

Macro-environment

Economic conditions remained challenging in all geographies, though signs of recovery emerged as the year progressed.

The interest rate climate was positive at Group level, though adverse effects were felt by Bidvest businesses that provide funding to clients as part of their business model. Our banking and foreign exchange business was also adversely affected.

The South African Reserve Bank cut rates, dropping its repurchase rate by 5,5% in all. By March 2010, the repo rate stood at 6,5%, the lowest level since 1981. Rates were also low in many international markets as government stimulated economies.

A resilient rand versus the Group's major trading currencies, sterling and euro, had a material impact on the translation of our offshore earnings. The net effect was to reduce headline earnings per share by 4,2%. The Australian dollar versus the rand reflected a stable environment.

Inflation was generally muted in all markets in which Bidvest is active, though some pockets of higher than expected inflation persisted in parts of Asia. South African inflation was higher than the targeted range of 3% to 6% at the beginning of the period. The rate declined steadily, however, and was well within range as our financial year came to an end.

A measure of inflation is normally beneficial for our trading businesses. Steady declines and consequent deflation in some sectors were negative for many of Bidvest's South African businesses.

We continue our policy of taking forward cover on trade-related transactions and our risk management policy of matching our foreign assets against our foreign liabilities in their local currencies was maintained. This policy was reinforced with the raising

of long-term Czech koruna debt for the Nowaco acquisition.

Trading environment

Trading performance was mixed as businesses in various geographies had to contend with different rates of recovery by their national economies. Some felt the effects of continuing fiscal stimulation; some were impacted by austerity measures.

Finance is still readily available to credit-worthy customers, though nominal rates are somewhat higher. Most businesses faced no exceptional micro challenges but certain restructuring was required. Everyday issues predominated – trading profitably, managing credit and inventory and collecting debts. Generally, Bidvest businesses did well in this “new” normal environment.

Asia Pacific emerged from the financial crisis quicker than most economies, which assisted their good performance.

In the UK, recovery was weak. The major challenge has been to manage the asset base aggressively to maximise cash generation while engaging in strategic investment to create a platform for tomorrow's growth.

The Eurozone downturn impacted the Benelux countries. Our business in the Netherlands did not escape. The Belgium business was not hit as severely due to its particular market exposure. The depressed business climate also affected eastern Europe, though areas of opportunity exist.

South Africa's economic recovery, though better of late, was disappointing. At the beginning of the period the expectation was that recession would be brief and recovery robust. Recovery has been slow and recessionary impacts more severe; especially in key sectors like construction and retail.

Business expansion

Even in a challenging environment we did not stop investing. Our commitment to long-term business sustainability underpins our growth strategy. Net capital expenditure of R2,7 billion, is 21,4% up (2009: R2,3 billion). We invested R1,6 billion in capacity expansion and we continue to demonstrate our confidence in the future through major, long-term investments to ensure medium-term growth and sustainability; for example, the R503 million spent by our freight business on upgrading and expanding facilities.

Continuing focus on internal expansion is complemented by awareness of outside opportunities. Early in the period, the €250 million Nowaco group acquisition demonstrated that our ability to conclude major acquisitions is undiminished. We carried through the deal in the face of strong opposition from private equity groups, an indication that we retain considerable “fire power”.

Key contributors

Major contributions came from our foodservice businesses, though the respective contributions from each business reflect changes in national markets and different rates of business growth. Our Australian foodservice business now accounts for 10,3% of Group revenue. New accounting requirements in terms of IFRS 3 in the treatment of acquisition costs largely nullified the headline earnings contribution from our new eastern European foodservice business.

Results from our retail automotive business are much improved yet still way below previous levels achieved. However, much of the new vehicle sales activity is attributable to the fleet and corporate business segments. The vehicle market for retail consumers remains subdued as credit approval rates remain low.



David Cleasby
Group financial director

In Freight, commodity exports improved while demand for outsourced services increased. Businesses in the printing and related products sector faced strong challenges, but performed well.

The major area of underperformance is in the Industrial and Commercial division. Voltex, historically a major contributor, has been hit by a major decline in volumes as construction work dried up and the demand for copper-related products fell. Simultaneously, cutbacks in the corporate office market had significant impact on the furniture businesses.

Financial performance

Revenue fell 2,3% to R109,8 billion (2009: R112,4 billion), impacted by lower import revenue in Safcor Panalpina, price deflation and the impact of the appreciating rand. Deflation was evident in all geographies as lower demand drove product prices down. Many operations achieved market-share gains as they traded aggressively and took advantage of market weakness.

Operating expenses were well controlled across the Group, reflecting a decline on the prior year. The trading margin improved to 5,1% (2009: 4,6%).

Headline earnings were impacted by abnormal charges of R61,2 million relating to acquisition costs, mostly attributable to

our new eastern European businesses. Previously, these once-off acquisition costs would have been capitalised to the cost of the investment, but under the revised IFRS 3 accounting standard are now included as an expense in headline earnings, impacting headline earnings per share negatively by 2,1%.

Our balance sheet remains strong and appropriately capitalised. Net debt declined assisted by a R0,7 billion reduction in working capital and despite additional debt funding of R1,7 billion for the Nowaco group acquisition. Bidvest normally absorbs working capital in the first half of the financial year and releases working capital in the second half. This year, seasonality showed a key shift. The depth of the recession in the first half was one factor as we acted promptly to cut our cloth according to lower activity levels in key areas. The effect of cost-cutting

measures came through early on. On the flip side was the hosting of the 2010 FIFA World Cup™ in June and July. Some businesses, notably in foodservices, stocked up ahead of the event.

Interest cover improved to 7,4 times from 5,0 times in 2009, reflecting significant borrowing capacity. Net debt to equity at 23,1% shows pleasing improvement (2009: 29,2%). Net finance charges declined 26,3% to R758,5 million.

We benefited from a prompt response to increased credit risk. This was already a focus area as the year began. We took an aggressive view, applied strict credit extension criteria and gave focused attention to debtors collections throughout the year. We lost some business as a result of this cautious approach, but as the year progressed we experienced relatively few bad debt problems. Such action will

Highlights

- ▶ Return on funds employed up from 36,4% to 38,7%.
- ▶ Net capital expenditure rises 26% to R2,9 billion
- ▶ Reduction of R0,7 billion in working capital
- ▶ Net debt falls to R3,8 billion (2009: R4,1 billion)
- ▶ Cash generated by operation after working capital changes increases by 18,3% to R8,0 billion
- ▶ Net interest paid declines by R270,7 million to R758,5 million

undoubtedly benefit the businesses as markets return to some form of growth.

Return on funds employed showed pleasing improvement, rising from 36,4% to 38,7%.

Capital market utilisation

Falling interest rates helped to bring down finance charges.

In South Africa, government benchmark rates fell below 8% and credit spreads narrowed. As short-term rates fell, the Group increased its exposure to local capital markets and leveraged our strong credit rating by using "commercial paper" to cover some short-term needs at attractive rates. Funding from capital markets totalled R3,1 billion at year-end.

With medium-term funding rates around 9%, the capital market is beginning to look like an attractive source of funding for investment purposes.

The view among many South African economists is that local short-term interest rates will remain flat for six months and perhaps even a year. In this environment we will continue to access capital markets in order to provide the Group with attractive, cost-effective funding while maintaining a prudent liquidity profile.

Debt

Bidvest's attitude to gearing remains appropriate in the current climate. Net debt was down, falling from R4,1 billion to R3,8 billion despite the additional debt assumed for the Nowaco group transaction.

To finance the Nowaco/Farutex transaction we issued shares, raising approximately R1 billion and then raised R1,7 billion in debt, principally from institutions in the Czech Republic. The Czech debt repayment is structured over five to six years at attractive rates. Use of these facilities provides a natural hedge against

currency exposure on its asset base and ultimately the Group's balance sheet.

Ratings

Bidvest maintained its credit rating, verified by two independent rating agencies. We were rated by Fitch Ratings as A+ F1 while Moody's gave us a rating of A1.za/P1.za.

This rating band mirrors our profile of an acquisitive and opportunistic group at a time when markets and institutions are still risk averse.

We are conservative in the way we run our business. However, we do assume debt to fund investments. As a consequence, our debt may increase from time to time. Our investment behaviour has sometimes been anti-cyclical. This enables us to pursue significant opportunities and build long-term value for our shareholders.

Cost of restructure

Major once-off restructure and closure costs arose as restructuring was carried out at several businesses, notably at our UK businesses, Bidvest Automotive, Safcor Panalpina, part of Bidvest Freight and Bidvest Industrial and Commercial. Restructuring in the UK involved both 3663 First for Foodservice and Ontime Automotive.

The benefits of leaner structures and new management intervention are already evident. Further benefit is expected next year.

Risks

Credit risk sharpened, but early intervention and an aggressive approach resulted in an improved debtors position, indicating that the risk was well managed.

Currency risk is part and parcel of managing an international business. In respect of cross-currency purchasing, a prudent forward cover policy is one aspect of management; a long-term commitment

is another. Rand strength may be negative at certain stages yet during another period rand weakness may have a net positive effect. Recent economic turmoil in Europe has demonstrated that forex policy is required in all jurisdictions, not only in South Africa. In terms of managing cross-currency movements, the Group ensures assets and liabilities are always matched in local currencies, thereby negating such exposure.

Our diversified model also balances risk. Consumers may not be rushing out to buy new cars, but the purchase of basic food items may continue as normal. Different levels of recovery in various countries also showed that macro-economic impacts can be balanced to some degree at a geographically diverse business like Bidvest.

Regulation

Bidvest has long been run in line with good sustainability practice and in accordance with the principles of triple bottom-line reporting. The business engages in stakeholder engagement and is open and frank in its communication.

The implementation of the revised King code involves no philosophical leap for us. We have long endorsed these principles as we embark on the journey of continued improvement in governance standards.

Recommendations as well as requirements are contained in the King III report. In many instances, we anticipated these changes as they track international developments that we are close to. Bidvest remains a pragmatic organisation and will ensure the principles embodied in King III will be practically applied within the context of the Group culture and structure.

Culture

From a financial perspective, Bidvest has a returns-based culture. This helps to explain our continued use of return of funds

employed (ROFE) as a key means of benchmarking operational performance. Historically, Bidvest has achieved ROFE of between 40% and 50%. This year, many businesses exceeded that.

The yardstick is well understood across the Group and underpins our performance-driven philosophy. We aim to ensure that not only is the asset base sweated, but that capital reinvestment continues for the medium- and long-term development of the Group. We take a responsible stance on equipment replacement cycles.

The returns-based mindset contributes to the development of individuals, teams and businesses while adding value for stakeholders. This year's results confirm that focus like this helps to ensure acceptable performance levels even at businesses that face significant pressure in the face of difficult economic conditions.

ROFE remains an important tool. There are no plans to dispense with it but rather to re-invigorate its application by using long-term incentivisation to reinforce its value-add.

Targets

Market expectation (as gauged from sell-side analysts) was that our headline earnings per share would achieve growth in the low to mid-teens. HEPS grew by 15,1%.

Analysts were also keen to see how we would perform against our internal target of doubling the size of Bidvest in the five years to June 2010. The target was set when business conditions were broadly favourable and the overall consensus was that economies and businesses would continue to grow, perhaps with minor corrections along the way.

No one foresaw the financial crisis of 2008/09 and the depth of the recent global financial crisis. Despite setbacks last year, Bidvest has returned to the growth path.

We fell short of doubling HEPS, but are pleased to report the Group is over the high watermark of the 2008 financial year.

Future

The medium-term target for the Group is real organic growth in earnings across all our business.

We remain an acquisitive and opportunistic company. All avenues for growth will be pursued. Weak economic conditions in many markets create an environment in which business value can be extracted, both within South Africa and internationally.

Our liquidity profile is good. However, additional funding exposures to the capital markets will be explored in search of further cost efficiency and diversification.

We have sufficient debt- and equity-raising capacity across the Group to fund future organic and acquisitive growth. Financing of the Nowaco transaction confirmed our ability to raise capital at favourable rates from a variety of sources. This gives Bidvest leverage over other parties looking to acquire assets we may have targeted. When appropriate, we will make use of this financing advantage.



David Cleasby

Group financial director