



Fred Barnes
Chief executive

Comprises leading foodservice product distributors in the United Kingdom, Belgium, the Netherlands and the United Arab Emirates, providing products, quality ingredients, finished products and equipment to the catering industry.

- > Trading profit improved 16,3% to R757,6 million
- > Revenue up 35,4% to R30,0 billion
- > Deli XL Netherlands impressive 40% leap in profits
- > Successful United Kingdom tender to supply HM Prison Service
- > Successful launch of Whites premium brand in United Kingdom with introduction into Belgium in October 2007
- > Strong Flanders base established with acquisition of Kruidenier foodservice business

Value proposition

Bidvest Europe is a well resourced, quality driven broadline foodservice innovator whose products and services add value by enhancing the competitive position of its customers in the world's most health-conscious and rigorously regulated jurisdictions.

Macro factors

British inflation has become a concern and the Bank of England has begun to increase interest rates. The base-rate was 5,5% by the end of the period and in July rose to 5,8%.

GDP growth in Britain is 3,0%, but there are indications the consumer is being squeezed by higher housing costs and much bigger fuel and utility bills (which rose by nearly 30,0%). The prices of the food manufacturers are also under increasing pressure, with the cost of vegetable and food imports rising by more than 6,0%. Category inflation for food and non-alcoholic beverages is running between 4,0% and 5,0%. Food deflation has been replaced by food inflation.

The Dutch economy has the reputation of being the first into recession and one of the longest to recover. This proved to be the case when the guilder was replaced by the euro. However, the recession is now over, and the slow recovery gathered pace in 2006/7. Business and consumer confidence have improved as a result.

Belgium's economy performed well in 2006 with 3,0% growth, but the gains moderated in 2007. However, wage settlements in the 5,0% range have kept consumer confidence levels relatively high. Stronger performance by Germany, engine of the EU economy, is also positive for "the neighbours" in Belgium and the Netherlands.

Industry factors

Hotel room occupancy levels remain high thanks to strong tourism industries in all national markets.

A ban on smoking in Scottish and Welsh pubs, restaurants and places where meals are served

has further increased public awareness of hygiene, food safety and nutrition. The ban has since been extended to England. Assisting out-of-home eating establishments to build repeat business has become a focus area as these businesses adjust to the no-smoking challenge.

A smoking ban will be implemented in the Netherlands in July 2008.

Concern for the nutritional health of British children has led to the establishment of the School Funds Trust and widespread review of the standard of food served in schools. In 2007 new standards were enforced in primary schools. Further legislation is imminent. We are well placed to respond to stricter standards and achieve competitive advantage in view of our work to promote healthy eating via our "positive steps" campaign.

Sustainability has become a critical factor for public sector procurement initiatives.

High labour costs, healthy eating trends and sustainability scrutiny also affect industry dynamics in the Netherlands and Belgium.

The net effect for broadline food distributors is to underline the need to become a partner of the customer by anticipating legislative demands, providing superior quality and nutrition ahead of time and developing solutions that protect margins, create new menu options or foster kitchen efficiency. Business units in all national markets have responded well to this challenge.

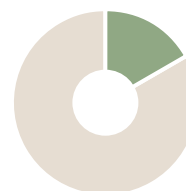
Business growth

Remedial action in the United Kingdom following the loss of the Ministry of Defence contract entailed the vigorous pursuit of new business while fostering organic growth. Notable successes were achieved.

In the United Kingdom, we have won an additional contract to supply the Compass Group, one of the

Contribution to Group trading profit
2006: 17,8%

16,7%



leading international catering operations. The new contract involves non-food items and complements our existing wholesale contract to supply Compass with ambient food products. We also landed the contract to supply the Hilton Hotel chain in the United Kingdom across the grocery, frozen and fresh ranges – an account gain that entrenches our position as a leading headline supplier to the hospitality sector.

Winning a £16 million contract to supply fresh produce and groceries to HM Prison Service has major significance. Scrutiny of food quality and nutrition is intense when tenders are received by government agencies. Our success in satisfying the most rigorous investigation of our quality standards was a signal to our industry that our quality controls are unsurpassed.

Public sector contracts are not awarded without a simultaneous examination of a company's record for hygiene, workplace safety, investment in systems and compliance procedures, environmental sensitivity and commitment to the workforce and the wider community. The tick in the box marked "Sustainability factors" constitutes a *de facto* endorsement of company culture and organisational health.

In addition, we have grown our business with the United Kingdom operations of Aramark, the US foodservices and facilities management leader. We now supply Aramark with frozen, ambient and chilled foods, a broad offering that enables significant logistic efficiencies. Our business in the Netherlands has grown its business with Sodexho, ISS and Compass while Belgian operations strengthened their relationship with Compass through increased sales of our Ultrafresh range.

A key driver of organic growth – in the United Kingdom and mainland Europe – is the trend for customers to consolidate their procurement. These developments were anticipated two years ago when efforts were stepped up to create a consolidated ambient, chilled and frozen offering backed by wine and beverages and non-food supplies.

This trend has been accelerated in the United Kingdom (and to a certain extent in the Netherlands and Belgium) by climate-change concerns and renewed efforts to reduce "food-miles" and the distribution sector's carbon footprint. The preferred solution is range consolidation on a single truck from a single source – a proposition our marketeers have advocated for several years in view of our extensive service offering.

To secure a bigger basket of our customer's business we also add value through administrative efficiencies, advice on various ranges and our ability to provide solutions that satisfy key needs (for example, the provision of high quality, easy-to-prepare menu items when skill levels vary in the customer's kitchen).

Innovation

A new premium brand, Whites, has been successfully launched. Fourteen menu items were introduced in October followed by a further 16 in April. The range was further extended in July. The aspirational brand has been exceptionally well received after achieving a 75% liking score in pre-launch research. 3663 First for Foodservice is known for good value rather than premium positioning. Whites has therefore created a promising bridgehead into an important growth area – the best product category.

An industry lead has been given by the integration into our ranges of fresh produce and premium deli items from Swithenbank and quality portion-controlled meats from The Barton Meat Company. The breadth of this service offering puts us at the cutting edge of the range consolidation trend.

In 2007, we researched market demand for the introduction of fresh and frozen fish. We sourced and secured quality supplies of 500 new lines ahead of the range extension, which became effective in July. We demonstrated our sensitivity to environmental concerns by incorporating some Marine Stewardship Council products in the development of this new

offering. The council's mission is to ensure global sustainability of fish stocks.

In the Netherlands, our own brand coffee, Reuser & Smulders was launched as an authentic, pure, high quality, best taste brand. The brand concept includes coffee, tea, cups, cookies, sugar, milk, machines and Barista training to build a wider appreciation of the total coffee concept.

New structures

The position of Deli XL Belgium as the country's leading foodservice company was further strengthened by the acquisition of Kruidenier, the number three player in the local industry. Deli XL Belgium has a strong presence in the Walloon areas in the south of the country while Kruidenier has its home base in Flanders. Consolidation of the number one and number three market players was well timed as it came as another company in the industry's top five was wound up, creating the potential for future gains in market share.

The focus in the Netherlands has remained on further organic growth from its revitalised structure, particularly in the non-institutional catering market.

There were no acquisitions by the British business. The accent was on expansion of key operations such as the London base of the fresh produce business while making continual improvements to operational infrastructure.

New investment

In the United Kingdom, the Basingstoke operation (previously a depot dedicated to supplying the Ministry of Defence contract) was converted into a multi-temperature site. Another dedicated MoD site at Dundonald has been taken over by the Ministry's new supplier. These arrangements ensured job losses were minimised following the loss of this contract.

The catering equipment facility in Bristol is being modernised and expanded. In October, we opened a new Edinburgh depot while our Manchester site has been expanded.

Investment in training is continual and rose to R17,2 million.

Business risks

Legislative risk is well controlled as these processes are predictable and well understood, though the extension of the smoking ban across Scotland, Wales and England was a reminder that business has to be flexible and responsive to changes in the policy landscape.

Sustainability has become a risk area in view of the priority given to these issues within the institutional market. This risk has been addressed by making this a focus area for management. Our record of sustained investment in quality systems, training and commitment to the environment cushions the risk of tender failure through sustainability shortcomings, but proactive management of all areas is essential.

Credit risk is a given in any trading environment, but the magnitude of the exposure can be affected by new corporate trends such as aggressive use of debt in leveraged buy-outs. "Value" that appears to be locked



within a company can be stripped out at a rapid rate, suddenly changing the risk profile of a customer.

Bad debt levels have risen sharply as a result of some business failures, but vigorous corrective action has been taken. Greater use is being made of insurance tools to guard against the catastrophic failure of any single customer's business.

Customer expectations have also emerged as a risk area following the change from food deflation to food inflation. Operational management become skilled at dealing with day-to-day challenges. Over several years, managing lower prices became a core competence. The shift to persistent food inflation creates new challenges as customers resist price increases no matter how well the increases are motivated. Better management of customer expectations has become a priority.

Sensitivity analysis

The business is sensitive to upward pressure on food prices, labour and distribution costs and any constraints on the consumer's level of disposable income. Sensitivity is controlled by the continued GDP growth in the United Kingdom, Belgium and the Netherlands and the high income enjoyed by consumers in all markets. The net effect of the chief economic variables is regarded as mildly positive.

Differentiation

Bidvest Europe differentiates itself as a proactive partner that anticipates customer requirements and addresses them through appropriate investment, quality systems and reliable service delivery by experienced, knowledgeable and innovative staff. Our professionalism and scale of operations enable total solutions with the potential to create new efficiencies within our customers' business.

This value proposition has growing relevance as marketplace pressures and sustainability issues come to the fore. Local sourcing of products and the use of

authentic, natural products are increasingly important. Providing comprehensive information on all the attributes of the various products and food groups has become essential. Our service offering is now underpinned by specialist assistance such as kitchen design for our customers.

Bidvest Europe has long been known for its ability to provide a total logistics solution. We are now strongly communicating the message that our solutions "don't stop with the drop".

Proudly Bidvest

In the last 12 months, awareness has grown within the British and European markets of Bidvest as a major international player in the foodservice industry. The Bidvest name is carried by all truck fleets and at all companies, including the recently acquired businesses in Belgium and throughout the Netherlands.

The corporate strapline "First for Foodservice" is deployed across the livery in all national markets, from London to Brussels and Amsterdam and through to Australasia, providing a consistent marketing promise and a unifying element in our corporate identity.

Bidvest recognition is positive among large companies and is helpful when forming alliances with suppliers and other parties.

Sustainability issues

Our status as the preferred employer in our sector was underscored in March when 3663 First for Foodservice was listed by the London Sunday Times as one of the United Kingdom's top 20 "Big Companies To Work For". We are the only food wholesale distribution company on the list.

In June, the British government and the Institute of Fundraising bestowed a silver award on 3663 for facilitating sustained "payroll giving" by our employees. Focused internal communication has raised awareness

of the scheme whereby 6,5% of the workforce currently donates to charity via the payroll system, raising about £25 000 a year.

We receive high sustainability noting as we are the only foodservice company in our markets to achieve ISO 14001 accreditation at every depot. This benchmark for quality control and environmental management indicates that we adopt best world practice to ensure our operations have minimum impact on the environment.

We use bio-diesel in our fleet and are taking measures to recycle cooking oil from our customers and suppliers where possible, and convert it into bio-diesel. By committing to the use of bio-diesel made from used cooking oil we are taking the lead in the use of sustainable fuels.

The processing of virgin oil may reduce dependence on fossil fuel, but has the effect of restricting the acreage used for food production as crops are increasingly diverted for ethanol manufacture. Ultimately, food prices rise.

Our fleet of more than 1 000 trucks has given an industry lead in the sustainable use of used cooking and vegetable oil by concluding supply arrangements with an oil re-processing plant. We currently use 20 000 litres of bio-fuel a week from this plant, all derived from used oil provided by our customers and suppliers.

These arrangements went into operation in the final quarter. We are encouraging more customers and suppliers to collect used oil for recycling and plan to substantially increase our use of bio-fuel from this plant over time.

The "weeding and seeding" of our ranges constantly focuses on product innovation and new formulations to promote healthy eating and improved nutrition.



Review of operations – Bidvest Europe

The future

After a year of consolidation, renewed growth in revenue and trading profit will be sought in 2008.

Food inflation and higher interest rates create challenges in the United Kingdom market, but range management and range extension offer opportunities for further growth while new efficiencies will also be pursued. The possibility of closer integration across the sales teams is being examined in detail.

Strong forward momentum has been built up by our business in the Netherlands. This highly motivated team is poised for further success and will be supported by new investment in depot expansion and an extended central chill facility. Opportunities for acquisition-led growth will also be examined.

The base of our operations in Belgium has been significantly expanded following the Kruidenier acquisition. However, this business is not expected to be earnings-positive for some time as the cost of substantial reorganisation will have to be absorbed. The full-year effect of recent management changes at Deli XL Belgium will be felt in 2008. Some revenue growth has already been achieved. Further gains in market share will be pursued.

Horeca, our Dubai-based foodservice operation, has doubled the size of its business in 18 months and is committed to further growth. The hospitality boom in the United Arab Emirates has shown no sign of abating while new opportunities are opening up in the institutional market, notably the hospital sector.

3663 FIRST FOR FOODSERVICE

United Kingdom

We competed strongly and tendered aggressively to secure several gains in new business and our non-food operations achieved strong growth.

The Manchester-based The Barton Meat Company is staging a recovery following losses earlier in the year. Substantial new investment has been made in our Manchester infrastructure. The new facility opened in April 2006 and continued benefits are evident.

The frozen, fresh and chilled division recorded another year of pleasing sales growth. To address the continuing trend to procurement consolidation, the possibility of wider integration of the sales effort is being investigated. Training investment may be further increased in view of the need to advise customers on products across a wider range.

A new operating system has been designed and will be implemented in the coming year as the existing IT system reaches the end of its useful life.

DELI XL

Belgium

The business entrenched its leadership position in the national market and benefited from management changes at a strategic, sales and operational level. Improved performance was achieved, with higher standards of service and quality coming through. Efficiencies and growth opportunities will be pursued by more rigorous category management and range extension where appropriate. Better alignment with customer needs is being achieved and pack size changes and new formulations are being introduced. The Kruidenier acquisition brings improved geographic balance to the business and creates a strong platform for future growth.

Netherlands

The Dutch team put in an upbeat performance with strong gains in market share and trading profit. Electronic Euro-tendering has transformed the institutional market and Deli XL Netherlands has emerged as the leader. Further inroads have been

made into the hospitality market and strong organic growth has been achieved across major national catering accounts.

The business has made full use of the decentralised Bidvest model to design and implement its own solutions, maximising its in-house knowledge of the Dutch foodservice market. The result is significant operational, buying, marketing and sales gains. Margins and expenses are well controlled.

The team will entrench its relationships with a growing customer-base by offering a fuller logistics solution to exploit bigger European volumes.

HORECA TRADE

United Arab Emirates

The business achieved pleasing gains in turnover and trading profit for the second successive year. The United Arab Emirates hotel sector continues to grow at a rapid rate. Dubai has emerged as a major tourist destination and venue for global sporting events. The product range is being continually expanded. Product sales have also benefited from the acquisition of several international agencies. The expansion of the agency portfolio has been facilitated by Horeca's growing reputation for applying world best practice.

The broadline foodservice proposition is being systematically developed. A new freezer facility is being built while Horeca staff members are being trained by their British counterparts to support a wider product offering.

Opportunities for expansion into other Gulf States are being explored.

