the jobs created by Bidvest companies, and I am pleased to report that despite consolidation, our headcount still totals 105 752.

In southern Africa, we continue to redress the legacy of economic disenfranchisement, improving to a level 4 contributor under the DTI Codes. Half of our procurement in South Africa is now spent with BEE suppliers, a significant contribution to broad-based black economic empowerment. Equitable employment remains a challenge. However, our junior management pipeline, now more than half black, bodes well for the future.

Decent work through training focus

In this year of consolidation, resignation and absenteeism rates fell. Top of the list of staff issues are financial security and career development. At Bidvest, a key factor is training in order to unlock the potential of our people in line with our view that skills drive growth – personal, organisational and national. Our companies responded with a 17% increase in the number of training hours. Bidvest companies in South Africa concentrated on the lifeskills required to qualify for higher learning and career advancement. Our policy is to promote from within and we take pride in the progress made by workers into supervisory grades and management. Our companies are often their industry's training leader.

Health, safety and HIV/Aids

Companies operating in hazardous environments invest conscientiously in safety awareness programmes. However, it is with regret that we recorded four fatalities, half the loss of the previous year, but four too many. HIV/Aids continues to present a serious challenge. Our prevalence rate is still high at an estimated 15% and we are bewildered by the low uptake of VCT programmes made available through regular campaigns.

Environmental impacts and performance

Climate change is no longer in question. Legislative pressures from governments trying to meet emission reduction targets have had significant impact on our infrastructure and markets. Physical risks from changing weather patterns require a nimble response, a quality we cultivate. Bidvest companies are positioning themselves to achieve competitive advantage.

Our third carbon footprint reveals a slight increase in the intensity of greenhouse gas emissions to 6,6 tonnes CO_2e (using staff as the denominator), placing us ahead of our South African competitors. We are concentrating on improved monitoring and measurement of energy sources and resources, a prerequisite for the identification of profitable green business opportunities.

Society

At Bidvest, ethical behaviour is a way of life rather than a set of rules. However, in the face of growing concerns around crime and corruption, we have to entrench our code of conduct and reduce the risk of our staff being exposed to, or succumbing to, temptation. We routinely declare conflicts of interest, keep registers of gifts and bring new legislation to the attention of employees. Internal audit provides oversight and records any contingent liabilities. No material issues were escalated to Group level or remained unresolved at year-end.

Product responsibility

Food safety and the fair treatment of customers are critical to our businesses. In our domestic market, enactment of South Africa's new Consumer Protection Act underlines the point. Companies across the Group are proactive in their response to tightening legislation and changing consumer demands. We are turning risks into opportunities to strengthen our brand

and create competitive advantage for our product and service offerings.

Sustainability

Inside Bidvest, credit is also due for the way in which our people have taken ownership of sustainability practice. We gave them a framework and exposed them to the issues. The development and implementation of sustainability initiatives were then left to each business. This has resulted in a bottom-up approach to sustainability.

Visit Bidvest offices anywhere in the world and you will find a wide variety of initiatives under way; strategic interventions that shape these businesses – measurement and data collation, recycling, better waste management, water- and energy-saving, tree-planting and lots more. There's no one template, but lots of individual commitment.

Looking at the wider picture, it is apparent that climate change and global warming are getting worse, not better. Every business has a responsibility to reduce the total environmental impact of its actions and operations. It's equally apparent that there is no one silver-bullet solution. Building critical mass will require a host of small improvements, business by business and individual by individual.

This is the path intuitively taken by Bidvest people. Our people drive the sustainability process rather than senior management. They treat the wider environment like their home environment, which is how it should be. There's no coercion. Our people don't need persuading. They are determined to make a difference and I'm sure they will.

Appreciation

Bidvest did remarkably well to return to pre-recession performance levels. The recovery demanded teamwork and dedication of a high order.

I am privileged to work alongside extremely able senior managers and a highly accomplished board of directors. In common with several other regions, South Africa suffers from a dearth of talent, but you would never guess it when dealing with the directors, executives and people of Bidvest. I thank you all for your help and salute you for your efforts in challenging times.

Our customers and suppliers drive the continuing success of our Group. I thank you for your support and your contribution to our growth.

Future

Purchase any item and you will almost certainly come across a notice telling you "terms and conditions apply". In 2011, the same notice should be attached to the future. There are no guarantees and uncertainties prevail. It's up to us to make the best of conditions as they change and adapt as we go along. Bidvest has already made big strides along this path.

One pitfall to avoid is that of corporate denial, a phenomenon that occurs when businesses deny change is happening or think they are so big they can control the changes that are taking place. This is an illusion.

Being big may enable you to absorb some punches, but if you are small and nimble you might avoid them altogether. In some key respects, many of our operations have downscaled by simplifying structures and reporting lines. The process puts us in better shape for the changeable trading conditions to come.

In uncertain times, "terms and conditions" also apply to forecasting. For example, in 2010 Bidvest failed to reach its five-year target of doubling profit, but we came close. The period included an unprecedented post-war recession that affected every geography in which we operate. Bidvest's last five years were also characterised by accelerating internationalisation.

Today, approximately 40% of Group earnings come from international markets. The fortunes of the rand, sterling, euro and Australian dollar have a material effect on our results. The impact was significant in 2010, creating little prospect that we would reach our stretch target.

What is our target for the year ahead? Bidvest intends to achieve real growth.

We have a strong balance sheet, enabling us to pursue selected opportunities for acquisitive growth as they occur.

We have developed growing insight into the markets in emerging Europe and believe further potential can be unlocked. Some African markets have also impressed over the last 18 months. Sub-Saharan Africa's low correlation with developed markets holds a certain attraction as it helps bring balance to earnings when recession affects the northern hemisphere. South America is another region of growing promise.

Our geographic reach may change, but our vision will not. We will develop our people, grow our business and seek sustained growth in shareholder value, in 2011 and beyond.

Brian Joffe
Chief executive

Macro-environment

Economic conditions remained challenging in all geographies, though signs of recovery emerged as the year progressed.

The interest rate climate was positive at Group level, though adverse effects were felt by Bidvest businesses that provide funding to clients as part of their business model. Our banking and foreign exchange business was also adversely affected.

The South African Reserve Bank cut rates, dropping its repurchase rate by 5,5% in all. By March 2010, the repo rate stood at 6,5%, the lowest level since 1981. Rates were also low in many international markets as government stimulated economies.

A resilient rand versus the Group's major trading currencies, sterling and euro, had a material impact on the translation of our offshore earnings. The net effect was to reduce headline earnings per share by 4,2%. The Australian dollar versus the rand reflected a stable environment.

Inflation was generally muted in all markets in which Bidvest is active, though some pockets of higher than expected inflation persisted in parts of Asia. South African inflation was higher than the targeted range of 3% to 6% at the beginning of the period. The rate declined steadily, however, and was well within range as our financial year came to an end.

A measure of inflation is normally beneficial for our trading businesses. Steady declines and consequent deflation in some sectors were negative for many of Bidvest's South African businesses.

We continue our policy of taking forward cover on trade-related transactions and our risk management policy of matching our foreign assets against our foreign liabilities in their local currencies was maintained. This policy was reinforced with the raising of long-term Czech koruna debt for the Nowaco acquisition.

Trading environment

Trading performance was mixed as businesses in various geographies had to contend with different rates of recovery by their national economies. Some felt the effects of continuing fiscal stimulation; some were impacted by austerity measures.

Finance is still readily available to credit-worthy customers, though nominal rates are somewhat higher. Most businesses faced no exceptional micro challenges but certain restructuring was required. Everyday issues predominated – trading profitably, managing credit and inventory and collecting debts. Generally, Bidvest businesses did well in this "new" normal environment.

Asia Pacific emerged from the financial crisis quicker than most economies, which assisted their good performance.

In the UK, recovery was weak. The major challenge has been to manage the asset base aggressively to maximise cash generation while engaging in strategic investment to create a platform for tomorrow's growth.

The Eurozone downturn impacted the Benelux countries. Our business in the Netherlands did not escape. The Belgium business was not hit as severely due to its particular market exposure. The depressed business climate also affected eastern Europe, though areas of opportunity exist.

South Africa's economic recovery, though better of late, was disappointing. At the beginning of the period the expectation was that recession would be brief and recovery robust. Recovery has been slow and recessionary impacts more severe; especially in key sectors like construction and retail.

Business expansion

Even in a challenging environment we did not stop investing. Our commitment to long-term business sustainability underpins our growth strategy. Net capital expenditure of R2,7 billion, is 21,4% up (2009: R2,3 billion). We invested R1,6 billion in capacity expansion and we continue to demonstrate our confidence in the future through major, long-term investments to ensure medium-term growth and sustainability; for example, the R503 million spent by our freight business on upgrading and expanding facilities.

Continuing focus on internal expansion is complemented by awareness of outside opportunities. Early in the period, the €250 million Nowaco group acquisition demonstrated that our ability to conclude major acquisitions is undiminished. We carried through the deal in the face of strong opposition from private equity groups, an indication that we retain considerable "fire power".

Key contributors

Major contributions came from our foodservice businesses, though the respective contributions from each business reflect changes in national markets and different rates of business growth. Our Australian foodservice business now accounts for 10,3% of Group revenue. New accounting requirements in terms of IFRS 3 in the treatment of acquisition costs largely nullified the headline earnings contribution from our new eastern European foodservice business.

Results from our retail automotive business are much improved yet still way below previous levels achieved. However, much of the new vehicle sales activity is attributable to the fleet and corporate business segments. The vehicle market for retail consumers remains subdued as credit approval rates remain low.

David Cleasby
Group financial director

Highlights

- Return on funds employed up from 36,4% to 38,7%.
- Net capital expenditure rises 26% to R2,9 billion
- Reduction of R0,7 billion in working capital
- Net debt falls to R3,8 billion (2009: R4,1 billion)
- Cash generated by operation after working capital changes increases by 18,3% to R8,0 billion
- Net interest paid declines by R270,7 million to R758,5 million

In Freight, commodity exports improved while demand for outsourced services increased. Businesses in the printing and related products sector faced strong challenges, but performed well.

The major area of underperformance is in the Industrial and Commercial division. Voltex, historically a major contributor, has been hit by a major decline in volumes as construction work dried up and the demand for copper-related products fell. Simultaneously, cutbacks in the corporate office market had significant impact on the furniture businesses.

Financial performance

Revenue fell 2,3% to R109,8 billion (2009: R112,4 billion), impacted by lower import revenue in Safcor Panalpina, price deflation and the impact of the appreciating rand. Deflation was evident in all geographies as lower demand drove product prices down. Many operations achieved market-share gains as they traded aggressively and took advantage of market weakness.

Operating expenses were well controlled across the Group, reflecting a decline on the prior year. The trading margin improved to 5,1% (2009: 4,6%).

Headline earnings were impacted by abnormal charges of R61,2 million relating to acquisition costs, mostly attributable to our new eastern European businesses. Previously, these once-off acquisition costs would have been capitalised to the cost of the investment, but under the revised IFRS 3 accounting standard are now included as an expense in headline earnings, impacting headline earnings per share negatively by 2,1%.

Our balance sheet remains strong and appropriately capitalised. Net debt declined assisted by a R0,7 billion reduction in working capital and despite additional debt funding of R1,7 billion for the Nowaco group acquisition. Bidvest normally absorbs working capital in the first half of the financial year and releases working capital in the second half. This year, seasonality showed a key shift. The depth of the recession in the first half was one factor as we acted promptly to cut our cloth according to lower activity levels in key areas. The effect of cost-cutting measures came through early on. On the flip side was the hosting of the 2010 FIFA World Cup™ in June and July. Some businesses, notably in foodservices, stocked up ahead of the event.

Interest cover improved to 7,4 times from 5,0 times in 2009, reflecting significant borrowing capacity. Net debt to equity at 23,1% shows pleasing improvement (2009: 29,2%). Net finance charges declined 26,3% to R758,5 million.

We benefited from a prompt response to increased credit risk. This was already a focus area as the year began. We took an aggressive view, applied strict credit extension criteria and gave focused attention to debtors collections throughout the year. We lost some business as a result of this cautious approach, but as the year progressed we experienced relatively few bad debt problems. Such action will undoubtedly benefit the businesses as markets return to some form of growth.

Return on funds employed showed pleasing improvement, rising from 36,4% to 38,7%.

Capital market utilisation

Falling interest rates helped to bring down finance charges.

In South Africa, government benchmark rates fell below 8% and credit spreads narrowed. As short-term rates fell, the Group increased its exposure to local capital markets and leveraged our strong credit rating by using "commercial paper" to cover some short-term needs at attractive rates. Funding from capital markets totalled R3,1 billion at year-end.

With medium-term funding rates around 9%, the capital market is beginning to look like an attractive source of funding for investment purposes.

The view among many South African economists is that local short-term interest rates will remain flat for six months and perhaps even a year. In this environment we will continue to access capital markets in order to provide the Group with attractive, cost-effective funding while maintaining a prudent liquidity profile.

Debt

Bidvest's attitude to gearing remains appropriate in the current climate. Net debt was down, falling from R4,1 billion to R3,8 billion despite the additional debt assumed for the Nowaco group transaction.

To finance the Nowaco/Farutex transaction we issued shares, raising approximately R1 billion and then raised R1,7 billion in debt, principally from institutions in the Czech Republic. The Czech debt repayment is structured over five to six years at attractive rates. Use of these facilities provides a natural hedge against currency exposure on its asset base and ultimately the Group's balance sheet.

Ratings

Bidvest maintained its credit rating, verified by two independent rating agencies. We were rated by Fitch Ratings as A+ F1 while Moody's gave us a rating of A1.za/P1.za.

This rating band mirrors our profile of an acquisitive and opportunistic group at a time when markets and institutions are still risk averse.

We are conservative in the way we run our business. However, we do assume debt to fund investments. As a consequence, our debt may increase from time to time. Our investment behaviour has sometimes been anti-cyclical. This enables us to pursue significant opportunities and build long-term value for our shareholders.

Cost of restructure

Major once-off restructure and closure costs arose as restructuring was carried out at several businesses, notably at our UK businesses, Bidvest Automotive, Safcor Panalpina, part of Bidvest Freight and Bidvest Industrial and Commercial. Restructuring in the UK involved both 3663 First for Foodservice and Ontime Automotive.

The benefits of leaner structures and new management intervention are already evident. Further benefit is expected next year.

Risks

Credit risk sharpened, but early intervention and an aggressive approach resulted in an improved debtors position, indicating that the risk was well managed.

Currency risk is part and parcel of managing an international business. In respect of cross-currency purchasing, a prudent forward cover policy is one aspect of management; a long-term commitment is another. Rand strength may be negative at certain stages yet during another period rand weakness may have a net positive effect. Recent economic turmoil in Europe has demonstrated that forex policy is required in all jurisdictions, not only in South Africa. In terms of managing cross-currency movements, the Group ensures assets and liabilities are always matched in local currencies, thereby negating such exposure.

Our diversified model also balances risk. Consumers may not be rushing out to buy new cars, but the purchase of basic food items may continue as normal. Different levels of recovery in various countries also showed that macro-economic impacts can be balanced to some degree at a geographically diverse business like Bidvest.

Regulation

Bidvest has long been run in line with good sustainability practice and in accordance with the principles of triple bottom-line reporting. The business engages in stakeholder engagement and is open and frank in its communication.

The implementation of the revised King code involves no philosophical leap for us. We have long endorsed these principles as we embark on the journey of continued improvement in governance standards.

Recommendations as well as requirements are contained in the King III report. In many instances, we anticipated these changes as they track international developments that we are close to. Bidvest remains a pragmatic organisation and will ensure the principles embodied in King III will be practically applied within the context of the Group culture and structure.

Culture

From a financial perspective, Bidvest has a returns-based culture. This helps to explain our continued use of return of funds employed (ROFE) as a key means of benchmarking operational performance. Historically, Bidvest has achieved ROFE of between 40% and 50%. This year, many businesses exceeded that.

The yardstick is well understood across the Group and underpins our performance-driven philosophy. We aim to ensure that not only is the asset base sweated, but that capital reinvestment continues for the medium- and long-term development of the Group. We take a responsible stance on equipment replacement cycles.

The returns-based mindset contributes to the development of individuals, teams and businesses while adding value for stakeholders. This year's results confirm that focus like this helps to ensure acceptable performance levels even at businesses that face significant pressure in the face of difficult economic conditions.

ROFE remains an important tool. There are no plans to dispense with it but rather to re-invigorate its application by using long-term incentivisation to reinforce its value-add.

Targets

Market expectation (as gauged from sell-side analysts) was that our headline earnings per share would achieve growth in the low to mid-teens. HEPS grew by 15,1%.

Analysts were also keen to see how we would perform against our internal target of doubling the size of Bidvest in the five years to June 2010. The target was set when business conditions were broadly favourable and the overall consensus was that economies and businesses would continue to grow, perhaps with minor corrections along the way.

No one foresaw the financial crisis of 2008/09 and the depth of the recent global financial crisis. Despite setbacks last year, Bidvest has returned to the growth path.

We fell short of doubling HEPS, but are pleased to report the Group is over the high watermark of the 2008 financial year.

Future

The medium-term target for the Group is real organic growth in earnings across all our business.

We remain an acquisitive and opportunistic company. All avenues for growth will be pursued. Weak economic conditions in many markets create an environment in which business value can be extracted, both within South Africa and internationally.

Our liquidity profile is good. However, additional funding exposures to the capital markets will be explored in search of further cost efficiency and diversification.

We have sufficient debt- and equity-raising capacity across the Group to fund future organic and acquisitive growth. Financing of the Nowaco transaction confirmed our ability to raise capital at favourable rates from a variety of sources. This gives Bidvest leverage over other parties looking to acquire assets we may have targeted. When appropriate, we will make use of this financing advantage.

David Cleasby
Group financial director