

Review of operations

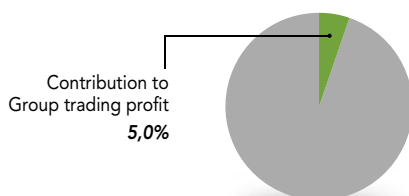
Bidpaper Plus



Bidpaper Plus is the South African market leader in print production and value-added fulfilment services. Core competence in business forms manufacture, label production and personalisation and mail is complemented by strategic growth into digital and electronic solutions. The manufacture and distribution of high-quality stationery augment an extensive range of services. Bidpaper Plus has a broad national footprint and exports its products and services to markets in Africa and beyond.

- ▶ Stand-alone divisional structure created and new identity established with internal realignment
- ▶ Revenue growth up 4,7% to top R2,0 billion
- ▶ Profitability rises 13,9% to R181,9 million
- ▶ Contracts won to supply election materials to Uganda and the Democratic Republic of Congo
- ▶ New investment in Silveray Manufacturing
- ▶ National presence created for Lithotech Afric Mail along with jobs growth
- ▶ Strategic contract success as we win Cape Town City Council account
- ▶ Disposal of interest in Lithotech France

Neil Birch
Chief executive



Introduction

The stand-alone business unit, Bidpaper Plus was created when businesses in the Printing and Paper Conversion segment of Bidoffice were given separate divisional status. The inclusion of Kolok Africa added critical mass.

The disposal of Lithotech France caused no disruption as there was no operational integration between the South African division and this European business.

In many respects, the timing of divisional status and the new identity were opportune. The new name concentrated industry attention on the "Plus" activities of the business just as greater marketplace focus fell on e-billing and value-added services.

Internal structures have been amended to gather all printing and related activities into cohesive units covering a range of competencies (personalisation and mailing, labels, printing and paper conversion, and sales and distribution). Stationery Distribution (home of the merged and refocused Silveray

stationery company and Statmark) is a separate entity. So is Alternative Products, the business unit focused on e-mail, IT solutions and consultancy support.

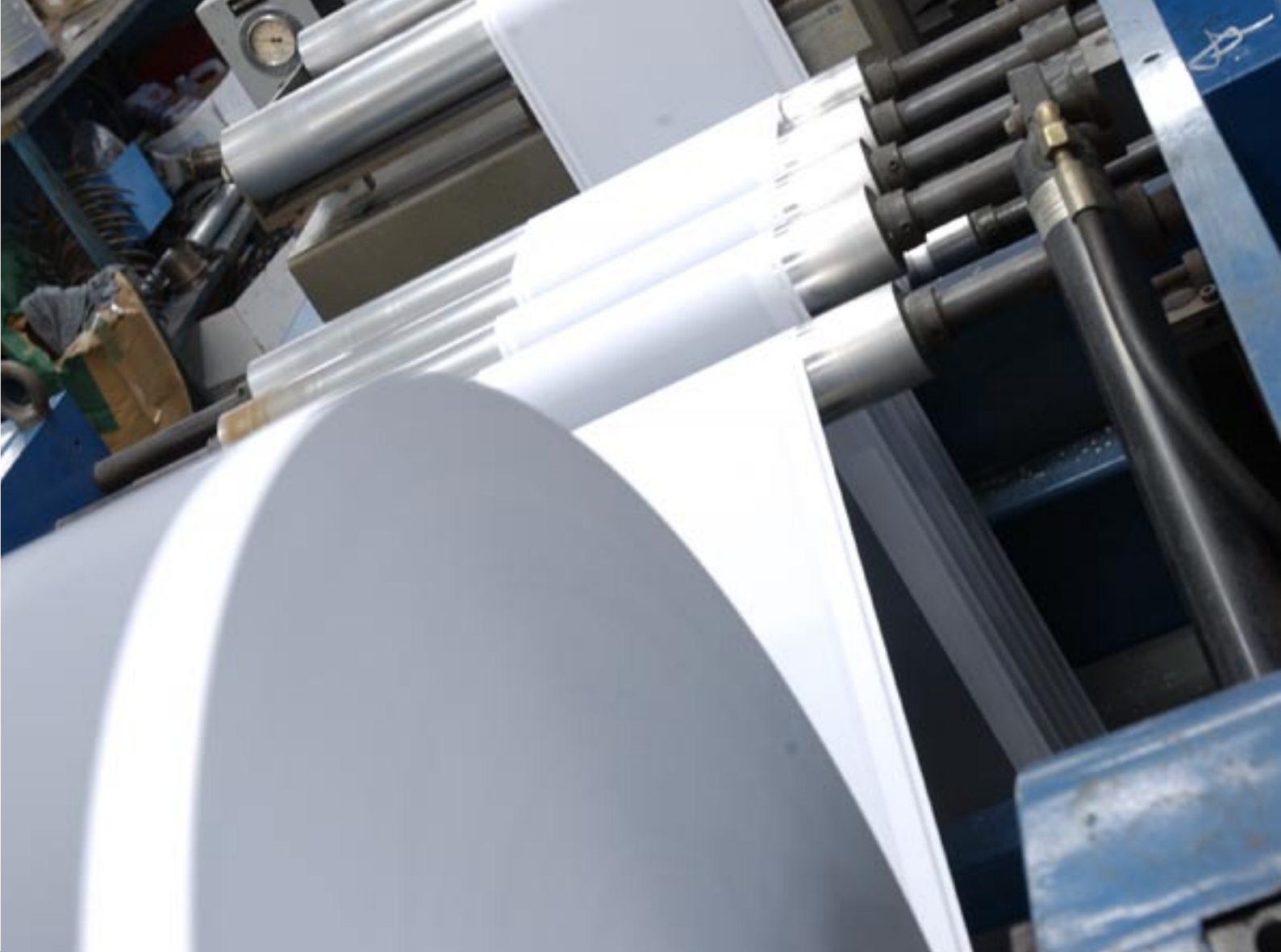
Trading conditions were highly challenging. Even so, a measure of growth was achieved in trading profit and revenue. The quest for efficiencies was intense, but without sacrificing jobs. Indeed, modest jobs growth was achieved within our mailing operations. The division now employs 4 073 people.

Sales successes were largely a function of organic growth. One small acquisition was made. The focus was on new investment to expand the product range and reinvigorate segments of our brand portfolio.

Macro-economic factors

A strong rand and international competition contributed to a deflationary climate and, in many cases, prevented any internal cost inflation being passed on to customers. Low levels of general inflation encouraged customer resistance to price increases.

High levels of retail spending underpinned strong demand for quality printing, not only boosting consumer segments such as magazine titles, but also having beneficial effects in



Lithotech
market leaders in print and print-related products



Kolok Africa
a leading provider of printer consumables



e-mail Connection
has positioned itself as the leading electronic document generation, delivery and management company in South Africa



Silveray Statmark
manufactures and distributes stationery products

the area of business forms manufacture and bill presentation. During a consumer-led boom, the volume of monthly accounts rises. Simultaneously, major retailers and financial service groups demand that these accounts be generated promptly and accurately, creating marketing opportunities at Bidpaper Plus where print-to-post and value-added fulfilment services are their core competence.

Industry-related issues

e-billing and electronic solutions proved themselves in a breakthrough year – confirming the soundness of our recent investments in these competencies. Retailers and financial service providers are increasingly pushing for electronic solutions while more widespread consumer comfort with e-mail billing is now evident.

Crime (or the threat of it) is also driving growth in certain areas of the business. Built-in label security has become a key specification by customers who are trying to protect their brands from piracy. Anti-copying, verification and track-and-trace features are increasingly demanded, reinforcing relationships with retailers and other customers who are looking for a trusted, highly professional partner to handle label production.

Bidpaper Plus

Business risks

An operation focused on printing and paper conversion is obviously dependent on paper suppliers. In South Africa, the buyer of paper faces a strongly entrenched duopoly and has little opportunity to negotiate competitive prices. This creates a risk that the pricing practices of the major suppliers will have an impact on margins and our ability to aggressively pursue some marketplace opportunities. For this reason, Bidpaper Plus applauds recent official scrutiny of the practice of import parity pricing.

Exchange rate risk is also apparent. A strong currency increases our vulnerability to competition from some imports, but we are also importers and, therefore, this risk is often balanced.

Technology risk is a factor as the printing industry uses increasingly sophisticated systems. The risk is managed through our membership of the European Forms Manufacturers' Association (Eforma). Eforma scans the technology horizon for new developments. When an Eforma member becomes an early adopter of any new technology, information is shared across the relevant focus group.

In this way, techno-risk is turned into techno-opportunity. Bidpaper Plus was aware at an early stage of the trend to full digital colour printing in response to demands from direct marketers. Reports from partner companies identified the market indicators which have now triggered the entry of Bidpaper Plus into this market. Costly errors stemming from premature entry have been avoided.

Technology risk may apply to a greater extent to competitors who lack our capital resources. Sophistication drives up the cost of investment in new systems. The tendency is for smaller players to fall off the pace and surrender competitive advantage to the well-resourced company that makes sustained investment in research and development.

Skills shortages also pose risks. Bidpaper Plus invests heavily in skills training while supporting the Printing Industries Federation training college as a contributing sponsor. We benefit from our status as one of the industry's largest employers and the biggest brand in the fields of form production and laser printing and mailing. We tend to retain talent as we can offer skilled employees proper career development opportunities.

Our size does not leave us vulnerable to inroads by smaller competitors. Our national footprint makes us the preferred partner of large organisations that demand nationwide representation and distribution capacity.

Sensitivity analysis

The most material risk relates to technology change and the threat of the paperless office. In response, the business continues its strategic programme of diversification into electronic solutions to meet customer communication needs. The areas of communication and advertising are frequently revisited by legislators. Therefore, public policy risks apply, specifically the privacy issues raised by some direct mail campaigns. This risk has been managed by achieving an improved business balance with greater emphasis on commercial offerings.

Structures and growth

In April, a small acquisition was made in KwaZulu-Natal. The operation has now been re-branded Lithotech Afric Mail Durban. This means our laser printing and mailing operations have a presence in all major metropolitan centres. Print-to-post activities benefited from high levels of consumer spending, helping us to achieve modest jobs growth.

A strong resource-base in different regions is increasingly important as major customers expect their partners to have disaster recovery programmes in place, with back-up at several sites. Furthermore, speed-to-market is key for big banks and national retailers. Our ability to split data regionally and accelerate the distribution of finished material to local end-users has become a source of competitive advantage.

These factors help explain the high levels of contract renewal across Lithotech Afric Mail – a key feature of the year.

Leveraging maximum benefit from our national stature will receive even more attention. This process will be facilitated by our new "family" structure and easy access to national sales and distribution capabilities by all contributors.

The Silveray and Statmark merger has bedded in well.

The inclusion of Kolok Africa within the new division is logical. This business produces thermal point-of-sale ribbons, carbon-paper and associated items, thermal printer ribbons and security foils. This creates natural synergies with Ozalid-provided printers and allied consumables.



Printing and Conversion
provide strong support to personalisation
and mailing activities

Black economic empowerment

Greater understanding of the Bidvest BEE model is evident. Group level commitments have tangible end-results, as shown by the sustained operation of our BEE joint-venture, Phakama Print.

Our BEE credentials came under close scrutiny when Lithotech Afric Mail Cape tendered for the contract to laser print and mail the water and lights accounts of Cape Town City Council. Our Cape team won the contract, demonstrating the growing strength of our BEE profile and the potential for further inroads into public sector business.

New investments

A R25 million investment was made to enhance the quality of stationery manufacture. Old equipment is being replaced by state-of-the-art machinery. The 18-month upgrade programme will continue into 2007.

A major beneficiary of the programme is Silveray Statmark, the custodian of numerous business stationery and scholastic

stationery brands (Croxley, Sellotape, Rapid, Penguin, Pelican, Stabilo Boss, Helix, Esselte and Dymo).

Investment in technology and capacity is ongoing.

Innovations

Our innovative approach to value-added fulfilment services was highlighted by new contract successes for our "elections-Africa" team, part of our export division. Hot on the heels of their success in supplying materials in support of November's referendum in Kenya, they won the contract to provide a solution for the Uganda Electoral Commission. The team had to print 33 million ballot forms to a tight deadline.

They followed up by winning an even larger contract to provide support material for the DRC elections. In both instances, we faced international competition. A key factor in winning the business is our proven ability to deliver an all-in-one solution no matter what the requirement.

We supply an election kit in a box, covering printed material, pens, pencils, calculators, official attire for observers, ballot booths in a pack; even emergency lighting. Often, printed matter is only a minor element in the complete package. The scale of operations can be breath-taking. Material in fulfilment of the DRC contract filled 30 Russian Antonov cargo planes.

Review of operations

Bidpaper Plus

Our latest product – launched toward year-end – is a digital pen and paper set, targeted initially at financial service providers. A built-in miniature camera enables the electronic pen to capture pen strokes as they are made. It stores the information and can transmit the data using various devices. The pen is used in tandem with digital paper that uses a pattern of minute dots.

Use of the pen in conjunction with digital paper enables the fields in a business form to be captured onto a computer template as the person completing the form enters details and ticks off preferences. An order can be taken or confirmed there and then. Data from the pen can be downloaded into a PC, laptop or to a central server via 3G cellphone.

Bidpaper Plus has been authorised by the product developers (Annoto of Sweden) to print the digital paper. The Annoto connection was facilitated by Standard Register of the USA, with whom a long-standing relationship exists.

Challenges

HIV/Aids education and awareness training have been carried out for many years at all operations. The effort is complemented by access to HIV/Aids testing and counselling services. Training of suitable candidates also enables business units to lay on counselling from a peer group adviser within the work situation.

Increasing attention is being given to gathering information on levels of HIV infection across business units – while guaranteeing absolute confidentiality. The intention is to build a fuller picture of where prevalence is highest. This will enable support to be targeted most effectively.

Skills development remains a priority. Technical training increasingly has to be complemented by sales training. Bidpaper Plus takes a solutions approach to its business and becomes a consultant to customers. Cross-selling is another priority as we “break down the silos” to create total solutions. Ongoing investment is necessary to build these skills.

Talent identification and fast-tracking of high-potential staff members are bearing fruit, creating quality candidates for further development.

Total external training spend over and above the statutory training levies topped R400 000 and 5 500 training hours were logged.

Selection for attendance at The Bidvest Academy is regarded as an honour. All nominees embrace the opportunity with great enthusiasm. Academy training covers both business and life skills and the boost to self-confidence is apparent in all graduates. Bidpaper Plus has already promoted a number of graduates to more senior management positions. Their progress is being closely monitored and supported.

The challenge of meeting BEE scorecard targets is being successfully addressed. The business holds an “A” empowerment rating. New ratings are being sought with the intention of moving higher up the “A” category. Particular attention will be given to improving our BEE procurement scores and achieving more recognition for our social investment.

A new CSI strategy is being developed, putting the accent on smaller, community-based projects that enable local business units to make a difference in nearby communities. We will seek partners (for example, charities and donors) to bring critical mass to faltering projects and use our skills in project delivery to speed the implementation of initiatives that might otherwise stall.

One point of focus is participation in the upgrading of the Nkosi Haven for Aids Orphans.

Educational support remains at the heart of our CSI programme. We can make a practical contribution as a major provider of learning materials and stationery. We donate stationery to various educational initiatives in disadvantaged communities.

The challenge of maintaining a safe working environment has always been taken seriously at Bidpaper Plus. Quality working practices are rigorously managed.

Prime focus when addressing the environmental challenge is to ensure that full use is made of recyclable paper. Unfortunately, it has not been possible to find a substitute for siliconised backing sheets, but almost all other materials processed by our businesses are recyclable. We avoid or reduce the use of toxic inks and solvents. Where no alternative exists, we ensure that only registered disposal agents are used when handling the waste products.

Our five-year employment equity targets were met and a new strategy is rolling out. Lithotech Afric Mail has given an industry lead in the employment of people with disability, some of whom have since achieved formal qualification.

The future

Trading conditions will remain highly competitive. Overseas competition can be expected to continue, despite some weakening of the rand; this impacts many of our stationery lines. However, new investment in modern stationery manufacturing plant will enable a strong marketing push by Silveray Statmark. Brand rejuvenation for well-accepted lines such as Croxley is imminent.

The strategy of reducing our dependence on the mature business of forms manufacture has proved successful and will continue.

Growth opportunities will be aggressively pursued in product categories such as self-adhesive labels. Short-, medium- and long-term growth potential is also evident in the field of secure labelling.

Exciting developments have emerged in the realm of identification tag technology, using miniature computer chips to authenticate ownership of tickets and other items. The technology was employed to keep track of tickets at the 2006 Soccer World Cup in Germany. We have liaised closely with the European ticket-makers and, together with foreign partners, will be able to offer similar ticketing solutions to the organisers of the 2010 Soccer World Cup here in South Africa.

Our positioning as the country's leading one-stop shop for fulfilment services will be aggressively exploited. We will leverage our national sales and distribution capabilities to reinforce our position with nationally represented clients.

Further growth in electronic solutions is forecast. The challenge is to create add-on services now basic e-mail bill presentment has become well accepted. The potential for online payment services, digital document depositories and other digital solutions will be thoroughly explored.

The potential for greater penetration of the public sector will grow as our BEE profile improves. This opportunity will not be neglected.

International alliances, notably with Standard Register of America, create a platform for growth as more multinationals look to enter high-potential African markets. Our ability to serve widely dispersed African jurisdictions is in no doubt, making us a valuable partner of multinationals looking for support.

The division intends to seek continued revenue growth with the goal of achieving a double-digit increase in operating profit.

PRINTING AND RELATED

Personalisation and Mail

Our print-to-post operations performed exceptionally well and will continue to grow. Higher interest rates may affect the economy's consumer-led growth, but will simultaneously sharpen the need for prompt bill presentment by financial service providers and credit-focused retailers. Personalisation and Mail is well placed to meet these needs.

Labels

Our label production capacity has been consolidated and expanded. A team of dedicated sales staff is in place and will aggressively seek further growth.

Printing and Conversion

Pleasing volume growth and efficiency gains have been achieved. These will be maintained. Printing and Conversion provided strong support to personalisation and mailing activities. These synergies will again be a point of focus. Investment in world-class stationery manufacturing facilities will provide the platform for new growth in this highly competitive sector.

Sales and Distribution

The team achieved pleasing levels of customer retention while demonstrating the potential for growth by leveraging the national sales and distribution footprint. Further growth will be energetically pursued.

STATIONERY DISTRIBUTION

The business unit faced a challenging year, but the merger has now bedded in and the team will seek new growth off the back of improved service to the trade and a re-invigorated brand line-up.

ALTERNATIVE PRODUCTS

E-Mail Connection and Lithotech Solutions enjoyed a breakthrough year. They demonstrated many of the "plus-points" in our Paper Plus positioning and are poised to continue along the growth path. The newly launched digital pen and paper set could become the team's "signature product", providing a channel to greater penetration of the banking and insurance sectors.