

Review of operations

Bidserv

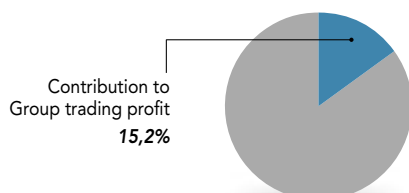


Bidserv provides South Africa's most extensive range of corporate outsourced services. Its brands operate across commerce and industry. Activities include cleaning and specialised industrial cleaning operations, hygiene, laundry and janitorial services, corporate travel and travel-related banking, aviation services and airport handling, office automation, interior and exterior landscaping and electronic procurement.

- ▶ New structure puts wider range of corporate service-providers into a single, cohesive business unit
- ▶ Platform created for new synergies and fresh growth
- ▶ Total number of Bidserv jobs reaches 53 144, up from 51 818
- ▶ Revenue increases to a record level of R4,6 billion
- ▶ Trading profit rises 21,2% to R554,7 million
- ▶ Return on funds employed exceeds 65,1%, the highest ever



Lindsay Ralphs
Chief executive



Introduction

Bidserv's structure has been widened to include office automation, procurement services and the banking operations and travel brands of what was previously Rennie's Financial Services. These businesses have been included within Bidserv with effect from July 1 2005 to enable meaningful annual comparisons. However, operational integration did not begin until March 2006. No other provider of outsourced business-to-business services offers such an extensive range.

Revenue increased by 6,4% to R4,6 billion while trading profit rose 21,2% to R554,7 million. Return on funds employed was 65,1%, the highest level yet achieved. These results were largely driven by organic growth.

The commonality of the corporate client-base gives inner logic to the Bidserv restructure. Many customers for office automation, corporate travel and travel-related banking

services are also customers for hygiene, cleaning, security and other services. Increased stature bestows some tendering advantages. An entity as well resourced as Bidserv commands attention as a potential partner and features on the tender list whenever a major group seeks outsourced expertise. A number of Bidserv companies have achieved "A" empowerment ratings, a factor that often assists our new business strategy, especially when we seek inclusion in major procurement programmes.

A highly motivated team has delivered some exceptional performances through rigorous expense management, operational efficiency and service quality. The challenge is to raise the bar across all operations to ensure consistently high performance by every contributor. There can be no leaders and followers at Bidserv – we all have to be winners.

Macro-economic factors

Business confidence remained high. Many companies are energetically pursuing growth and the pace of commercial property development has picked up in several sectors. As Bidserv is a business-to-business service provider these stimuli are positive.



TMS Group
is a dynamic role player in the industrial cleaning and manpower facilitation industries in southern Africa



Premier Club
lounges located at all major airports



Steiner Hygiene
is South Africa's leading provider of hygiene services



Montana Laundries
offers on-premises laundries 24 hours a day

The interest rate environment remained stable and the consumer's propensity to spend assisted some of our clients in the retail, travel and leisure sectors. Inflation continued at historically low levels and entrenched the corporate resistance to price rises.

Government's SME-friendly policies are also having an impact with the emergence of aggressive new competitors in areas where barriers to entry are relatively low.

Industry-related issues

The most notable event for Bidserv's security operations was the divisive and confrontational strike by security guards seeking a double-digit pay rise. Thankfully, this action has now been resolved, but it blighted the fourth quarter of our year.

Industrial relations have been severely impacted. This is particularly hard on quality-conscious security companies which committed themselves three years ago to rapid compliance with three-shift working practices and the dismantling of the old two-shift system, despite the impact on labour costs. Better working conditions helped to create an improved industrial relations climate at leading

Review of operations

Bidserv

companies. A new start now has to be made to rebuild trust and the image of the guarding sector.

Media coverage of the security guards' strike drew the attention of everyone, including Bidserv clients, to the level of wage demands. If nothing else, this will help the industry communicate the message to corporate clients whose blanket refusal to countenance increases above CPI is unreasonable in a sector affected by statutory wage settlements that significantly outstrip this benchmark. It has to be remembered that in the security industry labour costs account for 80% of the overall contract price.

Regrettably, cleaning staff subsequently went on strike. This national action was initiated at the start of our 2007 year and affected all companies in the office cleaning sector. In a low-wage environment, there is a continuing risk that workers may resort to industrial action from time-to-time. It is hoped, however, that strike action and picketing will be conducted within the framework of our labour legislation. The start of the strike by cleaning staff was certainly conducted in a calm and orderly fashion.

The trend toward aggressive tendering and re-tendering continued as corporate customers applied pricing pressures. Bidserv lost some contracts while retaining or winning others at lower margins. In this environment, our significant increase in trading profit was even more creditable.

Business risks

Cyclical factors have little impact on the historic core of Bidserv operations (cleaning, laundry, janitorial and security services) as these fundamental needs have to be met no matter what the business climate. Newer Bidserv members in aviation, travel, financial services and office automation are more exposed to cyclical factors and exchange rate fluctuations. Built-in balance is created by including two sets of companies with contrasting risk profiles in the same "basket".

Legislative and industrial relations risks are also evident. Several Bidserv brands offer low-skilled employment. On occasion, these operations may benefit from government policy initiatives to promote jobs growth, but there is also a risk that some regulatory changes may affect the cost base. The risk of a sudden worsening of the industrial relations climate in some lower paid job categories was underlined by recent strike action.

Our business-to-business base also entails risk as major corporate groups can exercise considerable negotiating power. This is counteracted by Bidserv's extensive services and ability to provide complete integrated solutions across various competencies. A major group looking for a single outsourced package need look no further than Bidserv.

Low barriers to entry may also create a business risk. Many smaller black-owned companies today compete for office cleaning and washroom hygiene contracts as relatively low levels of investment and skills are demanded of newcomers. Established service-providers who perform to world-class standards now find that a quality differential has less influence on the award of a contract. Business can be lost to industry entrants with strong BEE ownership credentials but little experience as major groups seeking BEE recognition are predisposed toward these new owners.

Bidserv has a commitment to grow jobs and maintain world-class service standards. However, it is difficult to be an engine for jobs growth in the face of such pressure. Our defence is our strong brands and proven track record. We will not compromise on quality. The Bidserv difference underpins our relationship with clients; it will also prove a decisive factor when reclaiming business lost to the current wave of unproven industry entrants. A further defence to competition from inexperienced entrants is the trend to higher regulatory safeguards and the corporate sector's commitment to hazard analysis critical control point (HACCP).

Crime remains a risk to business. Bidserv has a banking licence and handles cash, making us a target for criminal gangs. Crime also creates a risk to the image of "brand South Africa", with adverse effects for tourism.

Sensitivity analysis

Bidserv is dependent to a great extent on annuity-based income, often linked to contract business from major corporate groups. Tender activity is constant. Bidserv brands are therefore engaged in an unrelenting effort to ensure that contract gains counterbalance contract losses. Net contract losses for a protracted period would be detrimental to the business in view of a relatively high base of fixed costs. These costs are an investment in high standards of service demanded by corporate clients. These same clients tend to manage their own expenses quite aggressively.



Execuflora is a leader in the interior plant industry

Structures and growth

Procurement services and the Renfin travel and banking brands have now been placed under the Bidserv banner, as have the office automation operations (Minolta SA) that were previously housed in Bidoffice. There were no major acquisitions, though strong momentum was maintained by widening the national footprint of brands that were previously locked into a single region.

Black economic empowerment

The Bidvest BEE model is now better understood and our BEE credentials help to ensure our participation in many procurement programmes. All operational units strive to improve their BEE scores and achieve improved recognition. This process is constrained by the capacity of credible empowerment auditors to keep pace with demand, not by any lack of commitment by Bidserv business units.

New investments

No major capital expenditure programmes were launched. However, work was completed on Security Services' state-of-the-art remote monitoring centre and the specialised equipment and fleet needs of TMS were met at a cost of R24 million. In other areas, the emphasis was on optimising benefits flowing from recent investments in major installations such as the high-tech laundry completed last year at Spartan for Boston Launderers.

Investment in technology is on-going to maintain Bidserv's qualitative edge in all operational areas.

Innovations

Renfin Travel services successfully deployed their online booking engine, creating an easy-to-access website that brings together a range of competitive options on a single page.

Cleaning Services organised the local production under licence of a range of environmentally friendly chemicals (previously only available from the United States).

Review of operations

Bidserv

Challenges

HIV/Aids remains the greatest challenge affecting Bidserv and its workforce. Our awareness and educational programme continues in all regions and is periodically stepped up in those areas where prevalence rates are high.

Bidserv repeats its call to other providers of soft services and outsourcing services to work together on ways of taking HIV/Aids programmes to the next level – provision of anti-retroviral treatment (ART). The cost of fully subsidised ART is high and would have to be reflected in pricing. In cost-sensitive categories such as office cleaning and hygiene, any company which adopted a go-it-alone approach to ART would rapidly be at a significant pricing disadvantage. This makes it imperative that industry-wide programmes be developed. Bidserv is willing – indeed eager – to participate in industry discussions.

Regrettably, significant numbers of workers are incapacitated through HIV/Aids and the Aids-related death toll continues to rise. Often those falling casualty to Aids are sole providers for extended families. Where possible, an attempt is made to offer employment to a family member to ensure that dependants are not rendered destitute.

BEE challenges are being effectively addressed. All operational units are on target to achieve their five-year scorecard objectives. A pragmatic approach has been taken to periodic confusion around codes of good practice. Rather than wait for clarification, businesses are encouraged to press ahead in accordance with the Bidvest BEE charter as it reflects overall government strategy. If necessary, points of detail can be adjusted later.

Skills-training investments have been reinforced by the deployment of mentorship programmes.

Employment equity programmes are ahead of target. Bidserv was a net creator of jobs. The current headcount of 53 144 shows a net gain of 1 326.

Bidserv recognises its obligation to behave in an environmentally responsible manner. All chemicals and other supplies are audited to make sure they are the most environmentally friendly available. New products are assessed for their environmental impact before they are used by Bidserv companies.

Bidserv companies operate more than 3 000 vehicles. The average age of the fleet has been consistently reduced, a key factor in the control of exhaust emissions. Our CSI programmes are often linked to environmental initiatives. Social investment also focuses on the upliftment of previously disadvantaged communities as many of our workers are drawn from these areas.

The future

We plan to achieve real growth as a result of several positive factors. Continued growth of the economy is anticipated; this will encourage investment and expansion by our corporate customers. New office and retail developments are anticipated; another positive factor for Bidserv companies.

High fuel prices and strong power demand (a function of higher growth) will keep the focus on energy efficiency. This should underpin Bidserv's relationship with major customers in the energy and petro-chemical sectors.

In addition, it is to be hoped the healing process will begin in the industrial relations environment within the guarding sector, with beneficial effects for our security brands.

In the fourth quarter of 2006, increased rand volatility was evident. This may assist our banking operations as margins improve on foreign exchange dealings when values fluctuate. A weaker rand, however, may dampen the propensity for international travel.

Bidserv has a growing presence in Africa thanks to its travel brands, support for regional hospitality groups through Green Services and the international expansion by the Puréau Fresh Water Company. Opportunities to extend this African footprint will not be neglected.

Our strategy is to seek net real growth in all our businesses while securing price increases that at least match our levels of internal inflation. We have only recently begun to exploit the potential synergies of our new, broader structure. Opportunities for further structural efficiencies, deeper customer relationships and new growth will be energetically pursued.



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CLEANING SERVICES

Prestige Group

Prestige and its individual brands made a significant contribution to trading profit, despite a highly competitive environment and margin pressure. Prestige is proud that it maintained its staffing levels in such challenging circumstances.

Hospitality and Healthcare operations gained market share as quality of service benchmarking inhibits competition by inexperienced and under-resourced industry newcomers. Both revenue and trading profit grew.

Prestige is well positioned for further penetration of the public sector now that effective delivery has become an urgent priority for policy-makers. The potential role of public-private partnerships (PPPs) is well accepted in theory. Unfortunately, roll-out of the PPP model has been delayed for some considerable time. Prestige has the resources and skills necessary to tackle the capacity constraints which bedevil some state, regional and municipal departments.

TMS Group

This specialised business unit put in the best performance of any single Bidserv contributor. The highly motivated team is to be congratulated on optimising the opportunities flowing from strategic investment in the latest specialised cleaning technology. As a result, TMS entrenched its position as the undoubted leader in the industrial cleaning field.

TMS won a five-year contract from Sasol and increased its revenue from leading companies in the petro-chemical

industry. In addition, the business has become a key partner of Eskom as the national electricity provider refurbishes its power stations in order to meet rising energy demand. Contract gains enabled TMS to grow jobs as well as trading profit.

LAUNDRY SERVICES

All brands, Boston Launderers, First Garment Rental and Montana Laundries, strengthened their position as the private sector leaders in the provision of superior laundry services. Productivity, revenue and trading profit rose significantly as management leveraged the benefits of the recently completed capital expenditure programme. Market share growth was also achieved.

A four-year capex programme saw the completion of ultra-modern facilities in Spartan. Fine-tuning of systems to secure optimal results will continue for some time.

The garment rental business enjoyed strong growth, thanks to continuing penetration of the food processing industry. HACCP regulations and growing health and safety demands are expected to promote further growth. Laundry brands were also assisted by higher hotel occupancy levels.

HYGIENE SERVICES

Steiner Hygiene

Steiner Hygiene put in a notable performance, achieving growth in profit and trading profit. The company is positioned as the leader in the washroom equipment sector at a time when awareness of hygiene standards is rising in many industries.

This is an unglamorous industry but Steiner continues to deepen customer relationships through its high standards, reputation for reliability and ability to innovate. Steiner pioneered the use of a new automated urinal sanitiser with an extended product life. The sanitiser is more effective and efficient and has proved a market winner nationwide.

Execuflo

Execuflo, previously part of Green Services, is now managed as part of Steiner because of a common customer-base.

Execuflo, formerly a regional Gauteng operation, is now represented in all major centres and is being positioned as a

Review of operations

Bidserv

national brand. Synergies with other Steiner businesses have been identified as an area of strategic opportunity.

Increased efficiencies were achieved through improved routing and better utilisation of Steiner's IT systems.

Puréau Fresh Water Company

Puréau Fresh Water Company continues on the growth path. Five new facilities were opened (in Cape Town, Durban, Nelspruit, Port Elizabeth and East London). The Puréau brand has now established itself nationwide. The Mozambique facility – opened last year – has proved to be a success.

BIDSERV INDUSTRIAL PRODUCTS

Industrial Products put in a strong performance, drawing benefit from growth in the national economy and some job creation by the manufacturing sector: the greater the number of garment wearers, the greater the demand for garments, safety clothing and associated equipment. Garments are made in Malawi by Giant Clothing, distributed by the wholesalers at Clockwork Clothing and sold at retail level by G. Fox & Company.

Another factor driving the division's growth was the expansion of G. Fox & Company. It was previously a regional Gauteng brand, but synergies with the extensive branch network of Commercial Sundries have enabled it to become a national player.

SL Distributors, a small-scale clothing and equipment supplier, was acquired and integrated into the G. Fox & Company operation. Their lines are complementary.

The janitorial supplies business of Commercial Sundries had another good year.

GREEN SERVICES

The operation faced a challenging year. Top Turf's contracting business was constrained by a dearth of resort projects. More promising prospects have been identified in the golf estate niche and a specialised golf course development unit has now been launched. It is busy on its first significant contract. Other work is in the pipeline.

AVIATION SERVICES

The umbrella brand "Bidair Services" was launched to create a single package of aircraft-cleaning and cargo and passenger-handling services. A majority interest was acquired in CHS (a ramp-handling service) and a strategic holding is being pursued in a passenger-handling operation to strengthen the single package.

Bidair Services has established a strong national presence and draws benefit from the increasing number of domestic, regional and international flights into and out of South Africa. Plans for faster growth have been constrained by delays in securing further ground-handling licences. Even so, a satisfactory performance was recorded.

SECURITY SERVICES

A major change of structure was completed. Previously, all security companies (Magnum Shield, Vericon Outsourcing, Provicom Electronics and International Payment Systems) were individually managed and followed separate marketing strategies. All operations have now been integrated into a single brand, Bidserv Risk Solutions. Three areas of core competence are covered: guarding, electronic systems and remote monitoring. A consolidated management team is now positioned to market the optimum security solution for any need.

The new structure recognises the continuing trend toward technology-intensive solutions. The strategic change proved timely as the security guards' strike is almost certain to increase the demand for smart solutions that are less reliant on the human element. Bidserv Risk Solutions is well placed to respond, thanks to the recent completion of its R4 million remote-monitoring centre.

Magnum Shield had a difficult year as a result of the security guards' strike.

Syndicated crime is growing. Cash-in-transit heists and thefts from warehouses have reached epidemic proportions. Clients are responding by installing more CCTV systems, stricter access controls, electric fencing and remote-monitoring capabilities. Continued growth is foreseen.

International Payment Systems had another good year. Its brands (De La Rue cash depositing and dispensing devices



Océ technology revolution is reshaping the local printing industry

and Ingenico point-of-sale swipe card terminals) enjoy growing market penetration. Strong demand is expected to continue as the major banks are committed to user-friendly technology installations in revamped banking malls.

BUSINESS SOLUTIONS AND GROUP PROCUREMENT

mymarket.com offers electronic procurement services to both the Group and external companies. The e-procurement offering has proved itself a robust and reliable platform over several years. Growing marketplace acceptance of e-solutions in the procurement field was reflected in some notable new business successes, particularly among external users.

Revenue increased by 43%, taking the business to a break-even level after several years of sustained investment. mymarket.com is confident it is now positioned to achieve acceptable returns.

OFFICE AUTOMATION

Excellent results were achieved. The search for business efficiencies gave added impetus to the trend toward standalone, integrated and fully networked digital solutions. In this field, Office Automation has become a strategic partner of its clients thanks to strong brands and highly knowledgeable representation. The sustained training investment in our people has created a qualitative edge and entrenched Minolta's position as the market leader in South Africa.

Océ achieved both revenue and profit growth thanks to a highly motivated local team and the strength of this international brand. A technology revolution is reshaping

the local printing industry, giving rise to strong demand for sophisticated yet proven solutions on the Océ pattern.

BID TRAVEL SERVICES

Bid Travel Services led the industry in the adoption of transparent fee-based remuneration and derived first-mover advantage as the outdated commission system was abandoned by more and more industry players. Higher profitability was achieved, though trading volumes declined. Corporate travel is a core competence for all brands. The group is, therefore, affected by the wave of re-tendering triggered by the sectoral shift to fee-based payments. To date, our brands appear to be net winners in the re-tendering process.

Bid Travel reacted proactively to the threat of dis-intermediation through online bookings by investing in the development of the Rennie's Travel Engine, our own online service. It offers comprehensive comparison of rates by carriers and other travel/leisure brands and enjoys growing client acceptance.

Premier Club Airport Lounges witnessed strong growth as air traffic continued to increase. Another positive factor is growing demand by loyalty programmes for lounge services for favoured customers. Further growth is anticipated. Lounge upgrades are planned in collaboration with our loyalty programme partners.

BANKING AND FOREIGN EXCHANGE SERVICES

Travel banking experienced a difficult year. New investment in infrastructure was required. A strong full-service offering is increasingly necessary as the market preference shifts between cash, traveller's cheques or card-based transactions. Delays with the launch of our own debit card products inhibited our ability to derive optimum benefit from developments in this niche.

The rand exchange rate was stable for much of the period. This affected earnings from currency trading as margins remain depressed when foreign exchange fluctuations are kept in a narrow range. Operating profit fell.

The bank retained its B+ credit rating and an improved rating is being sought.