

### Headline numbers

Pleasing results for the year reflect the dedication and work ethic of Bidvest people in all regions. Headline earnings per share moved 15,1% higher to 1 070 cents despite the impact of R61,2 million in acquisition charges, mainly attributable to our new eastern European businesses, Nowaco and Farutex.

Revenue eased lower to R109,8 billion (2009: R112,4 billion) but trading margin improvements – up to 5,1% from 4,6% – led to significant growth in trading profit (R5,6 billion versus R5,1 billion in 2009).

Currency rates had a material impact on results following strong rand gains versus sterling and the euro. The negative impact on translation of the earnings of foreign operations was equivalent to 4,2% of HEPS.

### Mismatch

In many national markets in which we are active, official figures showed a return to growth. However, consumer and business behaviour in those same geographies continued to reflect considerable caution and trading conditions remained difficult.

The contradiction is explained by the initial shock of recession and the extent of economic contraction. Shock effects have not yet receded while “growth” since then has still not taken economies back to the levels of prosperity and confidence achieved in 2007.

For Bidvest, the high watermark was 2008. A disappointing year followed as recession set in. Our 2010 performance takes us slightly above the record levels achieved in 2008. It is cause for satisfaction that a lot of hard work is bearing fruit. However, we still need to catch up that period of lost growth. Everyone at Bidvest is aware that challenges persist and we can't afford to let up.

Concerted efforts by operational management to optimise inventory levels and manage debtor delinquencies ensured all regions registered an improvement in returns on funds employed. Our managers kept an eye on the bottom line, but they also kept an eye on the future. Bidvest businesses continued to invest in infrastructure even as they reduced costs and pursued efficiencies.

Group capital expenditure topped R2,7 billion.

### Entrepreneurial model

Deliberate focus on the decentralised, entrepreneurial Bidvest model drove these improvements.

At Bidvest we've always believed that people make profits, businesses only report them. We empower people by refusing to create elaborate structures and systems. We keep things simple, local and flexible.

Value is realised by turning a good business into a great business. But more fundamental than that is turning good people into great people. The Bidvest model is a way of doing that. We encourage local entrepreneurs to build the operations they control by applying the disciplines that turn small businesses into big ones.

We may operate in a global economy, but each individual is pivotal; each team important. Being the best you can be wherever you happen to be is the reason for Bidvest success.

Application of our decentralisation philosophy led to renewal and resurgence across all regions.

### Refocus and renewal

At many other organisations, “focus” refers to the building of a homogenous business in which activities are deliberately restricted

to a single industry. “Focus” for Bidvest managers refers to intense concentration on every aspect of their operations with the aim of growing value, no matter what industry they work in. Their in-depth understanding of their business, customers, suppliers and markets helps them pursue efficiencies while exploring new opportunities.

New opportunities might occur in a related industry or in an entirely new sector. One area of focus might lead into another area of focus. This does not deter entrepreneurial managers empowered by Bidvest's decentralised philosophy. They home in on growth potential, even though it means straying from strict adherence to what was previously considered to be their home “turf”.

### Philosophy at work

Constant evolution is necessary to stay abreast of new opportunities, and transition was evident at several Bidvest businesses. These changes were introduced at the beginning of the new period, though preparations were under way in the second half of 2010.

One effect of change is the creation of a cluster of businesses with a financial service focus.

McCarthy Fleet Services, previously part of Bidvest Automotive, has been moved into Bidvest Bank, considerably widening the bank's base of operations. In future, asset-based finance activities will complement travel-related financial services. The bank's footprint has also grown. There are now 100 branches in the network.

At the same time, Bidvest Financial Services (housing the businesses previously branded as McCarthy Insurance Services and McCarthy Finance) has become a freestanding business and in future will



**Brian Joffe**  
Chief executive

widen its base by seeking new business to augment income streams from and off the dealership floor.

Parameters widen, though activities remain largely the same. Our people have considerable experience of short-term insurance, asset finance, foreign exchange and lending and deposit-taking among corporate clients. New arrangements create synergies and critical mass and consolidate our existing financial service activities.

### Changes at Automotive

Change enables Bidvest Automotive to concentrate on trading performance within well-defined areas of expertise while facilitating succession planning. Bidvest Automotive chief executive Brand Pretorius plans to retire in early 2011.

Each component of today's leaner business is led by experienced managers rooted in their sectors, with Graham Damp taking responsibility for the core motor retailing operations at McCarthy Motor Group.

### Foodservice realignment

Senior management responsibilities at Bidvest Foodservice have been reallocated. Bernard Berson now holds overall responsibility across all operational geographies. This creates a single reporting line and ensures knowledge- and experience-sharing across regions.

## Highlights

- ▶ Bidvest back to record highs
- ▶ Trading profit up to R5,6 billion on 5,1% trading margin
- ▶ Capital expenditure tops R2,7 billion
- ▶ Our businesses generate R8,0 billion in cash as ROFE rises to 38,7%
- ▶ Rededication to decentralised, entrepreneurial model drives turnaround
- ▶ Strong performance by Asia Pacific region
- ▶ Resurgence at leaner Bidvest Automotive
- ▶ Financial service cluster takes shape
- ▶ Acquisition opportunities to be examined in 2011

Synergies to speed innovation and reduce duplication will be aggressively pursued.

The decentralised basis of operations is unaffected. In the UK, refocus of 3663 First for Foodservices into distinct wholesale and logistics businesses made separate management teams responsible for performance in their areas of specialisation. Significant performance gains were achieved.

Changes at our foodservice, automotive and financial service businesses were only recently implemented. The main benefits will begin to accrue in the new period.

### Regional review

Our regional businesses were subject to a wide range of economic influences as each geography went through a different phase of the business cycle.

Bidvest Asia Pacific returned a strong result. Asian markets appear to have shrugged off most of the effects of the international financial crisis. However, the core business in Australia found trading conditions became progressively worse as the year drew to a close. Challenges persist in New Zealand.

Bidvest Europe held up relatively well in economic conditions bedevilled by the sovereign debt crisis. The United Kingdom has exited recession, but austerity measures give rise to fears the exit could be short-lived. Our leaner UK structures are appropriate in such an uncertain environment.

In continental Europe, our Benelux businesses are under pressure as their national economies contend with the immediate aftermath of recession. In central and eastern Europe, there is little prospect

of rapid recovery, but we are positioned to take advantage of further market weakness.

Trading conditions in southern Africa remained challenging. However, our recently listed Namibian business put in another strong performance and is well placed to secure further growth.

In South Africa, the slowdown in construction activity has been severe; so have spending cutbacks across the corporate and retail sectors. However, Bidvest Automotive maximised trading opportunities as vehicle sales showed signs of revival.

### Brand Bidvest

A growing number of our businesses are eager to spotlight their Bidvest links and have incorporated "Bidvest" into the company name. International examples include Bidvest Australia and Bidvest New Zealand. Our foodservice logistics operation in the UK recently relaunched as Bidvest Logistics. In South Africa, Bidvest Bank has demonstrated the strength and credibility of the Bidvest name.

At operational level, the decision rests with local teams. They have the job of leveraging most value from their local markets. If leveraging the Bidvest name will help, they shouldn't hesitate to do it.

### 2010 FIFA World Cup™ effects

In South Africa, the successful staging of the 2010 FIFA World Cup™ provided an insight into the gains that flow from a positive international image and a reputation for good order and efficient management.

Media coverage highlighted the country's huge attractions as a tourist destination while showcasing our modern infrastructure. Our sporting facilities were shown to be world class. This creates an opportunity to build both mainstream and sports tourism – service sectors with a proven ability to generate long-term jobs growth.

Tourism infrastructure was expanded ahead of the tournament. New hotels were built while existing hotels were expanded and upgraded. South Africa therefore faces a long-term challenge – filling world-class stadiums by continuing to attract big international events and filling good quality hotel rooms by attracting a continual stream of visitors.

Every obstruction to the free flow of visitors should be removed and red tape cut. We should encourage air charter traffic as well as more scheduled flights.

### Good order, good humour

High-visibility policing kept crime in check and eased international concerns about personal security. South African police officers showed themselves to be efficient, well resourced and capable of doing a good PR job for the country by dealing with a substantial influx of foreign visitors in a helpful and engaging manner. Good order was accompanied by good humour.

In recent years, rising crime has created a national challenge. Yet over the period of the 2010 FIFA World Cup™, crime went down while national morale went up. Recent statistics indicate that these gains in the battle against crime have extended into the post-2010 FIFA World Cup™ period.

The South African Police Service has a thankless task. Police officers often receive poor pay, yet put their lives on the line to get the job done. They pulled out all the stops during the 2010 FIFA World Cup™. The men and women in blue did a marvellous job. These officers deserve credit for a job well done.

### The Bidvest benefit

The principal 2010 FIFA World Cup™ benefit for Bidvest's South African businesses was motivational. Some of our operations benefited from contract gains, but every business benefited from the surge in national pride.

Staff members joined the national celebration and put on their Proudly Bidvest soccer shirts to do it.

Trading conditions remained challenging and our people were under considerable pressure. In this environment, the 2010 FIFA World Cup™ provided a further boost to the already strong team spirit.

### Cash up, debt down

Businesses in all regions concentrated on the trading and housekeeping basics. Get the fundamentals right and the rest will usually follow.

At Group level, cash generation showed continued improvement, up from R6,8 billion to R8,0 billion. Net debt came down from R4,1 billion to R3,8 billion and is now at about 70% of its peak level, although some of these gains are due to improvements in the exchange rate. Working capital fell by R700 million, despite R1,7 billion in debt funding to buy the Nowaco and Farutex businesses. The transaction was effective from July 1 2009.

### Nowaco acquisition

The Nowaco group acquisition for €250,0 million demonstrates the advantage of buying into people as opposed to buying solely on the basis of a balance sheet.

During on-the-ground discussions with managers in Czech Republic and Poland we found we were talking to Bidvest people. At that stage, they might not have thought of themselves in that light, but that's how they looked to us – pragmatic, self-reliant, hands-on and close to their customers.

These entrepreneurs have built Nowaco group from close to a zero base into the leading delivered wholesaler to the foodservice and independent retail markets in central and eastern Europe.

Since the deal was done, economic conditions have worsened, but local teams buckled down and still performed to pre-acquisition expectations; much as you would expect of Bidvest teams anywhere. After expensing R53,4 million in acquisition costs, Nowaco group contributed

R4,1 billion to revenue and R92,1 million to profit.

### Jobs challenge

Growing unemployment is a concern in almost every economy in which Bidvest is active. However, with an unemployment rate of 25% the problem is particularly acute in South Africa.

The South African government recognises the urgency of the situation and recently acknowledged that it did not react quickly enough to the threat of recession. The economic slowdown then compounded the job-creation challenge. This frank acknowledgment is welcome, as is the pledge to redouble efforts to create jobs.

This is the greatest single challenge facing our government, but it would be a mistake to consider the challenge in isolation. One in four of the working population is without a job yet the country suffers from a longstanding skills shortage.

### Jobs and schooling linked

Education and training are the keys to growth, while sustained economic growth is the only way to eradicate unemployment.

The way forward is to ensure that young people leave school with a good basic education and can be easily assimilated into the workforce. With a solid educational grounding they can absorb training and upskilling, thereby becoming productive members of their teams in a relatively short time.

As productive workers, they can drive further growth, opening up further opportunities for more young people.

Business has training responsibilities, but the primary responsibility for creating educated entrants to the workforce rests with government.

### Education indaba

It is obviously in the interests of both parties – business and government – that

educational standards improve. When interests coincide, partnerships can sometimes be helpful. Certainly, the idea of a public-private partnership to foster better educational outcomes should be explored.

A national indaba involving policy-makers and business leaders could usefully be called to examine the problem and consider solutions. Educators would then have a chance to question business people about their requirements.

In my view, the issue is not one of grades and symbols, but the quality of education and the qualities possessed by young people who have progressed through the educational system.

Do they have a high level of comprehension when a task is outlined to them? Can they read and write, add, subtract and carry out basic mathematical calculations? Are they confident young people who show initiative? How do they compare when measured against the educational “products” of other national education systems?

Have they the discipline to learn and carry on learning? Education is a journey, not a destination, and our young people need to commit to it.

### Adopt a school

Business needs well-educated, confident and competent young people if it is to grow. What can business do to help drive the improvements most South Africans regard as urgent? Should businesses be encouraged to join in a national adopt-a-school programme? Targeted assistance by business for under-resourced schools could become the catalyst for better scholastic performance.

What about teaching standards? The quality of our teachers is crucial to a quality outcome. What needs to be done to support teachers and the teaching profession in general? Can business help?

An education indaba could examine these questions and many more.

### Fulfilling national potential

If our goods and services are to be internationally competitive, our businesses and workers have to add value by being more efficient and productive. To become a winning nation, South Africa has to harness the undoubted talents of its resourceful population. The first, most crucial step is a good education for every child.

The world is changing. The BRIC nations – Brazil, Russia, India and China – are fast becoming the drivers of global growth. South Africa has the opportunity to join them, not only as a provider of natural resources, but as a source of world-class products – if we can educate and train a new generation to fulfil its potential.

### Partnership

In many other spheres, private sector partnership with government could prove a highly effective means of leveraging South Africa's national potential. To facilitate the partnership, both parties should have a clear understanding of their roles.

Government's major role is surely that of infrastructure provider, using tax receipts to create the infrastructure necessary to support long-term growth. This level of investment would normally be beyond the means of any private-sector player. The initially low level of returns is also a disincentive to private-sector investment in major items of national infrastructure. However, once the investment has been made, business is in a position to utilise the infrastructure to derive profit and create jobs. For its part, government can then maintain its income stream through taxes on resultant profits and wages.

In South Africa, confusion arises because government does not restrict itself to infrastructure provision. In many cases it lays out the “pitch” and then decides to play on it.

In the process, business models become confused. State-owned operations try to measure themselves according to criteria used by private-enterprise players. They seek a return on investment and profit growth when they should measure their performance on the quality and extent of the infrastructure they provide.

For example, profitability is not necessarily the best measure of performance at a monopoly power provider such as Eskom. A more appropriate measure, in my view, would be its ability to produce power at the lowest cost while assuring reliability of supply.

A government that concentrated on its role as a facilitator of growth through focused infrastructure provision would be the natural partner of businesses looking to create jobs. At the moment in South Africa, the state is both a possible partner and a potential competitor.

### Interest rates

What can be done in the short term to foster growth and employment in South Africa? One form of stimulus is readily at hand – interest rates.

Between December 2008 and September 2010, the South African Reserve Bank cut interest rates eight times to 6,0%. This is helpful, but there are grounds for arguing that rates are still too high in comparison with Europe and North America.

In this environment, the rand has enjoyed a prolonged period of strength, undermining the pricing advantages South Africa's manufactured exports should enjoy on world markets. Further rate cuts would address the issue while encouraging business to invest in new capacity and take on new workers.

### Holding our headcount high

Bidvest makes a significant economic contribution to the communities in which

it operates. Families depend on the jobs created by Bidvest companies, and I am pleased to report that despite consolidation, our headcount still totals 105 752.

In southern Africa, we continue to redress the legacy of economic disenfranchisement, improving to a level 4 contributor under the DTI Codes. Half of our procurement in South Africa is now spent with BEE suppliers, a significant contribution to broad-based black economic empowerment. Equitable employment remains a challenge. However, our junior management pipeline, now more than half black, bodes well for the future.

### Decent work through training focus

In this year of consolidation, resignation and absenteeism rates fell. Top of the list of staff issues are financial security and career development. At Bidvest, a key factor is training in order to unlock the potential of our people in line with our view that skills drive growth – personal, organisational and national. Our companies responded with a 17% increase in the number of training hours. Bidvest companies in South Africa concentrated on the lifeskills required to qualify for higher learning and career advancement. Our policy is to promote from within and we take pride in the progress made by workers into supervisory grades and management. Our companies are often their industry's training leader.

### Health, safety and HIV/Aids

Companies operating in hazardous environments invest conscientiously in safety awareness programmes. However, it is with regret that we recorded four fatalities, half the loss of the previous year, but four too many. HIV/Aids continues to present a serious challenge. Our prevalence rate is still high at an estimated 15% and we are bewildered by the low uptake of VCT programmes made available through regular campaigns.

### Environmental impacts and performance

Climate change is no longer in question. Legislative pressures from governments trying to meet emission reduction targets have had significant impact on our infrastructure and markets. Physical risks from changing weather patterns require a nimble response, a quality we cultivate. Bidvest companies are positioning themselves to achieve competitive advantage.

Our third carbon footprint reveals a slight increase in the intensity of greenhouse gas emissions to 6,6 tonnes CO<sub>2</sub>e (using staff as the denominator), placing us ahead of our South African competitors. We are concentrating on improved monitoring and measurement of energy sources and resources, a prerequisite for the identification of profitable green business opportunities.

### Society

At Bidvest, ethical behaviour is a way of life rather than a set of rules. However, in the face of growing concerns around crime and corruption, we have to entrench our code of conduct and reduce the risk of our staff being exposed to, or succumbing to, temptation. We routinely declare conflicts of interest, keep registers of gifts and bring new legislation to the attention of employees. Internal audit provides oversight and records any contingent liabilities. No material issues were escalated to Group level or remained unresolved at year-end.

### Product responsibility

Food safety and the fair treatment of customers are critical to our businesses. In our domestic market, enactment of South Africa's new Consumer Protection Act underlines the point. Companies across the Group are proactive in their response to tightening legislation and changing consumer demands. We are turning risks into opportunities to strengthen our brand

and create competitive advantage for our product and service offerings.

### Sustainability

Inside Bidvest, credit is also due for the way in which our people have taken ownership of sustainability practice. We gave them a framework and exposed them to the issues. The development and implementation of sustainability initiatives were then left to each business. This has resulted in a bottom-up approach to sustainability.

Visit Bidvest offices anywhere in the world and you will find a wide variety of initiatives under way; strategic interventions that shape these businesses – measurement and data collation, recycling, better waste management, water- and energy-saving, tree-planting and lots more. There's no one template, but lots of individual commitment.

Looking at the wider picture, it is apparent that climate change and global warming are getting worse, not better. Every business has a responsibility to reduce the total environmental impact of its actions and operations. It's equally apparent that there is no one silver-bullet solution. Building critical mass will require a host of small improvements, business by business and individual by individual.

This is the path intuitively taken by Bidvest people. Our people drive the sustainability process rather than senior management. They treat the wider environment like their home environment, which is how it should be. There's no coercion. Our people don't need persuading. They are determined to make a difference and I'm sure they will.

### Appreciation

Bidvest did remarkably well to return to pre-recession performance levels. The recovery demanded teamwork and dedication of a high order.

I am privileged to work alongside extremely able senior managers and a highly

accomplished board of directors. In common with several other regions, South Africa suffers from a dearth of talent, but you would never guess it when dealing with the directors, executives and people of Bidvest. I thank you all for your help and salute you for your efforts in challenging times.

Our customers and suppliers drive the continuing success of our Group. I thank you for your support and your contribution to our growth.

### Future

Purchase any item and you will almost certainly come across a notice telling you "terms and conditions apply". In 2011, the same notice should be attached to the future. There are no guarantees and uncertainties prevail. It's up to us to make the best of conditions as they change and adapt as we go along. Bidvest has already made big strides along this path.

One pitfall to avoid is that of corporate denial, a phenomenon that occurs when businesses deny change is happening or think they are so big they can control the changes that are taking place. This is an illusion.

Being big may enable you to absorb some punches, but if you are small and nimble you might avoid them altogether. In some key respects, many of our operations have downscaled by simplifying structures and reporting lines. The process puts us in better shape for the changeable trading conditions to come.

In uncertain times, "terms and conditions" also apply to forecasting. For example, in 2010 Bidvest failed to reach its five-year target of doubling profit, but we came close. The period included an unprecedented post-war recession that affected every geography in which we operate. Bidvest's last five years were also characterised by accelerating internationalisation.

Today, approximately 40% of Group earnings come from international markets. The fortunes of the rand, sterling, euro and Australian dollar have a material effect on our results. The impact was significant in 2010, creating little prospect that we would reach our stretch target.

What is our target for the year ahead?  
Bidvest intends to achieve real growth.

We have a strong balance sheet, enabling us to pursue selected opportunities for acquisitive growth as they occur.

We have developed growing insight into the markets in emerging Europe and believe further potential can be unlocked. Some African markets have also impressed over the last 18 months. Sub-Saharan Africa's low correlation with developed markets holds a certain attraction as it helps bring balance to earnings when recession affects the northern hemisphere. South America is another region of growing promise.

Our geographic reach may change, but our vision will not. We will develop our people, grow our business and seek sustained growth in shareholder value, in 2011 and beyond.



**Brian Joffe**  
*Chief executive*