

## Review of operations

### Bidfreight

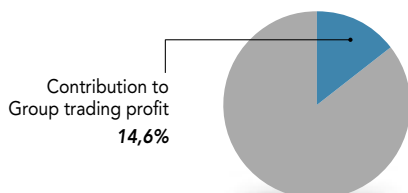


Bidfreight is Africa's leading private sector freight management company with a presence in every major port in southern Africa. Port operations are reinforced by strong distribution and airfreight capabilities. Bidfreight focuses on terminal operations and logistics in southern Africa, international clearing and freight forwarding and marine services.

- ▶ Met challenging targets as South Africa's consumer-led boom underpins import activity
- ▶ Growth of 15,4% takes revenue to R15,8 billion
- ▶ Trading profit rises to R536,4 million – up 13,4%
- ▶ Bidfreight exits European cross-Channel ferry and terminal business through advantageous sale of Dartline
- ▶ R226,5 million investment in infrastructure across the division with a strong focus on port operations
- ▶ Leaner structure adopted, with focus on 10 principal business activities



Anthony Dawe  
Chief executive



#### Introduction

Revenue showed satisfactory growth of 15,4% to R15,8 billion while trading profit increased by 13,4% to R536,4 million. These figures are in line with challenging targets and reflect robust efforts to optimise the opportunity presented by continued growth in global trade and a largely buoyant national economy.

South Africa has trading relationships with more than 200 countries and territories. The national strategy of rapid reintegration with the global economy has achieved remarkable success, creating unprecedented opportunities and challenges for the freight management sector.

Record volumes of freight were handled by Bidfreight's portside operations. High-value imports by air increased by 8% for the year, topping 30 000 tons for the first time.

In this environment, the throughput and productivity per individual and per asset have to be constantly enhanced, requiring appropriate investment. At just one infrastructural project, Bidfreight has committed R44 million for upgrading bulk-handling capacity at Maydon Wharf. In addition, we spent R12,1 million on the training and development of our staff.

Improved freight-handling efficiency is in the national interest and we are happy to applaud the recent success of Transnet which recently reported a 57% increase in profit from operations to R8,5 billion and is currently engaged in a R64,5 billion capital investment programme to extend and upgrade national transport infrastructure. A significant portion of this investment will be made at South Africa's ports to expand container and vehicle terminals, deepen berths, improve infrastructure and buy new equipment.

South Africa continues to achieve significant growth in container volumes. Containerised traffic at South Africa's ports grew by 54% between 1998 and 2005. Last year, more than three million containers were handled and this growth should continue.



#### Safcor Panalpina

is a global network spanning six continents and the oceans to meet freighting and logistics requirements



**Island View Storage**  
is South Africa's leading provider of liquid bulk storage



**Manica**  
provides total freight management systems across southern Africa



**Bulk Connections**  
operates from a strategic site in the port of Durban

In some respects, Transnet are competitors of Bidfreight, but they are also our partners. Modern logistics is characterised by mutual dependence. All players in the freight management sector have a shared interest in the growth and development of transport infrastructure. Growth in trade translates directly into growth in national prosperity.

It is also heartening to report that improved understanding has been achieved with the National Ports Authority (NPA), our landlord at many portside operations, notably in Durban where we are the biggest private sector tenant of harbour premises. New consolidated Durban harbour leases were signed in the previous year, giving the security of tenure that is a prerequisite for strategic investment.

National planners have consistently indicated that South Africa cannot remain a commodity-reliant economy. The country's manufacturing base has to expand and diversify. Bulk-handling efficiency remains a key requirement, but the ability to move finished high-value products will become increasingly important as South Africa transforms itself into a value-adding economy.

## Review of operations

### Bidfreight

Modern facilities are crucial at the portside while airfreight for time-sensitive, high-value imports and exports will become a vital part of the nation's freight management mix.

It is pleasing to record that the first phase of Safcor Panalpina's expansion programme at Johannesburg International Airport has been completed. The second phase is now in progress. This expansion involves close co-operation with another national agency, the Airports Company South Africa.

Bidfreight Port Operations (BPO) in Durban have completed a new 12 500 square metres warehouse. In addition, South African Bulk Terminals are completing the on-site construction of a R44 million ship unloader on Maydon Wharf. This will significantly enhance Bidfreight's handling capacity and efficiency. The infrastructure investment at Bulk Connections continued.

Inland distribution capacity has been improved in the chemical sector following the purchase by Rennies Distribution Services (RDS) of a chemical warehouse in Denver, Johannesburg.

#### Macro-economic factors

Business and consumer sentiment remained positive thanks to low inflation, relatively low interest rates, strong credit extension and continued economic growth.

The 2006 National Budget included a three-year government allocation of R372 billion to capital projects. Strong imports of electronic and automotive products and other consumer appliances were evident.

The energy needs of industry and buoyant car sales were also reflected in strong imports of petroleum products.

#### Industry-related issues

The resilient rand supported demand for imported consumer goods. The strong appetite for technology items and consumer electronics confirmed the soundness of the Bidfreight strategy of investing in expanded airfreight-handling capacity and container pack-unpack activities. These container services assist importers looking for seamless progression from the wharf to their warehouse.

The downside of rand strength was the pressure on exporters trying to remain price-competitive on world markets. This has a knock-on effect on Bidfreight margins as exporters press for pricing efficiencies along the logistics chain.

Maize exports in 2006 were disappointing, following strong growth in the previous year. A substantial maize export programme was anticipated, but did not occur due to increases in domestic prices.

#### Business risks

Efficient freight management is dependent on co-operation and support from all the participants in the chain. Bidfreight is dependent to some extent on the performance of other players in the national logistics and transport sector. All contributors have the same objectives, but priorities can vary and optimum advantage can only be gleaned when national transport infrastructure operates to maximum efficiency.

This not only requires significant investment to which government has committed, it also demands prompt implementation of strategic plans. Government, however, is simultaneously committed to broad consultation and inclusive processes. This break with the authoritarian past is applauded, but it can slow on-the-ground delivery and create strains on existing capacity. Realising our potential as a trading nation requires fast action, but realising our democratic potential demands deliberation.

Major decisions on port operations and facilities are imminent and grow more urgent by the month. Pressures on transport infrastructure increase as the economy moves toward the goal of 6% GDP growth a year.

A policy review is urgently required to create a strategic framework that would encourage greater utilisation of the rail network. Our roads would benefit; so would port efficiency and throughput.

The more government succeeds in driving economic growth, the greater the volume of goods South Africa has to handle. A volume challenge requires a volume solution. Railways are designed for the safe, continuous movement of big volumes of freight. Our rail network is a national asset. Let us optimise it.



**Bulk Connections**  
operations are based on a strategic site in  
the port of Durban

Capacity utilisation levels can never be predicted with certainty, but investment has to be made to support strategic industries and important customers. This business risk is inescapable, but can be managed through strong relationships and constant exchange of information between partners.

All logistics and ports operations are exposed to the risk of dramatic downturns in the economy. At Bidfreight, this risk is mitigated to some degree by long-standing relationships with major groups. They engage in long-term planning and make strategic commitments that ensure continuing volumes, even when the business cycle turns.

Some exchange rate risk is acknowledged. It is sometimes assumed that a business, active in both imports and exports, is rand-neutral. This is not entirely true. A degree of rand weakness favours Bidfreight as it tends to increase the income from disbursement business.

### Sensitivity analysis

Strategic risk is the key risk factor for Bidfreight. Our business prospects are inescapably entwined with the prospects of South Africa as a trading nation. Policies that foster commercial contacts across Africa and with the rest of the world are positive for Bidfreight. Any policy shifts that affect trading relations could have a material effect on the business.

Similarly, at a macro-economic level Bidfreight is affected by changes in the business cycle and policy initiatives that affect trade volumes. A major recession or a significant shift in international investor or business sentiment toward South Africa would affect the business. Some of these possibilities are not manageable at a company level. However, regular communication with policymakers, ongoing co-operation with state agencies and good relationships with customers provide some "comfort" and enable planning.

### Structures and growth

The main structural change involved the disposal of the Dartline business in the UK. The sale of these cross-channel ferry and terminal operations was concluded on advantageous terms and provided us with a suitable exit.

## Review of operations

### Bidfreight

Disposal of these overseas operations in no way implies that Bidfreight will not explore further international opportunities. We remain an acquisitive business.

Internally, Bidfreight has flattened structures still further by focusing on 10 major business units: Safcor Panalpina, Island View Storage, Bulk Connections, South African Bulk Terminals, SACD Freight, Bidfreight Port Operations, Rennies Distribution Services, Rennies Ships Agency, Manica and Naval.

The restructure led to the closure of some sub-divisional offices and has created cost savings. There were no major job losses. The staff complement is stable at 5 334.

One feature of the restructure is the close integration of Bidfreight Intermodal with SACD Freight, leading to improved service for customers looking for an all-in-one offering from the container, via road or rail, to the customer's door.

Safcor Panalpina has benefited from a brand repositioning exercise to improve awareness and communicate the brand mission to its customers and staff. The repositioning coincided with the launch of expanded operations at Johannesburg International Airport.

Increases in revenue and profitability are largely the result of organic growth. No significant acquisitions have taken place.

#### Black economic empowerment

Bidfreight works closely with several state agencies and a wide variety of large corporate groups. BEE status is increasingly important to both public and private sector bodies. At a Group level, Bidvest's broad-based BEE approach is well publicised. Within every business unit at Bidfreight, there is strong commitment to BEE and some notable successes have been achieved.

Safcor Panalpina and Rennies Ships Agency have achieved an "AA" empowerment rating and South African Bulk Terminals an "A" rating. Rennies Ships Agency has appointed Bidfreight's first black managing director. The six black financial directors who were appointed in previous years at various businesses within the divisions are performing well,

so much so that four of them have been appointed to the Bidfreight board.

#### New investments

In total, Bidfreight committed R226,5 million to new premises and facility upgrades. This included spending by Bulk Connections in Durban, investment by Safcor Panalpina at Johannesburg International Airport, a new ship unloader at South African Bulk Terminals, spending on BPO's new Maydon Wharf warehouse and the cost of the new chemical warehouse in Denver.

#### Innovations

Higher imports of liquid products have significantly increased the demand for bulk liquid capacity. IVS responded with an innovative programme to optimise available assets. New berth lines and new loading points were established while an electronic access and product receipt and release system was put in place. As a result, IVS has achieved increased throughput through the same tanks.

Bulk Connections launched several innovative approaches to achieve further improvements in operational efficiency. The terminal was reconfigured into rail-, stockpile- and vessel-handling zones and a mobile stacking machine for efficient stockpile building was designed and produced.

The business also introduced automated bottom discharge containers for the soft loading of products. These are carried on specially designed trailers and loaded by converted container cranes. In addition, by changing the way we move products around the site, Bulk Connections has halved ship handling times.

More innovations are planned, including the modification of container cranes to discharge bulk products from vessels.

#### Challenges

HIV/Aids remains a major challenge and Bidfreight businesses have expanded their HIV/Aids programmes. These initiatives typically include a strong educational component, awareness campaigns, peer-group input, condom distribution and voluntary counselling and testing.



**Rennie's Distribution Services** creates logistics solutions for a blue-chip client base

In addition, some business units provide anti-retrovirals through in-house clinics.

Bidfreight is responsible for the safe, environmentally secure handling of a wide variety of products, commodities and chemicals. Employees working in hazardous environments receive appropriate training and attend regular refresher courses. Safe and efficient materials handling is a core competence while employee health is regularly monitored. One notable success was the one million disabling-free hours recorded by the Richards Bay operations of IVS.

Bidfreight not only strives to be a good neighbour in an environmental sense, we also try to foster close ties with the communities in which we operate and from which we draw our people. The level of corporate social investment continues to increase and tends to focus on health, education or infrastructure.

Development of our people is a priority at Bidfreight. In all, 7 015 training days were logged. The training investment of R12,1 million is up 18,5%.

#### The future

There has been no sign of any slackening in business activity or demand for Bidfreight capacity. The import of consumer goods remains buoyant. However, higher interest rates and a weaker rand may affect the consumer's appetite for imports.

The effect of government's commitment to major capital and infrastructure projects may also affect the nature of the import-mix. Should local cement manufacturers be unable to meet the surge in demand, we may see the import of significant volumes of bagged cement. Major infrastructure projects are in prospect until at least 2010. This import category may, therefore, represent a growth opportunity.

Continued economic growth will also sustain demand for petroleum imports.

Growth in international trade is expected to continue and will underpin further gains by our freight forwarding and distribution businesses. The strategy of growing our value-added services for importers has proved its worth and will be continued.

A weaker rand – predicted by many commentators – will tend to favour export activity and will assist Bidfreight's disbursement activities.

Bidfreight foresees similar and continued growth in revenue and operating profit. Rigorous expense management will be crucial if we are to achieve appropriate returns on the increase in our level of new investment.

Capacity has already been enhanced at the port and at our airfreight operations. This provides a platform for new growth. The pace of new investment will not slacken; nor will our efforts to deepen our relationships with our clients and with public-sector agencies.

As Bidfreight grows its infrastructure, efforts will be made to ensure that SMEs with the appropriate BEE profile are among the contractors employed on these projects.

Negotiations with the NPA for renewal of the Bulk Connections lease are nearing conclusion. A successful outcome will enable Bidfreight to commit to further improvements at the bulk-handling terminal. Our strategic intent is to work in close collaboration with state agencies to foster continued growth of the country's freight management capacity.

## Review of operations

### Bidfreight

#### BIDFREIGHT TERMINALS

##### Bulk Connections

Pleasing increases in volume throughput and operating profit have been achieved by this bulk-handling specialist. Volume improvements have been seen in both sized and unsized coal.

Good progress has been made on the upgrade to the bulk-handling terminal. This has not only improved operational efficiency on current contracts, but has attracted the attention of prospective customers. Opportunities for marketing the new facility to a wider range of industry users will be pursued.

Further improvements to the facility are envisaged with the intention of handling a wider variety of bulk products. Bulk Connections can move rapidly on the implementation of these plans once certainty over the new lease conditions is achieved.

##### Island View Storage

Improvements in tank capacity usage and throughput have been achieved, resulting in satisfactory growth in revenue and trading profit at this leading provider of liquid bulk storage and handling services. Strong demand is expected to continue, particularly from the petro-chemical industry. Tank occupancy rates were particularly high at IVS's Durban and Isando operations.

Additional capacity is required at Durban and a R200 million plan for new tankage has been drawn up. A new facility is planned at Richards Bay to provide storage capacity for a major customer in the petro-chemical industry. Construction work has begun.

##### Bidfreight Port Operations

Growth in both revenue and profitability was achieved despite the pressure on key exporters in the steel and forest products sectors. BPO provides quayside services and is a specialist in the handling of steel, forest products, containers and break-bulk cargo. These operations have achieved efficiency gains and are making a growing contribution to BPO results.

BPO's new 12 500 square metres warehouse at Maydon Wharf went into operation in May.

##### Rennies Distribution Services

Competition remains intense in the inland distribution sector and RDS was challenged to maintain its margins and volumes in a flat year. Distribution services for exporters performed well, but other activities came under pressure. Expansion in the chemical industry began at Denver in May.

##### SACD Freight

SACD Freight, the leading container depot in South Africa, and Bidfreight Intermodal achieved notable revenue and profit growth. Good volume increases have been seen at the new Durban warehouse. Bidfreight Intermodal has also achieved good volume growth, though margins have been under continued pressure as a result of rand strength and intense competition for business. The strong rand had a braking effect on export pack business.

Investment in new capacity continues. Construction will begin on a new R70 million Cape Town warehouse as soon as final council approval is received.

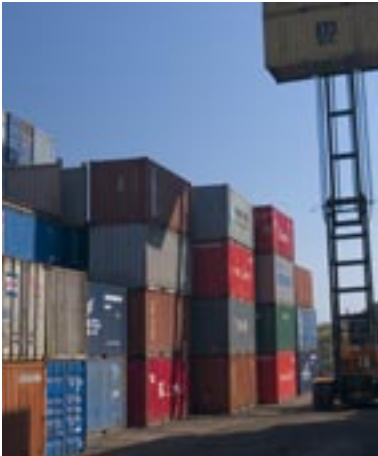
##### South African Bulk Terminals

The business – a strategic partner of clients in the agricultural and mining industries – was adversely affected by the low level of maize exports, as high prices caused some international buyers to cancel orders. Despite this setback, overall volumes were maintained, though margins came under pressure.

Improvements to plant efficiencies are a point of focus for management. Construction of SABT's new ship unloader will improve the speed of operations on the berth and reduce costs.

##### Naval

Mozambique's leading private-sector provider of stevedoring services enjoyed a much-improved year, achieving higher-than-anticipated growth in revenue and operating profit.



South African Container Depot has representation at all major ports and the inland port of Johannesburg

## INTERNATIONAL CLEANING AND FORWARDING

### Safcor Panalpina

Billings showed strong growth at the South African market leader in freight forwarding, though margins were under pressure. Even so, rigorous expense management enabled good profit growth. Activities are underpinned by the long-standing relationship with the Panalpina World Transport Group and its extensive network of overseas offices. We congratulate our global partners on their successful listing as a public company in September 2005.

There was pleasing growth in business from new clients while operational efficiencies were achieved following the restructuring of Gauteng operations. These operations have been consolidated under a single management team.

Growth was assisted by our re-branding as a provider of complete supply chain solutions. This is in contrast to our former traditional clearing and forwarding services. One regional driver of growth was our relationship with clients in the Western Cape oil and gas industry. The sector is experiencing strong growth, reflected in higher demand for imported equipment and consumables.

The first phase of new premises at Johannesburg International Airport has been completed, adding 10 000 square metres in warehouse capacity. The second phase (another 10 000 square metres) is under way and should be completed by April 2007.

Efforts to further improve our BEE credentials were rewarded when a "AA" rating was achieved.

## MARINE SERVICES

This leading ships agency business put in a strong performance on the back of an increase in liner volumes and growth in principals' global trade portfolios. Though volumes are pleasing, pressure is being felt on margins as freight rates are subject to intense competitive activity, primarily as a consequence of excess vessel capacity. The non-liner and freightbulk businesses continue to stake their claim in this highly competitive market. New opportunities are being pursued. Marine insurance turned in satisfactory earnings.

## MANICA

Manica – a provider of total road and rail freight solutions across southern Africa – recorded pleasing growth in operating profits. This trend is expected to continue, despite difficult trading conditions, particularly in Zimbabwe.

Routes into Zimbabwe were well utilised to maintain the supply of humanitarian aid from international donors. Botswana operations (largely geared to through-transport) performed well.

Facilities are being upgraded while increasing focus falls on the development of alternative trade routes via the ports of Dar-es-Salaam and Walvis Bay to facilitate the handling of large cargo volumes. Increased traffic is anticipated in view of the opening of new mines and the refurbishment of existing mines in Zambia and southern Democratic Republic of Congo.

New opportunities are being explored in some national markets. Zambia's success in reducing its former reliance on commodity exports may enable Manica to widen its offering by targeting the agricultural and commercial sectors centred in Lusaka. This will complement Manica Zambia's traditional focus on minerals and the Copperbelt.