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Chief executive

Offers a full range of outsourced services including cleaning, laundry, hygiene, security, interior and exterior landscaping, aviation services, janitorial products, industrial workwear, travel, banking and foreign exchange services, office automation, supply chain integration, e-procurement and online travel.

- > Trading profit up 19,0% to R669,4 million
- > Revenue increased by 16,2% to R5,4 billion
- > Return on funds employed above 53%
- > Capex expenditure of R290,4 million
- > Disposable income of employees above inflation
- > 100% ownership of Master Currency

Value proposition

Bidserv brings critical mass and professionalism to previously fragmented services, giving customers the assurance they are dealing with a reliable long-term partner with the resources to deliver the requisite levels of quality and support.

Macro factors

Sustained economic growth is good for our clients and good for Bidserv. The credit squeeze facing some South African consumers had little direct impact in our corporate services environment. Business confidence remains high.

The switch in strategic emphasis from consumer-led growth to infrastructure-led growth is advantageous as we often serve the companies that benefit from increased fixed investment by government, the parastatals and the private sector.

Some segments of high-growth South Africa are doing particularly well, including tourism, property and petrochemicals. The knock-on effects were highly beneficial as our business units serve the travel and airline industries, provide a wide menu of services to new office parks and factories and deliver specialist cleaning expertise to the oil companies and power generation industries.

The higher interest rate trend was mildly positive for our travel-related financial services and trade finance activities.

Industry dynamics

Despite continual investment in technology and new systems, many of our companies operate in a people-rich rather than a resource-rich environment. We are proud of our record for sustained employment creation, especially as many jobs involve a low level of skills and are therefore accessible to South Africans who have not had access to higher levels of education. People-intensive operations, however, leave us vulnerable to changes in the industrial relations climate – a key feature of industry developments last year.

The greatest frustrations occur when industry-wide strike action takes place. Indiscriminate industrial action hurts the good employer along with the bad. Our terms and conditions of employment are fully compliant with all statutory requirements, but our security and cleaning operations were hard hit by prolonged national strike action.

Wage settlements were significantly higher than inflation, putting great pressure on our margins.

The strikes were extremely debilitating. Our workers lost pay. We lost both money and clients. In response to margin pressure following the pay hikes, we have had to seek efficiencies and synergies, in some cases investing in technology and smart systems to deliver long-term savings. In this environment, it was remarkable that we still managed to create 7 000 new jobs.

A trend that remains positive for Bidserv is rigorous control of service level agreements in the outsourced services industry. This is a source of competitive advantage for Bidserv as we set the industry standard in terms of equipment, reporting and performance management.

In-house developments

The effects of industry-wide strikes on people-intensive operations gave added impetus to the long-term strategy of differentiating Bidserv on the basis of higher quality and smarter solutions.

The challenge is best crystallised in the security sector where three basic offerings are evident – the people-reliant guarding service, the high-technology security solution driven by investment in sophisticated resources and, thirdly, the integrated service offering combining high-tech elements with people resources (which may require additional training investment to ensure an individual's competence in a resource-rich environment).

Contribution to Group trading profit
2006: 15,3%

14,7%



Review of operations – Bidserv

Bidserv has decided to step up efforts to further expand its footprint in the last two areas. We see only limited opportunities to add value when the core offering is a service that relies solely on guards with little technology support.

Challenges of national growth

High growth translates into higher demand for skills, particularly in areas such as IT infrastructure; the focus of much of our investment.

The growth challenge that is perhaps most evident – rapidly increasing demands on transport infrastructure, including airports – is a net positive for Bidserv. More airlines are travelling more frequently to South Africa, more tourists are flying in and domestic business travel is a substantial growth area.

South Africa's 10 airports handle more than 200 000 aircraft landings per year. Plans are under way to improve runway capacity at OR Tambo International Airport (Johannesburg) and Cape Town International Airport. This will increase the traffic flow from 56 to 76 aircraft per hour. Aircraft capacity at ORTA is also being increased to accommodate new wide-body, long-haul aircraft such as the A380.

The number of airlines operating in South African airspace has grown from nine in 1994 to more than 50 today. The tempo may pick up even further on the run-in to the 2010 Soccer World Cup.

These developments are helping to grow our Aviation Services companies and travel businesses.

Power outages caused by the strain on national generating capacity have necessitated an increased investment in secondary power supplies at some business units. For example, laundry operations for hospitals and hotels can be extremely time-sensitive. The investment adds to our costs, but increases our competitive advantage versus smaller operators who cannot ensure this level of service reliability.

New structures

There were no major acquisitions, though TMS Group Industrial Services bought a small, Johannesburg-based industrial services company.

Hotel Amenities Suppliers, previously housed within Bidfood, was moved into the Bidserv fold, enabling us to create a new specialised operation to serve the growing hospitality sector – hotel amenities and accessories.

Premier Club Airport Lounges was integrated into a new unit – Premier Airport Services – and moved into the Aviation Services segment of the business. It was previously part of Bidtravel Services.

There were no disposals.

Risks

Business risks are little changed. The basic nature of many of our services ensures stable or increasing demand across various business cycles.

HIV/Aids is a key risk area. Over the years, we have taken Aids awareness and education to many thousands of workers, distributed condoms and provided confidential counselling and assistance. New initiatives may be necessary to improve the effectiveness of this work.

In the past, we have called for combined service industry initiatives as a means of unlocking economies of scale. There has been little response, but we continue to canvass support for wider initiatives.

Legislative risk and sensitivity to changes in labour law are ever present. Bidserv minimises the risk by being proactive, often raising internal standards ahead of any legislative requirement.

Numerous small, under-resourced and poorly capitalised companies are active in many service industries. Their observance of legislation and good

corporate governance practices can be haphazard. Bidserv, in contrast, is known for scrupulous legal compliance.

Exposure to any worsening of the industrial relations climate has already been noted.

Low barriers to entry in some service sectors no longer carry significant risk as Bidserv has limited "bottom-end" exposure.

Sensitivity analysis

Sensitivity to economic variables is judged to be moderately positive. South Africa's growing commercial base is good for Bidserv business. The effect is to stimulate recurring income for our services.

Rand weakness has little discernible effect and may be a mild "stimulant" as it encourages inbound tourism. Our travel businesses focus on the business traveller rather than the rate-sensitive private consumer. A small uptick in inflation has little impact.

Rising fixed investment is a substantial positive.

Higher trends in wage settlements are a sensitive area. Higher wage scales are a major contributor to service industry inflation, which Bidserv puts at about 7,0% – 8,0%. Client resistance stiffens when annual price increases move above 5,0%, accentuating margin pressure. Bidserv has blue-chip clients, who, as major corporates, aggressively manage their supply-chain costs.

Proudly Bidvest

Membership of the Group is showcased by investment in corporate image elements, including vehicle liveries. Our role as a key contributor to a major JSE-listed group is a source of reassurance for our corporate customers.

In addition, Bidvest's status as one of the most empowered companies in the country is important to

our clients as most of them put increasing emphasis on BEE procurement. For example, the strong empowerment profile at group level has assisted us in significant new business gains in the public sector.

Differentiation

Stature, resources and professionalism are crucial in an often-fragmented service sector. Bidserv's positioning as a reliable partner is the core element in our value proposition. We offer predictable performance within rigorously managed quality and price parameters by professionals who are here for the long haul. Under-resourced, often opportunistic industry players have trouble competing with this promise.

Training

Training investment increased by 36,5% to R36,0 million.

Initiatives are being examined to complement internal training with training efforts directed at joint ventures or operations we are partnering as part of our commitment to enterprise development.

Black economic empowerment

Most individual business units have obtained empowerment ratings or are in the process of doing so. Improvements have been achieved across most elements of the Bidvest BEE scorecard.



Though steady progress is evident in all areas, three specific pillars of empowerment have been targeted for focused attention: training, promotion of black staff into areas of real responsibility and enterprise development.

Many businesses have taken as their model The Bidvest Academy and have set up their own mini-academies. They identify high potential individuals and give them a concentrated course of training in leadership and people management.

"Graduates" are channelled into mentorship programmes. The academies enable staff to progress into senior positions while hands-on mentorship helps retain individuals who have acquired highly marketable skills. The attrition rate of staff with high potential has affected our BEE scores in middle and upper management categories. It is hoped the new initiatives will halt or slow the migration of these staff members.

In the area of enterprise development, we have begun the process of identifying people-intensive operations that are currently housed within Bidserv but could go it alone, given the right type of support. The finalised codes of good practice give continuing credit for this type of intervention, even when the enterprise under development is "set free".

Some cleaning, laundry and security operations could be developed into independent businesses.

Simultaneously, we have begun discussions with service providers that are already independent but require training support and a recurring income stream. For example, one women's group that provides technical services can be assisted by refocusing their business on equipment servicing (point-of-sale machines, CCTV cameras and cash-counting machines). This assistance will add another credible BEE supplier to our list and improve our enterprise-development credentials.

Win-win scenarios like this have become a focus area for empowerment efforts.

Corporate social investment

Our social investment spend focuses on support for communities from which we draw our staff with the accent on education. Efforts are decentralised, but synergies occur. Several Bidserv units have sponsored the lap-desk concept as a way of assisting under-resourced schools.

This belly-hugging board rests on a pupil's knees and provides support for books. Each lap-desk is branded in the colours of the Bidserv sponsor, though most of the desk space is taken up with educational aids, including shapes, colours, multiplication tables, maps or the layout of an alpha-numeric keypad.

In one major initiative led by TMS Group Industrial Services we spent approximately R1 million building additional classrooms at under-resourced schools.

CSI rose 65,0% to R9,1 million.

Innovation

Bidserv has become a proactive solution-provider across all areas of activity.

In office automation, the introduction of the Bizhub by Konica Minolta South Africa has redefined the market for business solutions by combining into one unit the laser printer, colour copier and e-mail platform.

The purchase of TSI by TMS Group Industrial Services has enabled us to integrate lagging, scaffolding and other specialised cleaning items into the biggest product line-up ever to be made available in this market at a time when many large industrial groups are consolidating their purchasing.

Bidtravel Services has entrenched its leadership in the corporate travel business by rolling out its "travel engine" across all operations, creating a virtual travel

agent that can be called up at a keystroke. The system has bedded in and enjoys growing market acceptance.

TopTurf's golf course design and construction unit is setting the pace in a highly specialised field. It has completed an Ernie Els-designed course in Mauritius and is busy on an Annika Sörenstam signature course at Naboomspruit.

New investment

Capital expenditure of R290,4 million included R138,8 million on expanded facilities with substantial allocations for plant and equipment and additions to the vehicle fleet. R151,6 million was spent on infrastructure replacement and upgrades.

The future

The Airports Company South Africa has awarded a ground handling licence to Aviation Services. The licence does not become operative until March 2008. However, we are well positioned to optimise this strategic opportunity. For some time, we have invested in support of baggage handling, ramp handling and passenger and cargo handling facilities while our teams have developed the necessary skills and experience in all these areas. We view airport handling services as an area of promising growth and hope to create new jobs in these activities once the licences come into operation.

Bidserv is confident of continued growth in revenue, profit and jobs. We project 10% real growth off a high base. The national economy continues to achieve strong growth and high levels of fixed investment are anticipated.

These factors underpin the strong demand for our services. Our strategy of taking a bigger basket of value-adding services to our corporate customer-base has proved highly successful and further gains are anticipated.

Master Currency joins Bidserv with full effect from July 1 2007 and will reinforce our offering in an area of

strong growth – foreign exchange and travel-related finance.

Bidserv's training spend and investment in facilities will increase as value-add becomes increasingly important. In addition, we will review the quality of our business mix and may sell some low-margin contracts.

We also project job growth in the 7,0% – 8,0% range.

Prestige Group

The market for cleaning services remained buoyant and gains in market share were recorded. Further opportunities for growth are being examined in specialist areas such as food hygiene. Prestige Group's ISO 9001 accreditation emphasises its qualitative edge and will be an important plus-point when establishing new niche operations.

TMS Group Industrial Services

Investment in infrastructure and consolidation continue to pay off. The TMS Group more than doubled its revenue. Major industrial companies and petrochemical operations look for strong partners capable of meeting their quality requirements. TMS fits the bill and has successfully positioned itself as the sector leader.

Laundry Services

Laundry Services has gone through a year of consolidation while achieving pleasing levels of profitability. A major contract was lost when a



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healthcare group created an in-house laundry facility. We continue to invest in more productive equipment and anticipate further growth as room occupancy levels are moving higher in the hospitality sector and pressure on hospital beds remains high.

Steiner Group

Pleasing levels of growth were achieved and are expected to continue. Rochester Midlands Industries was moved into the group as our customer-base provides a growth opportunity for a company with complementary services. The inclusion of Execuflores within the Steiner Group has proved highly successful. The group has widened its footprint by opening operations in Mozambique and Botswana.

Bidserv Industrial Products

Strong momentum has been built up, underpinned by national market acceptance of the full range of G. Fox products. The operation has grown its business by 50% in two years, necessitating a move to much larger premises. Bidserv Industrial Products continues to innovate and has created the industry's first cash-and-carry operation, a one-stop shop for safety boots, goggles, overalls and chemicals. Malawi-based Giant Clothing put in another strong performance.

Green Services

Top Turf had a record year, drawing maximum advantage from strategic expansion into golf course design and development. South Africa's commercial growth adds to the momentum; specifically the landscaping needs associated with resort expansion, property development and the creation of office parks and golf estates.

Aviation Services

Premier Club Airport Lounges (previously in the travel division) has been rebranded as Premier Airport Services and integrated into the Aviation Services operation to further widen the service offering. The division has enjoyed substantial growth and is

positioned as a strong player in the growing market for airport services.

Bidrisk Solutions

Magnum was severely affected by strikes and results were extremely disappointing. The rate of job growth has slowed and the long-term future of some operations being re-evaluated. Vericon, with its audit security offerings, did well and is well placed for further growth. Provicom Electronics put in another satisfactory performance. The joint-operations control room, a greenfields initiative, has yet to get fully into its stride but shows potential.

Global Payment Technologies

The business has formed strong relationships in the financial services sector and continues to innovate across its product range. The latest addition to the line-up is the "Deposit Manager", a machine that accepts cash deposits and checks and validates notes. The business continues to secure acceptable growth.

Business Solutions

Electronic procurement services through mymarket.com enjoy growing acceptance and the travel engine is at the cutting edge of our penetration into an area of exciting growth – factors that helped to take the business beyond the break-even point and into acceptable profit. The business is positioned to maintain momentum and profit.

Group Procurement

Multi-million rand savings were achieved by Bidprocure following the signing of major contracts for telecommunications services. Opportunities for further efficiencies are being pursued with mobile communication and business network service providers.

Office Automation

The office automation business enjoyed a good year, securing strong growth, including the award of a major

government tender. This is an indication of strong BEE credentials as well as confirmation that the team supports a strong product line-up with extremely high service levels. Konica Minolta SA entrenched its position as market leader. The performance of Océ was affected by cyclical factors, but significant improvement is anticipated.

Bidtravel Services

The travel businesses put in an outstanding performance and drew significant benefit from the growth in airline business, higher levels of corporate car rental and high occupancy levels in the hospitality sector. World Travel and Travel Connections put in a particularly notable performance. The travel engine has proved to be an exceptionally strong tool. Its speed, convenience and ability to generate pertinent management information have entrenched client relationships. Management has been further strengthened and continued growth is anticipated.

Banking Services

The businesses put in an extremely strong performance, aided by the interest rate climate, strong demand for travel-related finance in the corporate sector and a strengthened management team. The demand for card services is also strong.

Foreign exchange services have had another good year. Further gains in market share are anticipated with the integration of Master Currency into the operation. Its outlets occupy prime positions at major airports and metropolitan centres.

Hotel Amenities Suppliers

The business provides a quality brand offering to the hospitality sector and achieved a pleasing level of growth. New business gains included the Protea Hotels account.

