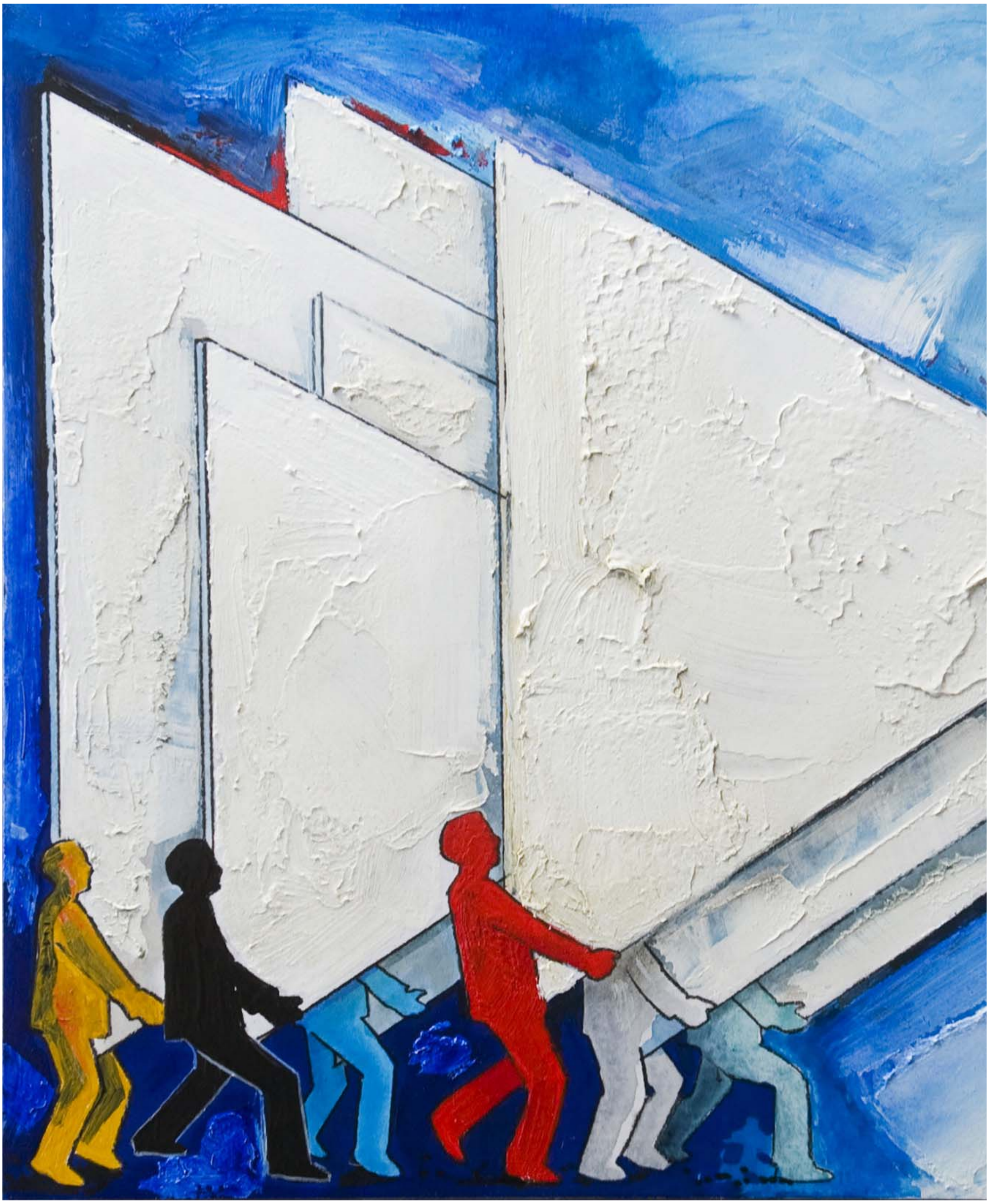
Bidvest's vision lies in the realm of possibility



Chairman's statement

"Bidvest people put in a resilient performance and the Group achieved a creditable result."

Cyril Ramaphosa, *non-executive chairman*

Highlights

- Our people put in a resilient performance
- Growing challenges play to Bidvest's strengths of thrift and self-reliance
- Upsurge in divisional initiatives to foster sustainable business practices
- 'Can-do' mindset an invaluable asset in quest for fresh possibilities
- Plans for Namibian listing of Bidvest Namibia are well advanced
- 'Green is Gold' drive makes sustainability a springboard to business value
- In World Cup year Bidvest plans a winning performance

Introduction

Recession in South Africa, Europe, America and parts of Asia inevitably has consequences for a global business such as Bidvest. Dealing with deteriorating trading conditions is only part of a wider challenge facing organisations committed to sustained growth. The wider challenge is that of effecting fundamental change to deal with a new business environment.

Political change has been significant. America has a black president for the first time. South Africa has a new leader in Jacob Zuma. Market change is perhaps even more dramatic. As the financial crisis spread around the world, government-initiated bail-outs of great magnitude became commonplace as global financial systems were impacted and economies stalled for lack of liquidity.

Despite the gathering recession, Bidvest people put in a resilient performance and the Group achieved a creditable result.

In such challenging conditions our distribution to shareholders declined by 23,2% to 380 cents. The lower distribution is as a result of lower earnings, increased distribution cover and cash requirements ahead of the pending Nowaco and Farutex acquisitions.

Change

Over the past year, attitudinal change has certainly occurred, within families and institutions, among national planners in numerous jurisdictions and across the international community. The growing importance of China and India as engines of economic growth is perhaps the most dramatic signal that some fundamental changes are underway.

Economic models based on easy credit suddenly seemed absurd. Living within your means ceased to be old fashioned and became the new requirement for businesses and families.

Bidvest is affected by all these factors, but philosophically, changing marketplace conditions and environmental demands play to the Company's strengths, in particular a sense of thrift and self-reliance.

Sustainability

At the same time, there is increasing public awareness that collectively we need to live within the planet's means, husband our resources and reduce the rate at which we convert finite fossil fuels into harmful greenhouse gases.

At Bidvest, there has been an upsurge of divisional initiatives that foster sustainable business practice while seeking competitive advantage or improved cost efficiency. This has led to the development of brands with a sustainability proposition and interventions that cut energy and water usage.

Innovation such as this has the potential to position Bidvest as a leader in the quest for sustainable solutions. Our international operations have been in the forefront of sustainable business developments for many years. Now I'm proud to say they are being joined by our South African businesses. This is encouraging as a business's competitiveness will increasingly depend on its ability to deliver products and services with the lowest possible environmental and social impacts.

Vision

For 21 years, Bidvest's core competence has been the unlocking of infinite possibilities. We aim high, as symbolised by the Bidvest arrow, yet the Bidvest vision has always been within the realm of possibility.

Our people carry our vision forward. They are the driving force. Their belief in opportunity and innovation has helped us turn everyday companies into extraordinary performers. This "can-do" mindset is the invaluable asset that will enable us to seek fresh possibilities once again, even in the face of recession.

Chairman's statement

Africa

Thankfully, change in Africa continues to be largely positive. After debt-forgiveness, African governments and key institutions are debt-averse. African businesses tend to run on cash rather than debt. These habits stood our continent in good stead and the impacts of the global economic slowdown appear less severe than elsewhere.

Unfortunately, Zimbabwe has suffered economic meltdown, though the causes had little to do with global factors. An inclusive government is now in place and a degree of recovery is evident following the decision to make the US dollar and the South African rand the currencies of exchange. We hope for further improvement.

Namibia

Plans for a Namibian listing of Bidvest Namibia are now well advanced and we wish our colleagues every success as they prepare for an exciting future. African countries can only benefit by taking greater responsibility for local assets. We are confident the people and the entities that will invest in our business will continue to develop the current base and will generate significant wealth in years to come.

A transformation dynamic has been built into the Namibian business ahead of the listing with the aim of giving an empowerment lead to the new nation's private sector.

South Africa

Both political and economic changes have gathered pace here in South Africa, and I take this opportunity to convey my congratulations and best wishes to our new president, Jacob Zuma. He took the reins at a critical time, just as recession was confirmed by economic data.

Our national and provincial government elections may have led to robust debate, but they were peaceful, free and fair. South Africa can be proud that it continues to set an example for the rest of our continent.

Our political processes will always be closely observed internationally as South Africa is seen by many investors as a "proxy" for emerging markets in general. We are therefore in a position to send out a powerful message. And we did; namely, that votes settle our political differences, not violence.

Expectations

In the post-election period, expectations are high and pressure for service delivery intense. Our new president has made it clear that those charged with making a difference will be held accountable. Visible leadership is needed and engagement with the problems facing ordinary families is crucial. President Zuma is ideally suited to this role.

Empowerment policy

Leadership is also necessary on key policy issues such as broad-based black economic empowerment.

Recession and weak equity markets have exposed flaws in some approaches to black economic ownership. So much so that equity stakes dependent on leverage and dividends could revert to financiers. Some businesses that have sincerely transformed might then lose empowerment recognition, though the cause would be flagging markets rather than a flagging commitment to BBBEE.

Debate around the "once-empowered, always-empowered" principle is bound to sharpen. The definition of "ownership" becomes crucial. This matter needs to be revisited as the reduction in equity values is having an unintended consequence.

Lock-ins and losses

If equity ownership is paramount then lock-in agreements to enforce black equity ownership will continue. Lock-ins inhibit black access to profit or the proceeds of a successful transaction. They therefore hinder black participation in the economy and offend the spirit of empowerment.

It could be argued that in the last year lock-ins have depleted black wealth and reversed black advancement because black people were uniquely prevented from realising value when markets indicated that a measure of profit-taking was prudent.

Controversy on issues such as this has existed for some time. A simple and precise definition of "ownership" in an empowerment context will encourage further progress toward the vital goal of increased black participation in the economy.

Bidvest and empowerment

Bidvest's position on BBBEE is unequivocal. Black economic empowerment is crucial to the sustainable development of the South African economy. Without the full participation of all racial groups – especially the black majority – this country cannot realise its potential. Peace and prosperity depend on transformation.

Jobs and rates

President Zuma's plan to create 500 000 new jobs by the end of the year indicates that jobs growth is a priority with our new government. This is commendable. In South Africa, pushing back poverty implies pulling out all the stops to create jobs.

Infrastructure spending and public works can contribute, but additional tools may be needed – including lower interest rates. Rates have eased considerably, coming down by 4,5% between December 2008 and May 2009, but at 7,5% in mid-2009 and 7,0% in August, our rates are still high in relation to some economies.

Inflation, which has a disproportionate impact on the poor, tends to be the Reserve Bank's overriding concern, and inflation-targeting has been SARB policy since February 2000. Reserve Bank independence is entrenched in our Constitution, but it would be unusual if policy options were not subject to comprehensive review in the near future given the much-changed financial landscape since 2000.

With interest rates at their lowest in decades in some developed nations, it is obvious that getting economies ticking over again is the policy priority of many central banks, even those that maintain commendable independence from political interference. Hopefully, our Reserve Bank will follow the international lead and show greater flexibility in future.

Jobs at Bidvest

Bidvest has an unparalleled record as a jobs creator, but we were not immune to the unprecedented pressures of the last 12 months particularly in services and automotive divisions. Major cost-cutting programmes were announced in our businesses, but management refused to resort to wholesale retrenchments.

In an economic environment which went into recession, strong job creation came to a halt. Our workforce decreased slightly to 103 449.

International experience

Regrettably, retrenchments occurred in our UK operations, but other international businesses were not impacted by adverse economic conditions to the same degree. Recovery will take time and unstinting effort. No one should expect a rapid return to the buoyant conditions of two years ago, either in our international or domestic South African markets.

Resilience

Even in the face of challenging business conditions, Bidvest people and businesses continued to innovate and raise their standards.

In South Africa, we maintained our commitment to transformation, diversity, representation of black people in strategic roles and continued improvement in our empowerment status and scores.

Chairman's statement

Employee skills and community development continue to gain momentum. Investment in small black enterprises increased. Supplier alignment with our transformation objectives remain strong.

We continue to drive HIV/Aids awareness and education. Know-your-status campaigns and active interventions increasingly characterise our efforts to combat the spread of HIV and assist those living with Aids.

Green is Gold

Environmental management and energy efficiency are focus areas and are viewed as potential sources of competitive advantage rather than compliance "chores". The positive mindset is important. More is achieved by pushing ahead rather than being pulled along. Teams in all geographies are alive to the challenge of global warming and the need to reduce carbon emissions.

Bidvest's "Green is Gold" initiative has alerted all employees to the possibility of using sustainability as a springboard to new entrepreneurial opportunities and new methods of creating business value.

At Bidvest the environmentalist's mantra of *Reduce – Reuse – Recyle* has been extended. Our managers and workers increasingly *Rethink* attitudes, processes and behaviour to achieve better operational results through better environmental practice.

Environmental challenges, specifically climate change, demand continued focus. Mitigating emissions is becoming crucial. As a society we also have to adapt more quickly to climate changes that are already taking hold, particularly in South Africa where future food security is cause for concern.

Recognition

Bidvest is honoured as a pace-setter and standard-bearer in numerous spheres. For example, in the JSE Socially Responsible Investment Index Bidvest is one of the 21 top performers (out of 103 companies in the index). In the Carbon Disclosure Project we are one of the top 10 in our category.

In the Forbes list of the world's best companies Bidvest is in position 1 102. In the Campbell Belman survey of 166 fund managers and analysts Bidvest is ranked seventh in its list of the JSE Top 100.

We took second place in the 2008 interim results category of the Business Day Awards and came third in the best corporate website category.

The "Ask Africa Trust Barometer" put Bidvest seventh in its overall classification while we took top spot in the industrial category. My colleague, Brian Joffe, was runner-up in its chief executive rankings. Congratulations, Brian!

Future

A hesitant recovery appears to be in its early stages in many of the international markets in which Bidvest is active. Energetic steps have been taken to refocus activities and I am hopeful that improved performance in the UK can be achieved.

I am also quietly confident that the corner is being turned in South Africa. Though I think it delusional to regard the 2010 FIFA World Cup South Africa™ as a magic wand that will wave away all economic challenges for the next 12 months, it should be acknowledged that this event will be helpful as a catalyst as we move out of recession.

In the immediate term, South Africa faces a considerable challenge. Business confidence is low. Hopes of sustained growth above 5% have been dashed and the sights set by policymakers may have to be recalibrated. That said, there are some "green shoots" to celebrate.

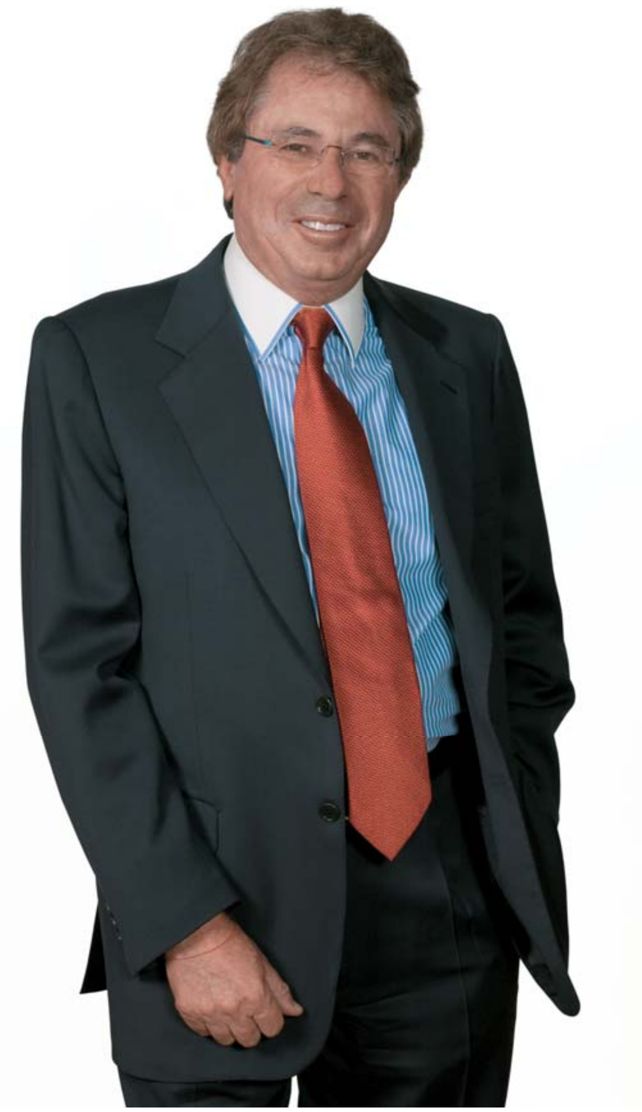
The country recently recorded its first monthly trade surplus since December 2006. Some commodity prices have recovered from their lows earlier in the year and national morale received a boost when we proved during the FIFA Confederations Cup that our organisational skills are comparable with the best in the world.

As we move closer to the 2010 kick-off, I expect the national mood to revive still further. We live in a much-changed world. But some things don't change … such as the spirit, energy and determination of Bidvest people. In World Cup year, I believe they will put in another winning performance.

Cyril Ramaphosa
Non-executive chairman

"We refuse to participate in the recession and salute our employees for their efforts in exceptionally difficult trading conditions."

Brian Joffe, *chief executive*



Highlights

- Revenue grows 1,8% to R112,4 billion despite deepest recession in 50 years
- Decisive action puts Bidvest in a stronger position despite economic challenges
- Headline earnings per share of 930 cents
- Resilient contributions by Bidfreight, Bidserv, Bidvest Asia Pacific and SA food businesses
- Exceptional performance at Bidvest Namibia
- Restructuring for a new future has already begun as businesses in all geographies adjust to the 'new normal'
- New investment of R2 241 million as anti-cyclical growth spending continues
- Our refocused businesses are well placed to take advantage of economic improvement

Introduction

Respectable trading results were delivered in extremely tough economic conditions. Headline earnings per share declined by 12,9% to 930 cents per share and basic earnings per share declined by 13,4% to 929,6 cents per share.

Decisive action was taken to put the Group in a stronger position at a time of uncertainty and worldwide economic recession. The decline in headline earnings is in part due to the expensing of R118,3 million in closure and reorganisation costs in certain operations within motor retail, the UK foodservice and Ontime Automotive businesses, and the impact of higher interest rates in the first half of the year.

Difficult times provide opportunities and Bidvest is alert to the potential this offers.

Trading profit reflects resilient contributions from Bidfreight, Bidserv, Bidvest Asia Pacific and the South African food businesses. Bidvest Namibia performed exceptionally well. Areas of underperformance were principally contained in 3663 and Ontime Automotive in the UK, Bid Industrial and Commercial Products and Bid Auto.

Revenue grew 1,8% to R112,4 billion (2008: R110,5 billion), though trading profit dipped by 3,7% to R5,1 billion (2008: R5,3 billion).

Trading profit and revenue were somewhat below our usual high expectations. In a performance-driven business such as Bidvest this is disappointing. However, in the circumstances of the deepest recession in 50 years, credit should be given to our people in all operations for their efforts in exceptionally difficult trading conditions.

Bidvest resilience was summed up by our 2009 slogan "We refuse to participate in the recession" and the results achieved by individual teams often defied depressing economic realities. Striving to the utmost has always been the overall target at Bidvest. I believe this target was achieved.

The 'new normal'

The deep recession that struck much of the world last year was without precedent. The effects were so at odds with previous experience it was tempting to regard the catastrophe as a freak event and cling to the hope that once it had worked its way through the system we would get back to "normal".

The temporary aberration theory gives false comfort. Damage has been severe to economies, institutions and confidence. The crisis of 2008/09 was a watershed event. Restoring shattered faith will be difficult.

Bidvest businesses in all geographies are adjusting to a "new normal" – a fundamentally different set of parameters that will continue to influence corporate strategy and management behaviour.

Internationally, the new financial, economic and commercial normality is still being defined; so is the political response. Changes to many international institutions seem likely, however. The institutional architecture established over the past 60 years is up for review.

Fixing the system

The Group of 20 and other supra-national bodies are looking to "fix" the financial system. One focus area is the mismatch between the global nature of today's financial system and the strictly national or regional mechanisms available to regulators. Other items on the international agenda are likely to be solvency standards and capital requirements, the use of leverage and the need for greater transparency.

On occasion, problems were not caused by an overdose of sophistication or over-reliance on debt, but by deliberate flouting of the law or breaches of trust.

We applaud efforts to stop corruption and criminality.

Legitimate incentives

However, there is a danger reformist zeal may go too far in some areas; for example, incentivisation, with UK politicians and media castigating the "bonus culture" that developed in financial services.

Understandably, financial collapse or near collapse at several institutions draws attention to remuneration structures

Chief executive's report

that appear to foster short-term risk-taking by executives. However, a bonus culture of itself is not destructive, reckless or unethical.

Judicious use of incentives is not a threat to the long-term sustainability of a business. Often, it is a key mechanism for ensuring sustainability. In the current environment we must be careful not to stigmatise the use of executive incentives. Similarly, we should not demonise the risk-taker.

The entrepreneur who seeks profit in new areas is by definition a risk-taker. If there were no risk, there would be no opportunity and no profit. We should celebrate those wealth-generating individuals who take and manage business risk.

These issues are particularly pertinent in a country like South Africa where incentivisation has a key role in retaining the country's managerial and professional talent and where entrepreneurs create a disproportionate number of jobs. Bonus payments have a place and entrepreneurship is essential to economic growth. We should not lose sight of these facts of business life.

Right and wrong

Issues such as these illustrate how much soul-searching will be involved as the new normal is established. Values as fundamental as our understanding of right and wrong come into play when regulators and organisations decide how a business defines and encourages excellence.

I have no doubt that regulation and governance requirements will be reviewed and new rules will be introduced, but let us keep a sense of proportion.

Private enterprise

Huge wealth has been created over the last two generations. Poverty remains, but living standards, nutrition and life expectancy have gone up in nation after nation – driven higher by trade, industry and entrepreneurship. Substantial wealth was destroyed in the recent market meltdown, but most of the gains made these last 60 years remain in place.

The most reliable engine of growth remains private enterprise. The object of new regulation should be to make this engine more efficient. We should avoid any new requirements that simply throw grit in the machinery.

In South Africa, private enterprise can and will play a significant role in working with government to uplift the living standards of the underprivileged. For its part, government has the responsibility of ensuring that training and education equip our people for employment.

Sustainability through adaptability

Regulation *may* change; business *must* change. Business is confronted every year with a new disruptive influence demanding a new business approach. In 2008, energy became a major constraint, manifested through electricity shortages in South Africa and rocketing oil prices. The pace of events is increasing. The abruptness of the liquidity squeeze and the scale of some organisational casualties are a warning that companies have to respond faster to change.

Business can't wait for events; business must anticipate them. Organisations have to become more flexible and adaptable. Thinking sustainably means thinking long term. Entrepreneurs are better prepared for the new future than most. An entrepreneur is a future-spotter, and Bidvest is already looking ahead to the next sources of business disruption; in particular, the converging social and environmental demands for responsible business behaviour.

Bidvest companies have many opportunities to position their services at the forefront of sustainable development, building sustainable characteristics into branding and corporate reputation while benefiting from increased efficiencies and lower costs.

This approach reinforces the philosophy we defined in last year's report: Sustainability at Bidvest offers employees a fresh way of thinking. It inspires and enables a new generation of entrepreneurs to create business value that integrates evolving financial, social and environmental needs and expectations.

New structures

Restructuring for a new future has already begun. The guiding principle is that structures have to be aligned with the new base of business following the stress-testing of the recession.

Staffing levels also have to be appropriate to activity levels. Thankfully, this is being achieved without engaging in major retrenchment programmes.

Never waste a crisis

The adage "never waste a crisis" has been used to describe the proactive response of the US administration to the global challenge. It could equally describe the Bidvest approach. We are refitting our businesses for a new future and positioning ourselves for renewed growth.

Investment was kept to prudent levels, but we did not impose a freeze on new spending. Several businesses were engaged in strategic expansion just as the downturn struck. Bidvest strategy is often anti-cyclical, and we have not been afraid to continue these programmes. In total, the Group invested R2 241 million.

Trimming costs

One lesson of the last 12 months is that making a business fit for the future requires lean cost structures.

Bidvest has never been hierarchical. Executives stay close to their teams, customers and markets. Though there are no unnecessary layers within our business, we cannot afford to relax expense control. Working capital management must be stringent.

In a world in which credit lines to customers can be severed in short order, we have to ensure that our businesses remain strongly cash-generative and that debtors are well controlled.

Restructuring is not an *ad hoc* response to inventory issues or credit risk. For us, it's a strategic process. We are developing lean, flexible structures capable of taking the business in entirely new directions. We cannot afford to be rigid in our approach to our markets. Nimble, unblinkered organisations have the best chance of success in a changing world.

Changing fast

One of the defining characteristics of the new business era will almost certainly be volatility.

In the last year we witnessed an international move from high food inflation to food deflation with very little pause in between.

Deflation after inflation also occurred in other sectors – a warning that inventory management has never been more crucial.

We also saw a swing from a weakening to a strengthening rand; a trend that impacted the translation of foreign earnings in the second half of the year.

We switched from growth to recession. In the first quarter of the 2009 calendar year, South Africa's economy contracted by an annualised 6,4%, a major shock to the system.

Setting targets

The abruptness and magnitude of changes to the economic climate complicate the task of setting targets. In future, benchmarking may call for greater flexibility and the traditional tool of annual budgets may require modification.

At the moment, divisions create various targets using the best available information. This objective assessment is influenced by macro-economic forecasts, industry trends and other data. It may be helpful to supplement this *objective* budget with an *intuitive* budget that draws on the feelings and instincts of the divisional head and his team.

Parallel formal and informal budget-setting processes may be needed.

We have seen in the last 12 months that professional forecasters such as economists frequently misread changing trends. Mobilising the best guess and the gut-feel of the top Bidvest managers in their respective industries would be at least as helpful and would create healthy debate about what can be achieved.

Moving targets

Our focus has tended to be on the long term and budgets are traditionally for a 12-month period. Increasingly, however, opportunities and threats present themselves with surprising suddenness. Speed of response is important; so is the ability to measure the effectiveness of actions taken in the short term.

Chief executive's report

A system of monthly targeting within the framework of annual budgets seems to be indicated. This would create rolling monthly targets that would help us measure just how nimble and opportunistic our operations have become.

Engaging risk

The catalogue of business casualties this last year is testimony to increasing business risk. Does this mean business – specifically Bidvest – should become totally risk averse?

Risk and opportunity are two ends of the same stick. In a time of change, there is a strategic need to explore new opportunities and directions, despite the attendant risks.

Bidvest has a history of prudence. In the past, this has not prevented us seeking growth when others seek safety. In future, Bidvest may find itself engaging greater risk; not in a cavalier fashion, but in a manner calculated to achieve advantage in the face of adverse conditions.

Acquisition activity

During the year there was an apparent lack of acquisition activity. This was not because of any deliberate pause; it could better be described as a function of pipeline effects.

We are constantly alert for acquisition opportunities in various geographies. Not all opportunities are pursued to the point of in-depth investigation, and not all investigations result in formal negotiations.

We take a conservative approach to deal-making. "Conservative" sometimes means we take our time. Although no transactions were concluded during the year, we did not neglect the search for value-enhancing acquisitions.

After our year-end, we concluded an agreement to acquire the leading foodservice player Nowaco and Farutex in the Czech Republic, Slovakia and Poland, from JPMorgan Partners and Bancroft Private Equity for an enterprise value of EUR250 million.

Earlier in the year, we identified central and eastern Europe as a strategic market with significant growth opportunities in the foodservice industry. The Nowaco and Farutex acquisition complements our highly successful international foodservice businesses and adds impetus to the internationalisation of our foodservice interests.

The transaction presented us with a unique opportunity to acquire the market-leading central and eastern European foodservice business, with sufficient scale to provide potential customer and purchasing synergies.

The acquisition is contingent on the approval of the European Union competition authorities.

Regional review

Recession or falling growth impacted all regions in which we are active.

Asia Pacific

Asia Pacific remains a growth engine, but plummeting confidence and the slowdown in world trade had immediate effects in a market such as Singapore. Our businesses were affected, but the resilience of our Australian and New Zealand operations ensured satisfactory results.

The global crisis threw an interesting sidelight on the changing status of India and China. It is evident they will play an increasingly important role in the world economy. Bidvest is committed to the region and is engaged in incremental growth. We are mindful of significant cultural differences and that we are still moving along the learning curve. We have planted the seeds and will watch them grow.

United Kingdom

Our UK businesses were impacted by three consecutive quarters of economic contraction. The British automotive industry was severely affected, prompting a restructure at Ontime Automotive. Two sustainable businesses were retained and strengthened. The others were closed.

3663 First for Foodservice took prompt action to reduce costs and rightsize the business. By year-end the first benefits of rationalisation were evident.

Continental Europe

The Eurozone also faces the challenge of falling growth, but the Belgian and Dutch markets have not been as badly hit as some. Growth opportunities may arise in these areas. Further to the east, "Emerging Europe" also faces recession, though some of these markets are positioned to benefit from 20 years of structural reform. The region's potential cannot be ignored.

Zimbabwe

The global crisis affected Africa less severely than most. The inauguration of an inclusive government in Zimbabwe is a hopeful sign.

Namibia

Our Namibian assets have been successfully consolidated ahead of a listing. The new division put in a pleasing performance. A key factor was the high level of motivation among local teams as they prepared for "independence".

Work ahead of the Namibian listing was also remarkable for the "export effort" by Bidvest and Dinatla as we ensured the Group's successful empowerment model was made ready for the new owners.

South Africa

In South Africa, Bid Auto has been under intense pressure for more than a year, prompting an energetic response to reduce costs and align the business with a much-changed market. In recent months, significant improvement has been seen. Bid Industrial and Commercial has been impacted by price deflation, but corrective action is under way.

Bidserv did well in the first half, but the challenging business environment put a brake on performance. Bidfreight, our food businesses and Bidpaper Plus put in a solid performance despite difficult trading conditions.

Appreciation

In business, like sport, you don't know how strong a team is until you see it perform under pressure. Last year our managers and people faced unprecedented challenges and proved their ability to deliver creditable results. I thank you all.

I also benefit from the counsel and guidance of a strong boardroom team. In a difficult year, I thank all my board colleagues for their wisdom and support.

Future

Business conditions will remain challenging, but I believe we are through the worst. Statistically we may find that the absolute bottom is just ahead, rather than just behind us. However, on an emotional level the average family confronted the low point some months ago and is shaking off the shock-effect of the recession.

A gradual recovery is in sight, though in South Africa's case further interest rate cuts may be needed. However, the "World Cup effect" should prove helpful in the second half. I also anticipate recovery in Asia Pacific, mainland Europe and the UK.

Our refocused and restructured businesses are well placed to take advantage of economic improvement and industry opportunities as some weaker competitors cut back, consolidate or close. This improvement will over time provide the fertile soil for Bidvest to look at opportunities to unlock shareholder value.

Though a return to trading profit growth will be sought, we cannot simply expect a return to business as usual. New avenues will have to be explored and perhaps we will have to think differently about our business.

Last year, thanks to a shared organisational culture, our businesses intuitively adopted similar recession-fighting strategies, becoming partners of their customers in a search for joint solutions.

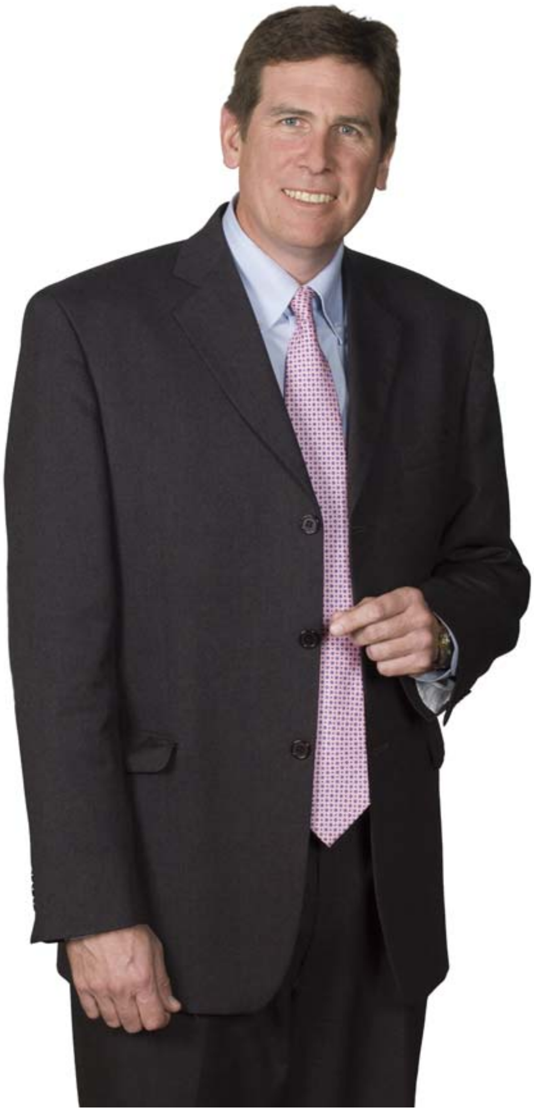
Serving shared customers to common quality standards creates new opportunities for efficiency and growth. We can synergise without having to centralise. Collaboration without integration may be a new way to optimise opportunities in a new commercial landscape.

By working together as never before Bidvest will achieve its five-year goal of doubling our size by 2010. We can then go on to set new performance benchmarks as we pursue our long-term vision of continually enhanced shareholder value.

Brian Joffe
Chief executive

"Respectable trading results in extremely challenging economic conditions."

David Cleasby, *financial director*



Highlights

- Trading profit margin and return on funds employed are down but are considered to be good in the circumstances
- Cash generated by operations 140% of trading profit (2008: 114%)
- Group resources well managed during a testing financial year
- Working capital has improved
- Net debt down by R1,5 billion, gearing at 29%, EBITDA interest cover 6,7 times
- Significant costs of restructuring and re-organisation, some of which have negatively impacted headline earnings
- Balance sheet reflects corrective actions – lower capex, more effective working capital management and lower levels of debt
- Lower interest rate cycle will benefit Group into 2010

Introduction

The impact of the global financial crisis affected all geographies in which Bidvest has an interest. The principal causes of the catastrophe appear to be too much debt in the world financial system and the over-leveraging of assets that had little real value.

The crisis was several years in the making and it may take several years for problems to be resolved and impacts to be absorbed. Easy credit conditions in the first half of the present decade promoted increasingly complex financial innovation and led to an unprecedented credit bubble. The bursting of that bubble has contributed to extreme risk aversion and a fundamental re-pricing of risk.

The impact of the crisis is still unfolding, but one prediction can be safely made – a return to ready credit availability on the pattern of five years ago is extremely unlikely in the short or medium term, and might never recur. The increased cost of funding will be a fact of business life and strategic planning for some time to come.

Strength in prudence

Liquidity is slowly being returned to the international banking system, but the flow of credit to the real economy has been meagre.

This has major implications for a trading and services group such as Bidvest that operates in a largely business-to-business environment. Credit risk grows, but so does the prospect of acquisitions at acceptable prices.

The knock-on effects of the crisis are so widespread and so severe they have tended in recent months to obscure an important fact – at the outset, the banks failed, not businesses engaged in the real economy.

Sound business models based on prudent use of debt remain fit for purpose. In fact, the future appears secure for those who use common sense to run a business and prefer simplicity to complexity.

Access to capital

We secured our lines of credit, withstanding the crisis. From the perspective of access to capital, recent capital market activity has reaffirmed that our room for acquisitive manoeuvre and capacity are unimpaired.

However, as a consequence of the general re-pricing of risk, some Bidvest facilities have been re-priced in negotiation with the banks.

Afro-caution

There is broad awareness that South African banks avoided toxic assets and have emerged relatively strong from the international crisis. It should also be pointed out that South African corporations have also done relatively well.

Our major corporates did not make extravagant use of debt, an omission that was sometimes seen as a failing. For example, Bidvest was regarded by some as a strong but unadventurous company with a "lazy balance sheet", ie under-geared.

South African corporate experience over several decades built a predisposition to prudence. Local business has rarely had a smooth ride. High inflation, volatile exchange rates, elevated interest rates, skills shortages and structural weakness in the economy made long-term planning more complex.

In contrast, the USA and Europe enjoyed low interest rates for many years. Steady growth, low inflation, rising prosperity and low unemployment created an environment where risk led to reward, not loss. Business was comfortable with gearing levels that seemed quite aggressive to South Africans. Our balance sheets were under-leveraged in comparison; a situation for which we now can be thankful.

Working the assets

The challenge is to optimise our unimpaired asset-base. At Bidvest, the overall financial strategy is to secure continuing improvements in working capital management while pursuing increased incremental returns from recent investments.

Financial director's report

Correct utilisation of available capital is paramount and is a focus area for our management teams. To achieve a proper return, assets have to be properly deployed or sold. Under-performing assets are a luxury no business can afford in today's economic climate.

Cash flows

At a time of liquidity constraints within the international banking industry, cash flow becomes crucial and Bidvest cash flows remain resilient. Cash generated by operations as a function of Group trading actively increased to 141% compared with 11,4% in 2008. Some divisions have achieved significant improvements following energetic measures to reduce costs and achieve better working capital management.

Every business unit must deliver, irrespective of geography or industry. Membership of a large organisation is no justification for under-performance in what has become an absolutely crucial area of business.

Credit risk

Heightened credit risk has prompted a rigorous approach to debtors' management. As a trading business we inevitably become a credit-provider to our customers. There is leverage throughout the system, from the producer to the warehouse door and the shopkeeper's till. But a sale is only concluded when the cash is in the bank.

Our managers are paying close attention to the credit cycle to ensure payment periods do not lengthen unduly and are shortened wherever possible. We are ethical suppliers and we value long-term relationships, but we are not a de facto lender of last resort when all other avenues are closed.

Financial institutions have become extremely alert of credit risk. So are we.

Governance

Another consequence of the international financial crisis is the renewed focus on corporate governance and regulation. When major international institutions collapse and huge losses accrue, it is natural to review safeguards and seek mechanisms for limiting risk exposure.

As the clamour rises for better controls it is important not to forget that a lot of the behaviour that contributed to catastrophe was questionable under existing rules. In fact, some major losses were the result of flagrant criminality. It may be that we don't need further rafts of regulation, but the proper monitoring of existing regulation, with better understanding of associated risks. Over-regulation stifles creativity and entrepreneurship, thereby limiting innovation and progress.

Alerts should have been sounded under current safeguards. In retrospect, the warning signs seem clear enough. Vigilance is a state of mind first and foremost; the state of legislation is poor defence when those at the helm are negligent.

In South Africa, the trend to stricter regulation takes the form of changes to the Companies Act that increase the liability and responsibility of directors, while anti-competitive behaviour is being closely scrutinised.

Reasonable regulation

No one can criticise legislation demanding reasonable and professional behaviour by business. But care should be taken to ensure regulatory trends also remain reasonable.

Today, simple compliance is not enough; time-consuming efforts are necessary to prove it. Record-keeping must be meticulous and adherence to prescribed procedure has to be strict. In an economy strapped for skills, it is vital that demands on executive time do not become too onerous.

Bidvest entrepreneurs have businesses to run and returns to pursue. In the process, there are jobs to be created. For us, honesty and integrity are standard operating procedure rather than a compliance issue.

Ethical companies will continue to conduct themselves in a principled and reasonable manner. Their executives are driven by high personal and professional standards.

Those undeterred by the criminal law on theft, fraud and misrepresentation will not be deterred by a new wave of compliance requirements.

Costs

Our headline earnings were impacted by the expensing of R118,3 million in closure and reorganisation costs in certain operations within motor retail and the UK foodservice and Ontime Automotive businesses. These costs were deliberately undertaken as prompt action was necessary to align the business base with contracting markets.

Early action removed uncertainty and created a platform for performance improvements. We look forward to better results at all three businesses.

Disposals

We sold our stake in Enviroserv Holdings Limited with effect from November 3 2008, for a pre-tax profit of R391,8 million. The value of the Group's listed equity-accounted investments was impaired by a pre-tax R200 million adjustment in terms of IFRS listed market value requirements.

We are preparing to reduce our stake in Bidvest Namibia from 89% to 55% as that business seeks increased local ownership through a listing on the Namibian Stock Exchange.

Debt position

Debt levels show an improvement on last year. Net debt stands at R4,1 billion (June 2008: R5,6 billion) as a result of lower working capital demands and tighter asset management. The net position is well within the parameters set out in our financial covenants.

At 28,5%, net debt to equity reflects a significant improvement on the prior year's 40,3%.

Net finance charges increased 10,5% to R1 029,2 million, reflecting higher average interest rates. Net interest paid declined significantly in the last quarter as the Group benefited from short-term funding exposure. Bidvest's conservative attitude to debt remains appropriate in the current climate. Interest cover at five times reflects adequate borrowing capacity.

Should significant acquisition opportunities present themselves, we will not be afraid to draw on our resources. Bidvest's balance sheet remains strong and is appropriately capitalised. An increase in debt is unlikely to cause distress.

Credit rating

In December, Fitch Ratings downgraded the Group's national scale rand currency long-term rating from AA- to A+ while the short-term rating was retained at F1. Commentators noted at the time that notwithstanding the downgrade, these ratings signify Bidvest's high credit quality and the strong protection to investors in its ability to meets its obligations.

In our view, the downgrade is more of a reflection of concern around the international economic crisis than a judgement on Bidvest itself. The overall business environment has deteriorated markedly and no company is immune to new realities; especially a company dedicated to sustained value creation.

Our recourse to debt has ticked higher in recent years, but so have the returns from major acquisitions. In 2009, the Deli XL businesses in the Netherlands and Belgium and Bid Auto's fleet management business (formerly Viamax) were among the significant contributors to the Bidvest bottom line.

The downgrade is a reminder of heightened risk and changing business conditions. It has been noted. Our strategic intention is to work our way back to a higher rating without sacrificing opportunities along the way.

Foreign earnings

The rand weakened for most of the first half, but subsequently became one of the best performing emerging market currencies. The net effect was slightly negative on the translation of Bidvest's offshore earnings.

Group policy is to take forward cover on the goods we import. At times of rand depreciation this is beneficial. When the unit strengthens there are negative effects. The purchase of cover may inhibit our ability to derive competitive advantage and can be a source of frustration within some divisions.

However, we are not in the business of currency speculation. We take a conservative stance and put faith in the trading ability of our managers. When our businesses place an order, they must be well positioned to sell those goods at an acceptable margin. Rand movements are a fact of life. We live with them and manage them.

We will maintain our general policy of taking forward cover; though we may in future give our businesses a degree of flexibility through innovation when it comes to the hedging of currency risk.

Optimum performance

We cannot control the rand. Also beyond our control is the translation effect on the earnings of each international business into rands. The focus of Bidvest has always been the optimisation of the issues we can control.

The challenge is to obtain a proper return in all the home currencies in which we work while achieving optimum management of all assets under our control. Do that successfully, and we can leave currency factors to balance out in the long term.

Balance sheet changes

There is one significant change to the balance sheet. It relates to the translation of offshore asset values at the time of their consolidation on the balance sheet at year-end. As a result, the foreign currency translation reserve declined by R1,3 billion.

The issue is technical and is a function of the strength of the year-end average rand exchange rates at the balance sheet date and does not reflect a deterioration of underlying asset values in home currency terms.

Our balance sheet overall reflects the corrective actions taken with respect to lower capital expenditure, more effective working capital management and lower levels of debt. The overall asset-base declined from R41,9 billion to R36,5 billion, reflecting in the main the rapid appreciation of the rand up to and including June 30 2009. Net working capital days declined to eight days from nine days in the comparative year, reflecting tighter management.

Incentives

As previously announced, an innovative, revised executive incentive plan was presented to our annual general meeting. The plan was accepted.

The scheme departs from the previous model as it entails continual reassessment of performance for the purposes of share awards. These incentives only vest when scheme participants are shown to add value on an ongoing basis. Scheme design follows international best practice and aligns performance criteria with the interests of all stakeholders.

Future

The after-effects of the stimulus packages around the world will affect tax regimes in all geographies. Governments can be expected to increase the tax burden of business and consumers alike in their efforts to balance budgets. Challenging conditions will persist for some time.

Bidvest businesses are in the main achieving improved returns on funds employed, expense management is bearing fruit and streamlined structures are in place. Cash generation remains a focus area. Renewed growth – both acquisitive and organic – is achievable despite tough trading conditions. This remains our objective.

Significant post-balance sheet event

On August 3 2009, five weeks after the Bidvest year-end, we announced a major expansion of our international foodservice interests.

For an enterprise value consideration of EUR250 million we have acquired Nowaco and Farutex, the leading foodservice players in the Czech Republic, Slovakia and Poland, from JPMorgan Partners and Bancroft Private Equity.

Nowaco has consistently shown itself to be highly profitable and is driven by a strong management team. Farutex offers exciting organic growth opportunities in Poland. Following integration into the Bidvest international foodservice division, Nowaco and Farutex are expected to contribute significantly to the Bidvest performance.

The transaction is expected to become effective in the third quarter of the 2009 calendar year. Bidvest has raised equity to fund approximately 50% of the enterprise value.

The acquisition is value-enhancing and contributes to Bidvest's long-term vision of creating a truly international foodservice structure.

David Cleasby
Financial director