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Chief executive

The leading private sector freight management group in sub-Saharan Africa, consisting of several independent businesses focusing on freight terminals, international clearing and forwarding, logistics and marine services.

- > Trading profit grew 11,2% to R596,4 million
- > Revenue increased 20,3% to R19,0 billion
- > Capex expenditure of R268,6 million
- > Cost management and efficiency gains focus areas
- > Real wage increases for employees

Value proposition

Bidfreight's assets and capital enable it to operate as a strategic partner with its customers – often major importers and exporters who require support for prolonged periods and at high volumes across changing business cycles. Bidfreight is in the right place (every major regional hub) and has the skills and infrastructure to create effective freight management solutions for a broad customer base.

Macro factors

In general terms, Bidfreight does well when South Africa does well. Continued Gross Domestic Product growth above 5% was therefore positive for the business. South Africa's appetite for electronic goods and Chinese imports supported volumes in some businesses. However, uncertainty about the size of the maize crop due to continuing drought had a negative impact on our agricultural volumes. Maize volumes were low, though they picked up in the last two months.

Constant increases in the cost of fuel have raised operating costs. The higher the oil price, the greater the demand for alternative, renewable sources of fuel such as maize and other agricultural products as raw material in ethanol production. This alternative use of maize may impact on our volumes in coming years.

The rise of interest rates by 250 basis points between June 2006 and June 2007 was beneficial for interest earnings. Interest rate rises also sharpened the need for rigorous credit and cash-flow management.

The national strategy of infrastructure-led growth is obviously good for South Africa, but some perverse effects were felt at the dockside. Rocketing local demand for steel for construction purposes put the brake on steel exports, affecting Bidfreight volumes. To feed construction demand, we witnessed greater imports of cement, but these volumes were relatively low and certainly did not cancel out the effect of the slowdown in steel exports.

Challenges of national growth

South Africa's growth challenge is most starkly illustrated in its freight management sector. Higher imports and exports and sustained GDP growth translate into pressure at the ports where more berthing space and improved landside access are urgently needed. At the same time, roads are becoming increasingly congested.

The problem of chokepoints at some ports and bottlenecks on some roads is well known to national strategists and they are to be congratulated on canvassing a wide range of expert opinion in their search for optimum solutions.

Planning and consultation have to be followed by new investment and urgent implementation. Government has shown its willingness to increase the level of fixed investment. Rapid action on the ground would soon ease some of the congestion.

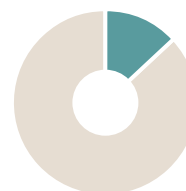
The private sector is challenged to give a lead with its own infrastructure development while deploying smart solutions to ensure that current capacity is used at maximum efficiency. In November Bidfreight subsidiary, South African Bulk Terminals, commissioned South Africa's largest and most efficient ship unloader, demonstrating that we have taken up this challenge.

Growth pressures have taken capacity utilisation at some Bidfreight facilities to well over 95%. Expansion is urgently required, but cannot proceed until public sector initiatives take shape and official approvals for specific Bidfreight projects are forthcoming. Until then, the business will benefit from extremely high utilisation levels.

The advantage of strategic location at major logistics centres has been underlined by the recent pattern of significantly enhanced inflows, whether in the form of liquids, bulk cargo or containers. Having storage capacity in place is vital; as is the ability to achieve efficient throughput rates.

Contribution to Group trading profit
2006: 14,7%

13,1%



Review of operations – Bidfreight

We trust that rapid progress will be made by government on the work of converting blueprints into physical infrastructure. Congestion and capacity constraints at key facilities have serious consequences for all players in the logistics chain and for the nation at large.

Risks

All Bidfreight operations have formal risk committees which meet regularly and inform management of any areas of risk.

Business risks have not changed, though some have come into starker focus.

The scale of our operations is a source of both vulnerability and reassurance. Bidfreight's major clients often need to meet strategic needs and work to long-term timeframes. Bidfreight operates as a strategic partner of many customers, which means we share information and plan accordingly.

To capitalise on economic growth, many South African companies have launched expansion plans. Growing companies need to employ more good people. Recruitment activity picks up and "head-hunting" intensifies. On the surface, all companies are affected by the same risk of losing good people, but some more than others.

Bidfreight is known to train well and develop self-reliant managers and specialists who get the job done. Bidfreight people therefore become prime targets. One result internally is constant pressure on remuneration levels in key categories. Bidfreight has responded by putting more emphasis on talent retention. In future, we will strongly communicate the fact that we offer the best career development prospects in the industry.

HIV/Aids has intensified as a key business risk. Many activities in our business require physical strength and the ability to concentrate for long periods. Both attributes can be affected by the progress of HIV/Aids.

We are therefore stepping up our counselling and support activities while looking at new ways of improving workplace safety and working practices.

Bidfreight is both a collaborator with and competitor of several state agencies. We acknowledge that this leaves us vulnerable to unilateral action by powerful public sector companies. However, working relationships with Transnet (South Africa's state transport agency) and, in particular, the Transnet National Ports Authority, are good. The national situation also argues against one-sided policy-making. In high-growth South Africa it is important to optimise all resources rather than favour one player at the expense of another.

Sensitivity analysis

Bidfreight is a derived demand business. The call on our facilities is determined by demands felt across both the national and international economy; for example, the world demand for commodity exports or the demand within southern Africa for maize following a prolonged drought.

We are therefore sensitive to external events to a degree that it is difficult to foresee or calibrate. Any change at macro levels can result in a dramatic shift in our volumes, either up or down. Across the business as a whole there is no precise relationship between a shift in a key variable and company performance as Bidfreight volumes are balanced across imports and exports, airfreight and seafreight, consumer goods and commodities, luxuries and necessities. One variable may be negative for one part of our business, but positive for another.

Proudly Bidvest

The Proudly Bidvest slogan is becoming an important tool. The positioning is relevant in the context of talent retention and career prospects. Personal development through training and access to The Bidvest Academy also plays an important role.

All Bidfreight operations are strong brands in their own fields. Brand equity has been built up over many years. Each of the operation's brands is linked to the Proudly Bidvest slogan. The slogan is emblazoned on buildings, silos, equipment and vehicles. The largest Proudly Bidvest logo in the country (12m x 17m) is on the SABT agricultural silo at Maydon Wharf, Durban.

Differentiation

Bidfreight is the largest private sector freight management company in southern Africa with the ability to act as the long-term partner of major groups with logistic needs that extend over a 10 or 20 year planning horizon.

Stature and the strategic location of our assets underpin the value proposition, but increasingly the accent falls on agile solutions and innovation that meet the needs of clients large and small.

Corporate structures

No new acquisitions took place and no disposals occurred.

A year ago, we disposed of British and European assets and simplified the structure of our southern African businesses. The flatter structure is delivering the anticipated efficiencies.

Training

Training investments continue to rise and reached R18,4 million, up 51,3% on 2006. Workplace safety remains the major focus area for our trainers. Increased investment is necessary to guard against any increase in accident rates in view of high capacity utilisation and the pressure of constantly maintaining high throughput. In some operations we have used internationally respected safety consultants to help us develop a world-class safety strategy.

Technical training and reinforcement of on-the-job competence are areas of strength at Bidfreight. Increasingly, we see the need to support training with

personal development to foster higher levels of talent retention.

Black economic empowerment

We continue to secure improvements at all business units across all pillars of the group's BEE scorecard. BEE procurement in the year amounted to R547,5 million.

To prepare promising candidates for further promotion, skills transfer has to be followed by a period of practical experience in positions of growing responsibility. We continue to focus on these measures as we need an assured supply of experienced candidates for senior positions if we are to meet our growth objectives.

Corporate social investment

The CSI commitment was R1,6 million. Focus areas are health, education and community upliftment. Community interaction includes long-term efforts to ensure our businesses operate as good neighbours by reducing waste and respecting all environmental legislation.

Innovation

Cargo handling efficiency is a key area of innovation. In business units focused on sea-freight, reduction of ship-days on the quay is an area where we have achieved significant successes.

Installation of SABT's R45 million ship unloader has brought phase two of the company's terminal



modernisation programme to a successful conclusion. The ship unloader can handle 800 tons of free-flowing cargo an hour. Application of this technology will more than halve the average berth occupancy per vessel at the SABT terminal on Maydon Wharf.

Commissioning of the unloader is an example of proactive innovation as the full benefit of its huge capacity will only be felt when fully laden Panamax vessels can be unloaded directly at Maydon Wharf. For this to happen, the Port of Durban has to deepen the Maydon Wharf berths.

Safcor Panalpina's airfreight operations achieved a succession of throughput records following the completion of phase one of its expansion programme at OR Tambo International Airport (Johannesburg). Advanced security systems were built into the design specification, improving efficiencies and driving continued growth in market share in the area of high-tech, high-value imports.

New investment

Approximately R100 million was invested in refurbishing existing facilities and a further R130 million was committed to new infrastructure. In several instances further investment awaits the conclusion of lease agreements or progress on infrastructure projects by state agencies.

Phase two of Safcor Panalpina's expansion programme at ORTA is nearing completion and will add a further 10 000m² to warehouse capacity. These new facilities will go into operation early in the new financial year and represent an investment of R78,6 million.

Challenges

The principal operational challenges relate to capacity constraints and congestion. We will continue to cooperate in all initiatives to expand facilities and achieve improved efficiency at South Africa's harbours and airports.

Skills shortages are another concern as experience has shown that constantly increased training budgets provide only a partial solution. There is no substitute for time on the job and practical experience.

HIV/Aids was identified some time ago as a major challenge. We have made good progress in the integration of HIV/Aids education and voluntary counselling and testing into wide-ranging wellness programmes, while antiretroviral treatment is provided at many of our in-house clinics. These efforts have been stepped up and two new clinics have opened.

The future

We anticipate a continuation of South Africa's GDP growth in the 5,0% range and believe the economic climate will remain favourable. We see no sign of abatement in the world demand for minerals from South Africa and neighbouring countries, providing a strong underpin to export activities. Economic reform is under way in many African states, leading to increased investment and growth in cross-border trade. This is positive for our businesses inside Africa.

Indications are that grain volumes have recovered strongly. The adverse agricultural cycle appears to be behind us and further growth in volumes can be expected in 2008.

Higher interest rates may put a brake on South African consumer spending, affecting the level of imports in some categories. Container traffic reached record levels in 2007 and this rate of growth may moderate somewhat, but no sudden reversal of the "container flood" is foreseen. Automotive imports have shown signs of slowing. However, government's strategy of infrastructure-led growth should ensure strong inflows in many other categories, with Bidfreight businesses well placed to benefit.

The import of petroleum products and export of chemicals continues at high levels, creating higher demand for liquid storage facilities. Add to this the

pace of South Africa's economic growth and it is clear that there are exciting opportunities for expansion.

Bidfreight's capital expenditure growth is expected to continue in 2008. The short-term focus will be on efficiency gains and working smarter with the facilities we have. Consequently, we expect an improvement in the return on funds employed.

Through efficiency, full utilisation of our resources and the development of smart solutions for our customers – underpinned by continued economic growth – we believe profits will continue to grow.

We are confident about national prospects in the mid and long term. Expenditure on national infrastructure will not be curtailed after the 2010 Soccer World Cup. Government infrastructure planning looks out to 2014 at least while on-the-ground experience over the last two years indicates that substantial and sustained investment will be necessary to address capacity constraints. These factors are all positive for trade and for Bidfreight.

Bulk Connections

The strategy of increasing the range of non-coal commodities is paying off at Bulk Connections, our bulk mineral terminal in Durban. The result was another year of strong growth. Manganese ore exports added significantly to the volumes at the Durban terminal.

Further opportunities to widen the range of commodities are being explored, with focus on cement, fertiliser and ores. Improved margins will be sought by examining the possibility of providing add-on services such as bagging, screening, crushing and container loading.

New investment is planned in Durban to increase concrete storage facilities. Though negotiations with the National Ports Authority are at an advanced stage, lease conditions have yet to be finalised at the Durban terminal.

Island View Storage

Demand at Island View Storage, South Africa's foremost independent liquid storage provider, remained high, resulting in strong growth in both turnover and profit.

Demand is particularly strong from customers in the petroleum industry, but capacity constraints in Durban have limited our growth. There is an urgent need to add capacity in Durban and we are pursuing additional land to build more capacity. In the interim, the principal challenge is to achieve continual efficiencies and sweat the assets.

In Richards Bay, where we have land available, new tanks were constructed for chemical exports and low pressure gas imports.

Growth in revenue and trading profit is anticipated from all operations in 2008.

Bidfreight continues to invest in improving environmental and health and safety performance. It is with great regret that we report that there was one fatality aboard a vessel being stevedored. International safety consultants Du Pont were brought in to support further improvement in operational safety standards.

Bidfreight Port Operations

Bidfreight Port Operations, a specialist in providing warehousing and quayside services, was affected by a reduction in steel exports. This reduction was caused



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by a redirection of steel to meet growth in domestic consumption.

Management reacted by reducing costs and increasing the stevedoring of bulk and containerised cargoes in the Cape. This enabled us to maintain profitability.

The container stevedoring operation which we perform for Transnet showed continued growth.

Management will focus on diversification from steel and paper handling and the pursuit of opportunities for growth in areas such as bulk container packing. Safety on older vessels is becoming a concern and external consultants have been used to reinforce safe working practices.

Rennies Distribution Services

Rennies Distribution Services, the national supply chain and logistics specialist, faced high levels of competitive pressure, particularly in the metals, automotive and paper divisions. Strong performances were evident in the transport and chemical divisions. Opportunities for further growth in these markets will be pursued.

Warehouses throughout South Africa remain the strength of this business and optimising the utilisation of these assets will result in profitability growth.

SACD Freight

SACD Freight, South Africa's leading container depot operator, continues to derive benefit from the global growth in container traffic. Both turnover and trading profit increased.

Secunda operations continue to grow while potential operations in Coega hold the prospect of significant future expansion. Growth in cross-border traffic into Africa is another positive factor.

Bidfreight Intermodal continued to grow and made a significant contribution to profit.

Sustained volume growth is putting pressure on the capacity of current facilities. An expansion programme is in place to address this challenge.

South African Bulk Terminals

South African Bulk Terminals, the country's largest bulk grain handler, was impacted by the total absence of maize volumes until the last two months and low wheat volumes. However, our competitive advantage has been sharpened by consistent reductions in berth-times following the deployment of new technology, notably Africa's fastest, largest and most efficient grain ship unloader. Cost efficiencies were achieved.

Volumes picked up considerably toward year end and higher volumes are anticipated. Six new silos were constructed last year. Work has begun on another six. Opportunities for expansion in Cape Town and southern Africa are being investigated.

Naval

Our Mozambican stevedoring operations performed above expectation for the second successive year. Volumes were underpinned by higher ferro-chrome and coal exports. Growth in import and export activity is expected to continue at Maputo, Beira and Nacala. As Mozambique's national prospects improve, competitive activity is expected to sharpen from other port operators.

INTERNATIONAL CLEARING AND FORWARDING

Safcor Panalpina, the international freight management specialist, achieved record throughput. Tender successes augmented volumes, but compounded margin-squeeze. The weakening of the rand increased levels of disbursement and therefore our revenue. Increasing interest rates also had a positive effect on our earnings from cash holdings.

Expanded facilities at ORTA made a significant contribution, though investment here has increased costs. Working capital was adversely affected by a

change in credit terms for a major client and margins came under pressure from competitive activity and the rand's weakening trend.

Phase two of the ORTA expansion programme, creating an airfreight cross-dock and adding to warehouse space, will become operational in August 2007. This will further accelerate throughput, enable further efficiency gains and entrench our marketplace position as the southern African benchmark for high-tech, high-value clearing and forwarding. Investment in IT systems is continuous.

The staff complement has grown from 1 190 to 1 239 and further job growth is anticipated.

Sebenza, our associated company, performed well and exceeded budgeted trading levels. The operations continue to deliver excellent service to the government, parastatals and certain blue-chip customers.

MARINE SERVICES

South Africa's market leader in ships agency services performed very well, driven by growth in volumes handled by liner principals and car-carrier activities. Increased vehicle inspection fees, increased owner supervisory appointments and earnings from the Agulhas casualty in East London augmented revenue.

Efforts are under way to further increase our Africa representation.

MANICA AFRICA

African operations performed well, with the exception of Manica Malawi where remedial action has been taken and a rapid return to profitability is anticipated. Zimbabwe creates special challenges in view of the onset of hyperinflation. However, the business continues to turn in a satisfactory performance. The Zambian and Namibian business units performed particularly well while profit from Botswana operations

was above budget. For the second successive year, Manica Africa's result was pleasing and new investment will be committed to help local management maintain momentum.

