



Decentralised management

The seeds of opportunity are spread into unexplored territory, using their independence to create sustainable growth. Established across four continents, yet still members of the same strong family.

Headline achievements

- ▶ Remarkable record of uninterrupted wealth creation
- ▶ 4,0% growth in employee numbers
- ▶ BEE emerges as a key driver of South African economy
- ▶ Bidvest a catalyst for change across many industries
- ▶ Dinatla prepares to refinance its partnership with Bidvest
- ▶ Bidvest sees opportunity in Africa
- ▶ Streamlined board structure now in place



Cyril Ramaphosa
Non-executive chairman

Introduction

Bidvest has continued its remarkable record of uninterrupted wealth creation, delivering year after year on its core promise of returns and consistent growth.

Unfettered growth is achieved by setting people free to perform to their full potential – true empowerment. For 18 years, Bidvest has remained true to this founding vision; in the process creating opportunities for its people and value for its shareholders. Headline earnings per share were 804,6 cents, an increase of 22,6%, with total distributions per share of 369,0 cents.

Results reflect the success of operational units in seizing the opportunities presented by largely favourable economic conditions. All divisions reported sales growth and strong cash generation.

Macro factors

Bidvest is an international company, but the heart of the operation still rests in Africa. The policy environment in our South African home is critical to our success. It is doubtful if the home base has ever been in better overall shape. Our government should be congratulated on developing a policy environment that fosters opportunity, encourages growth and enables job creation.

Bidvest employs more than 93 000 people (78 000 in South Africa), a rise of 4,0% at a time of increasing domestic and

international competition. For employment opportunities to be sustainable, those jobs have to be created within companies that meet world-class performance standards and are globally competitive.

The South African economy, according to official forecasts at the time of the 2006 Budget, was expected to grow by 5% a year over the next three years. At the same time, the strategic commitment has been made to halve unemployment within 10 years.

The South African government has made substantial commitments to infrastructure development. I believe these investments will be one of the many catalysts that will stimulate job creation to achieve sustainable economic growth.

This process creates an opportunity for the private sector to partner with government in many of these projects to grow the economy of this country. Public-private partnerships (PPPs) have a significant role to play as strategic emphasis shifts to physical delivery of new infrastructure and sustainable improvements in the quality of people's lives.

Bidvest, for its part, has committed to substantial investment programmes and plans to maintain this strategic effort.

A continuing global commodities boom was positive for South Africa's resources sector, though the strong rand

created a challenge for manufacturers and exporters. By mid-2006, the currency was exhibiting signs of weakness. This development in tandem with higher oil prices seems certain to re-awaken inflationary trends.

Until the 0,5% rise announced by the South African Reserve Bank in June, interest rates were at a 25-year low. Consumer spending and household debt have moved higher – another signal that inflationary pressures may soon mount. By early 2007, some economists expect inflation to exceed the 6% limit set by the authorities when establishing South Africa's inflation targets. Yet, for much of the last year, a deflationary pricing environment was evident, representing a challenge for business and an opportunity for consumers.

The resultant consumer-led boom has provoked considerable comment. It may be useful to look beyond the statistics to the driving forces behind one of the most sustained bouts of consumer spending in decades. The context explains the nature of the spending and the motivation of many of these consumers.

Black economic empowerment

Black economic empowerment (BEE) continues to be one of the business drivers in the current South African economy. It has not been characterised as such, but the upswing of the last two years was a "first" for this country. It was South Africa's first "BEE boom". The money spent on big ticket items and consumer goods often came from black families that for the first time enjoyed a measure of disposable income.

Poverty, unemployment and lack of critical skills remain deeply entrenched in our society. Government policy and private sector programmes are in place to address these challenges and should remain a priority focus for South Africa to normalise our society.

BEE and Bidvest

Bidvest, by virtue of its size and diversification across numerous industries, showcases the national BEE process in microcosm. Bidvest has made notable progress in implementing some of the principles of BEE. It is a pleasure to see black men and women taking up executive roles with key responsibilities within the Group. As a R77-billion-a-year business with 93 000 employees, broad-based BEE developments have had a knock-on effect with the power to transform broader society. I am proud to see Bidvest emerge as a leading catalyst for positive change across so many industries.

I am happy to read reports on our ongoing training and people development, the realignment of social investment to give priority to marginalised communities and enterprise development to encourage start-up enterprises. These

developments are in line with the principles of broad-based black economic empowerment.

Bidvest's BEE procurement spend in South Africa exceeds R4,1 billion. Increasingly, this provides the "oxygen" for enterprise development among small and medium-size companies – a fundamental process that will irreversibly change the face of the South African economy.

BEE is an idea whose time has come and I am proud of the progress that has been made by Bidvest.

The partnership with Dinatla consortium

The partnership with Dinatla consortium continued to add value to Bidvest at a strategic level and is mutually beneficial across all of our business units.

The refinancing of the Dinatla transaction within the envisaged time frame has been announced.

BEE challenges

A key test of ownership has always been the ability to sell a property or a possession whenever the owner feels like it. If you truly own something, you are free to sell it. In practical terms, this key test of ownership does not apply in a BEE context. In the vast majority of BEE transactions, a BEE owner uses debt to acquire the funds needed to pay for equity. This debt must be serviced. Understandably enough, the transaction terms simultaneously create "golden handcuffs" by insisting that equity cannot be sold for a specific period. A sale would dilute BEE equity and compromise the organisation's BEE status.

It is understandable that the initial policy focus is on BEE entry. It is a measure of the success of our BEE policy-makers that we are now in a position to take the logical next step and consider the BEE exit without penalising enterprises that have created the opportunities and delivered the value.

I am confident that in the finalisation of the codes of good practice for BEE the point of "once empowered" will be positively addressed where BEE companies are in a position to realise their value. True empowerment would be achieved when an enterprise does not lose credit if the BEE partner exits, with value having been created.

African opportunities

Despite political and economic volatility in many sub-Saharan countries, Bidvest sees opportunity in Africa. The New Partnership for Africa's Development (Nepad) provides a framework for greater regional stability and economic growth. Some say "Africa's time has come".

Within Africa, Bidvest intends to replicate its model for growth through acquisitions. The acquisition of a majority stake in Namibian Sea Products (Namsea) was recently finalised and forms part of this strategy.

The integration of Namsea and Namsof Fishing Enterprise will be implemented in 2007. Bidvest plans to mould an entity run by Namibians largely for the benefit of Namibians. The same decentralised, entrepreneurial Bidvest model will be adopted. A Namibian Bidvest is in the making. Other African opportunities will be explored.

Governance and sustainability

Bidvest is characterised by both rigorous governance structures and a robust culture of compliance with the highest ethical standards. Bidvest is committed to triple bottom line reporting and measures community involvement and environmental sensitivity as well as profits.

Strong structures are in place, including executive, audit, risk, remuneration, acquisition, nomination and transformation committees.

Bidvest believes in individual accountability and organisational transparency. We report on our business in an open and comprehensive manner. These efforts were recognised for the second year in a row, when Bidvest received the Investment Analysts' Society of Southern Africa award for the best reporting in the industrial services sector of the JSE, South Africa.

Bidvest as a group has embraced the concept of sustainability and accepts the strategic need to develop processes that support our reputation for quality in everything we do – from the development of ideas, products and people to our interaction with customers, communities and the environment. To enshrine the notion of sustainability, a new culture is being inculcated at every level in every business. One of the initiatives involves asking all business units to define what "sustainability" means to them.

The results of this survey will be used to develop an implementation strategy that will take sustainable practice to every aspect of our business.

Bidvest has adopted a policy on HIV/Aids that ensures non-discrimination, support and constant education. The challenge in all areas of corporate intervention is to develop a consistently high standard of commitment throughout the Group.

Board composition

Our board structure has been streamlined in recent months and now comprises 24 directors, a net reduction of 10.

Non-executive directors Nazeer Cassim, Mervyn Chipkin and Teddy Reitman have resigned, though Mervyn Chipkin (co-founder of Bidvest) continues his involvement in an honorary capacity.

Executive directors Len Chimes, Alan Griffith, David Rosevear, Charles Singer, Philip Womersley and Howard Greenstein have resigned as directors of the Group.

I thank them for their contribution over many years. We retain the benefit of their knowledge and experience as they continue to work as directors of subsidiary companies and remain in place as senior executives.

Lilian Boyle has resigned as executive director responsible for travel and banking operations and becomes a non-executive director of the board.

Anthony Dawe, chief executive of Bidfreight, has been appointed an executive director while David Cleasby (financial director designate) has been made an alternate director.

Two further board appointments have been made. They are Nigel Payne, an independent authority on corporate governance, and Pansy Tlakula, chief electoral officer of the Independent Electoral Commission.

I welcome them to the Bidvest board and look forward to working with them and benefiting from their knowledge and perspectives.

The future

Bidvest retains its appetite for growth, both within South Africa and across international markets. Selected African opportunities will be thoroughly explored.

In South Africa, rising interest rates, renewed inflation and a weaker rand create both challenges and opportunities. Three years of price deflation appear to be coming to an end. This development may take some pressure off margins. However, lower levels of consumer spending and higher interest rates could affect levels of business activity. Competition will be as intense as ever.

Despite these challenges, Bidvest looks to the future with confidence. Our people are better trained and motivated than ever. The Group holds a leadership position in almost every industry in which it is represented and is well positioned to respond to 19 years of uninterrupted wealth generation and employment creation.