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David Cleasby
Financial director

Highlights

- › Two substantial acquisitions were completed – Angliss and Viamax – though the Viamax transaction will be effective in September 2007
- › For 18 years, annual compound growth in headline earnings per share has exceeded 25%
- › Cash flows generated by operations remain strong at R4,2 billion
- › Wealth creation of R17,0 billion (R14,1 billion) was registered
- › Income attributable to shareholders rose 13,0% to R2,7 billion (R2,4 billion)
- › Basic earnings per share growth of 12,9% to 899,4 cents
- › The stance on debt remains conservative, creating capacity for further acquisitions and continued infrastructure investment

Introduction

Our trading results were solid, reflecting good contributions from our Australasian operations backed by strong results from our South African businesses, particularly Bid Industrial and Commercial Products.

Interest paid on borrowings increased significantly, impacted by the full effect of the 250 basis point increase, increased working capital and capital expenditure to fund growth combined with weaker asset management.

Two significant acquisitions were concluded: the purchase of Angliss, a leading Asian foodservice business, and the purchase in South Africa of the Transnet-owned Viamax fleet management and leasing business. The Angliss transaction had no material affect on overall results in 2007. Organic growth and ongoing efficiency gains drove Bidvest's performance, resulting in trading profit of R4,5 billion and revenue growth of 23,8% to R95,7 billion.

Headline earnings per share were pleasing at 970,0 cents (2006: 804,6 cents). Basic earnings per share growth of 12,9% to 899,4 cents was impacted by the impairment of the Group's investment in Tiger Wheels Limited of R178,3 million. Tiger Wheels Limited was suspended on the JSE, SA following the announcement that its 74%-owned subsidiary, ATS, was unable to gather support from its funders to continue operating.

Offshore financial performance

The rand's weakness versus sterling, the euro and the Australian and New Zealand dollars augmented our international profit. Strong organic growth was maintained in the Australian and New Zealand markets.

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The Angliss transaction in Asia was concluded late in the period, but is expected to make a material profit contribution in 2008.

Significant write-offs for bad debt and the loss of the Ministry of Defence contract affected the performance of our British foodservice business. Remedial action has been taken, which includes the use of credit insurance and replacement of the lost revenue. A strong contribution was made by operations in the Netherlands and overall improvements were noted in Belgium.

Performance in South Africa

Bid Industrial and Commercial Products achieved pleasing growth, with trading profit up by 48,7% and revenue up 23,8%.

Bidserv grew trading profit by 19,0% on a 16,2% revenue increase – a creditable performance after strikes in the security and cleaning industries.

The development of a high-quality portfolio at Bid Property Holdings has helped Bidvest to retain control over strategic operational properties.

Acquisitions

The acquisition of Viamax will add considerable scale to Bid Auto's fleet management business, but regulatory approvals has delayed the effective implementation date.

In May we acquired 100% of the issued share capital of Angliss Singapore, Angliss Hong Kong and Angliss China for US\$80 million. These foodservice wholesale and distribution businesses have combined sales of more than R2,1 billion a year. Angliss owns facilities in Singapore, Hong Kong and Guangzhou and has distribution platforms in Beijing and Shanghai. In the two months to 30 June, Angliss contributed trading profit of R10,8 million.

The acquisition was funded by debt raised in Australia.

The purchase price of the Viamax transaction of approximately R1 billion is based on the operation's net asset value at 31 March 2007 and a premium of R36 million. The transaction will be funded from existing Group resources.

In addition, Bidvest acquired 20% of Comair, the JSE-listed airline group that operates the southern Africa franchise of British Airways. The investment was opportunistic. South Africa's airline market shows continued growth and we expect this investment to perform well over time.

We made an unsuccessful bid for a major US food-service company. We decided not to pursue an interest as valuations moved to levels we considered unrealistic.

Debt levels

Bidvest is borrowing more, a development that enables us to take greater advantage of our strong balance sheet. Funding is not only used for growth, but to maintain our investment in infrastructure to sustain our ongoing operations. However, our position on debt remains conservative.

Traditionally, our debt-to-equity ratio has been below 40%. Net debt rose to R3,7 billion, though interest rate cover at eight times reflects the Group's significant borrowing capacity.

Our credit rating of AA-(zaf) was affirmed by Fitch Ratings in March, confirming the Group's realistic approach to leverage.

Bidvest's acquisitions strategy has never been governed by a policy of maintaining a prescribed percentage of onshore and offshore holdings. These

activities are driven by value opportunities as, when and where we identify them. However, we need to maintain a better balance of on- and offshore debt levels.

Relative to international earnings, our offshore borrowings have been small as we used offshore cash generation to pay down offshore debt. We are looking to achieve an improved balance of on- and offshore debt without affecting our financial "firepower".

Acquisitive freedom

One reason for our largely conservative attitude to debt is our desire to retain our ability to carry through sizeable acquisitions. We remain an opportunistic and acquisitive company, and freedom to manoeuvre remains important to us.

Philosophical issues also come into play. South African business has gone through periods of high volatility, creating an aversion of heavy debt. Gearing up in the good times may appear to be positive, but can lead to missed opportunities in the bad times. In Bidvest's experience as an acquisitive company, some of the best opportunities occur during a challenging business environment. We wouldn't want to miss them.

Interest rates

Interest rates continued to harden, both in major international markets and in South Africa. By June 2007, increasing inflation and credit extension had prompted the South African Reserve Bank to increase rates by 250 basis points since June 2006. However, our conservative stance on debt ensured we were well positioned to weather these increases in the base rate.

This is not to say we were unaffected. The cost of interest rate increases of 250 basis points over the 14-month period to 30 June 2007 amounted

to approximately R40,0 million in added interest. The projected cost of a further increase of 1,0% is approximately R48,0 million.

Capital market funding

Changes in the interest rate climate spotlight the need for competitively priced funding, including access to the debt capital market where appropriate. In May, we set up a domestic medium-term note programme, enabling us in due course to raise a total of R4,5 billion in corporate debt from the South African capital market.

An initial tranche of R1,5 billion was raised in August. The timing of future bond issues will be determined by the direction of interest rates and liquidity risk in both international and domestic markets.

Our corporate bond issue will also have the effect of further diversifying our borrower base. The DMTN programme is a key element in our strategy of securing optimum funding efficiency and will assist us in repricing certain fixed loans outside of the banking market.

Business risks

Risks are well managed, both at a corporate and operational level. The economic environment in South Africa is becoming more challenging and the risk of significant credit default is expected to grow. All operational units are showing increased vigilance.

Exchange rate risk is well controlled. We are a trading business and cover our currency exposure on all imported goods as we prefer not to court exchange rate risk. Some risks are unavoidable, however, as currency exposure is inherent in some business models; for example, marine services where all charges are US dollar-denominated. Operational management

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has many years' experience of trading within these parameters and the risk is not considered excessive.

Bidvest's track record indicates that our decentralised business model mitigates business risk. Our managers are accountable for performance in a range of industries in various geographies. Conditions may be challenging in some environments, favourable in others. The result on balance is stable, above-average and sustainable returns.

A moderate rise in inflation does not pose increased business risks as trading activities traditionally benefit in such an environment as customers tend to maintain higher stock levels.

Our sensitivity to fluctuations in interest rates, exchange rates and inflation is not regarded as an area of weakness in view of the broad range of our activities and our wide geographic footprint.

Sustainability

We are committed to triple bottom line reporting. All our activities are underpinned by the need to build and maintain our sustainability profile through investments in people, planet and profitability.

Incentivisation

We have introduced a share purchase scheme as a means of further aligning the interests of shareholders and management. Senior managers who participate in the scheme are obliged to buy shares; it is not an option. The arrangement is an efficient mechanism for long-term management incentivisation.

Our share buy-back programme was launched three years ago to eliminate the danger of any dilution in shareholder value as a result of our empowerment transaction with the Dinatla consortium. No further share buy backs are anticipated unless a pricing opportunity presents itself.

Dinatla refinancing

In December, Dinatla refinanced their investment in the Group. Bidvest helped to facilitate the arrangement at a R350 million net cost. The transaction ensures a continuation of our partnership and the first distributions have been paid to members of the consortium. The benefit of Bidvest's facilitation of the transaction is reflected in the increase in the diluted headline earnings per share of 23,2%.

Under the refinancing arrangement, our subsidiary, BB Investment Company bought 18 million shares from Dinatla at R79,38 a share for R1,4 billion. The R1,3 billion balance of Dinatla's indebtedness was funded by Investec Bank Limited. To enable Dinatla to obtain financing on this amount, Bidvest granted Dinatla a put option against Bidvest covering 15 million Bidvest shares at R75 a share. The option is only exercisable should Bidvest shares fall below R75. Dinatla may only sell its Bidvest shares to Bidvest, which has a pre-emptive right over those shares until December 2011.

Legislative changes

The National Credit Act was implemented on 1 June 2007 and had an immediate effect on Bidvest businesses with direct exposure to the retail market, principally Bid Auto. The effect in 2007 was minimal. However, we anticipate some financial fallout in 2008.

The knock-on effect on South African operations trading in the business-to-business environment will take longer to materialise.

The phasing out of the secondary tax on companies was announced in the February Budget to lower the cost of doing business in South Africa. The intention is laudable. Unfortunately, government will replace STC by a tax on shareholders. The changes will affect distributions from October when the first phase of the new system will be implemented – a reduction of STC from 12,5% to 10,0%.

The second phase is scheduled for introduction in the first half of calendar 2008 when we can expect to see a dividend tax on shareholders, administered as a withholding tax at company level. Conversion to a dividend tax collected at shareholder level is expected by the end of 2008.

No details are yet available on government's compulsory pension scheme for lower paid workers. The impact could be significant as many of our businesses have created jobs at the lower end of the pay scale. Government reportedly hopes to introduce its national social security fund by 2010. Extensive consultations are expected in the interim.

Company law

Two additional pieces of South African legislation have recently been in the spotlight: section 38 of the Companies Act and the Corporate Laws Amendment Act.

We welcome changes to company law that will enable a business to embrace new partners and permit participation by historically disadvantaged South Africans at shareholder level. Common sense protections will ensure long-term business viability is not compromised when giving financial assistance to new partners. Our legislators were also wise in addressing the issue of protection for existing shareholders by insisting that shareholders have the final say on assisted transactions.

The requirement for 75% shareholder consent will not only promote amicable relationships in the post-transaction period, but act as a safeguard against attack by parties seeking short-term advantage rather than the long-term good of the company and established shareholders.

As an international company, Bidvest also welcomes efforts to align South African corporate practice with international norms. It is only prudent to examine safeguards to protect local companies from the financial scandals that have afflicted some international groups and their professional advisers, prompting new measures to ensure audit committee independence and guard against undue influence by executive directors.

However, a prescriptive approach to audit committee composition – as set out in the Corporate Laws Amendment Act – may prove impractical. In South Africa's situation, micro-management of corporate governance by well-intentioned lawmakers creates an unnecessary level of complexity. We contend with shortages of auditing skills while non-executive directors with experience of leading large groups face major calls on their time. Executive directors help to ensure the proper working of an audit committee. They are facilitators, not manipulators.

Corporate governance is not a last line of defence when criminal law fails to deter theft and fraud. These structures promote ethical and efficient company operations by those whose track record and personal standing provide strong reassurance that honesty and fair-dealing will prevail. A corporate rogue who is undeterred by the criminal law will not be thwarted by elaborate governance provisions. A balanced approach is required to ensure that corporate practice facilitates wise stewardship without impeding the inner workings of the organisation.

The future

Our businesses, in international and African markets, are well positioned for further growth. New investment will be maintained as will spending to service our expanding infrastructure.

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The management of risk will be critical in all markets. However, our teams are known for achieving good results in all types of economic conditions and we are confident of our ability to perform in a higher interest rate environment.

The balance sheet remains exceptionally strong. We have the resources for further acquisitions, though the focus in our automotive and Asian businesses will be on consolidation and synergies in the wake of substantial acquisitions in 2007.

Personal note

This is my first report as financial director and first opportunity to salute my predecessor Peter Nyman. He set the benchmark for financial stewardship at Bidvest. Unassuming, but painstaking, he was known for down-to-earth humility even when reporting stellar results. I am proud to follow in his footsteps.