



**Bidvest Freight**

The leading private sector freight management group in sub-Saharan Africa, consisting of several independent businesses focusing on terminal operations, international clearing and freight forwarding, logistics and marine services.

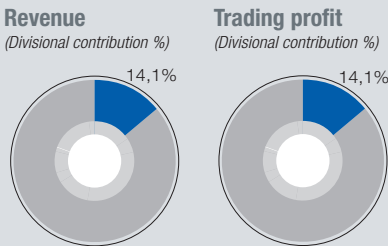


**R15,9 billion**

Revenue 14,5% decrease

**R794,3 million**

Trading profit 3,1% increase



**Health and safety**

The sustainability issues that confront Bidvest Freight arise from the hazardous nature of some of the bulk commodities which presents a threat to the safety of the people involved and to a certain extent the environment. Good safety governance and commitment remains an area of focus throughout the businesses.



### Highlights

- ▶ Division does well in challenging trading conditions
- ▶ Strong performance by bulk handling businesses
- ▶ Major capex investments completed
- ▶ Long-term leases successfully renegotiated with Transnet
- ▶ Capacity expanded while staffing structures have been streamlined
- ▶ Bulk Connections awarded the "Best Environmental Protection" award by the International Bulk Journals
- ▶ Expenditure on programmes to combat HIV/Aids and create awareness increased by 77%

### Financial indicators

(for the year ended June 30)

|                                                   | 2010<br>R'm | 2009<br>R'm |
|---------------------------------------------------|-------------|-------------|
| Revenue                                           | 15 941,8    | 18 647,9    |
| Trading profit                                    | 794,3       | 770,7       |
| Operating assets                                  | 3 162,7     | 2 675,0     |
| Operating liabilities                             | 2 090,0     | 1 811,4     |
| Depreciation                                      | 144,7       | 143,5       |
| Amortisation and impairments of intangible assets | 9,1         | 11,0        |
| Goodwill and intangible assets                    | 75,2        | 68,0        |

### Sustainable development indicator overview

|                                           |           |                        |
|-------------------------------------------|-----------|------------------------|
| Employees                                 | 4 860     | 5 212                  |
| Total training spend (R'000)              | 23 926    | 29 139 <sup>(1)</sup>  |
| Training spend per employee (R)           | 4 923     | 5 591 <sup>(1)</sup>   |
| Employees attending HIV/Aids training (%) | 37,4      | 22,5                   |
| Lost-time injury frequency rate           | 6,5       | 6,6                    |
| Work-related fatalities (number)          | 2         | 4                      |
| BEE procurement (R'000)                   | 1 610 161 | 1 681 646              |
| CSI spend (R'000)                         | 4 937     | 3 866                  |
| Enterprise development spend (R'000)      | 15 688    | 36 783                 |
| Total water usage (litres '000)           | 332 477   | 292 006 <sup>(2)</sup> |
| Total electricity usage (kWh '000)        | 49 836    | 63 692 <sup>(2)</sup>  |
| Petrol (litres)                           | 542 642   | 874 689                |
| Diesel (litres)                           | 6 081 342 | 5 720 253              |
| Total carbon emissions (tonnes)           | 71 757    | 80 947 <sup>(2)</sup>  |
| Carbon emissions per employee (tonnes)    | 14,8      | 15,5 <sup>(2)</sup>    |

<sup>(1)</sup> 2009 restated to include learnerships

<sup>(2)</sup> Restated



**QUICK LINK: Historic divisional sustainable development data**

[http://www.bidvest.com/bidvest\\_ar2010/010.html](http://www.bidvest.com/bidvest_ar2010/010.html)

### Bidvest Freight



Anthony Dawe, *chief executive*

#### Positioning and reputation

Bidvest Freight's key port facilities and the safe, efficient and innovative operation of its goods- and materials-handling infrastructure drive the business's positioning as a reliable long-term partner of importers and exporters, many of whom are key contributors to the nation's bottom line. In a tough year, Bidvest Freight strengthened its reputation as a partner customers can trust and further tightened its focus on the core terminals business.

#### Macro- and trading environment

World trade stalled as a result of the international financial crisis while South Africa slid into recession at the beginning of the period. Recovery has been slow. These macro-factors were reflected in the performance of Bidvest Freight. Prospects of a strong finish to the year were impacted by the national Transnet strike in the fourth quarter. Rail freight and container terminals came to a standstill for several weeks. Knock-on effects at Bidvest Freight were significant.

#### Performance

Bidvest Freight did well in this challenging environment.

Despite poor economic conditions, good performance in bulk commodities offset low demand for consumer retail products.

Revenue fell by 14,5% to R15,9 billion (R18,7 billion). This was largely the result of much lower clearing and forwarding volumes, which although low-margin activities are by far the biggest contributor to Bidvest Freight's revenue.

Trading profit of R794,3 million (R770,7 million) was 3,1% higher than last year, reflecting the relatively strong performance of the terminals business following an improvement in bulk commodity volumes.

All bulk businesses performed well, including Island View Storage, Bulk Connections, South African Bulk Terminals and Bidvest Port Operations.

Cash flows remained strong.

Unfortunately, depressed consumer demand affected many import and export categories and some jobs were lost. Total staff complement fell from 5 212 to 4 860. The main cause was a restructuring and retrenchment programme at Safcor Panalpina, the international clearing and forwarding business. All retrenchment costs were fully expensed.

Regrettably, the division suffered two fatalities. Some activities at Bidvest Freight are inherently high risk as they involve the

storage and the hazardous nature of handling bulk commodities. Safe working practice is continually reinforced and safety training provided on an ongoing basis.

#### Strategic and industry dynamics

A critical strategic objective was realised with the renegotiation and finalisation of long-term leases for the Bulk Connections facilities in Durban and the Island View Storage facilities at Richards Bay.

Certainty of tenure permits long-term investment at all sites. R503 million was invested this year.

Renegotiation, however, leads to higher rentals and other demands from our Transnet landlord. The overall effect is to increase our overheads. New operational efficiencies then have to be sought if appropriate returns are to be earned.

Tenure certainty was welcome, but other types of "certainty" were challenged by a new strategic environment. In the past, a strong rand meant increased imports of consumer goods; a weak rand meant increased exports, bringing an element of balance to our activities at different stages of the business cycle. However, volatility and inconsistency have replaced old certainties.

The rand remained strong throughout the period, but heavily indebted consumers were reluctant to spend. Imports therefore remained sluggish. A relatively strong rand may have inhibited some exports, but the volume of commodity exports moved higher as the year progressed. The east's position as a leading customer for South African commodities was entrenched.

Over many years, the view has been that in the movement of goods, state control of large parts of the industry is justified. However, the recent Transnet strike has shown that difficulties experienced by one big employer have the potential to choke rail and port traffic.

In the wake of the Transnet strike, we believe it is time to reconsider the case for greater private sector participation in the port and rail sectors.

### Efficiencies

Restructuring was necessary at Safcor Panalpina to create a leaner team to deal with lower volumes. Efficiencies were realised across the board. The net effect was to remove an entire management tier. Slimmer structures are working well, though the full benefits will not be apparent until the coming year. Safcor Panalpina is simultaneously investing in new IT systems.

A key aspect of Bidvest Freight's sustainability model relates to equipment efficiency. To ensure maximum uptime, support a safe workplace and create a 'no surprises environment' for customers, the business invests in replacement plant well ahead of any threatened breakdowns.

A major contributor to efficiency is the knowledge and skill of our people. Training is continuous and the training spend for the year was R23,9 million.

### Benchmarks

The key financial benchmark of all operations is to raise trading profit by inflation plus a specific percentage. Last

year the objective was inflation plus 6%. Bidvest Freight fell below the target.

A further key benchmark is the return on funds employed, which focuses on the management of assets and cash flow as well as trading profit.

Workplace safety is benchmarked rigorously.

BEE progress is measured monthly and reviewed every quarter at all operations. All businesses, with two exceptions, are certificated level 4 empowerment contributors or better.

### Brand and operational dynamics

Every business at Bidvest Freight is a strong corporate brand in its own right. Common characteristics are performance reliability, industry-leading facilities and strategically located infrastructure. Safcor Panalpina is an internationally known brand thanks to its relationship with Panalpina, one of the world's leading providers of forwarding and logistics services.

The main operational challenge at several businesses remains variable service levels from Transnet's freight rail operations. Unfortunately, this frequently necessitates a switch to road transport, adding to the carbon footprint while increasing traffic congestion. Bidvest Freight teams have put considerable effort into increasing truck throughput. For example, Bulk Connections handled 400 trucks in a single day. We still believe rail to be the most efficient means of transporting cargo and are in discussions with Transnet to achieve this.

Interest rates moved lower. This reduced earnings at clearing and forwarding and agency businesses.

Working capital management remained a priority. "Over-age" debtors and the number of debtors handed over for legal action rose. The issue received focused

management attention. Improved collections were evident by year-end.

Fuel costs were relatively stable. Diesel costs are expected to drop as Bidvest Freight has continued the conversion from diesel-powered to electric forklift trucks. Whatever the source, Bidvest Freight remains a large power user with a relatively large carbon footprint. For the last three years, fuel and energy use has been closely monitored, creating a benchmark against which consistent improvements will be achieved.

The general operational and environmental target is performance to world best practice; especially in safety-critical areas such as the handling of chemicals and other hazardous substances.

### New initiatives

Capital expenditure of R503 million drove significant growth in capacity.

A further 60 000m<sup>3</sup> was added to the tankage at the IVS facility in Richards Bay. The project began in June last year and was completed ahead of schedule in April. New storage capacity addresses the needs of a large chemical exporter. The work included the construction of a one kilometre rail siding.

SACD's Cape Town 20 000m<sup>2</sup> warehouse has been completed. This project gives SACD state-of-the-art racking and storage facilities to assist exporters, especially the wine industry.

All businesses are engaged in projects to expand existing capacity or accelerate throughput.

### Business risks

Risks are little changed, though some recent events have underlined key challenges. For example, Bidvest Freight was reminded of its reliance on Transnet during the Transnet strike.

### Bidvest Freight

Transnet's ability to set the industry agenda and redefine industry cost structures was also showcased. Recent pay awards to Transnet workers will doubtless raise expectations across the industry.

Transnet is both our competitor and our landlord. It creates a unique challenge when a competitor can also influence your costs. Bidvest Freight and Transnet have managed these issues in a businesslike fashion for years and recent renegotiation of our leases confirms that mutually acceptable solutions can be found.

Credit risk affects all business and a return to no or low economic growth heightened the problem. Bidvest Freight's main customers are major corporates. Their ability to meet their commitments is in little doubt.

Bidvest Freight's operations are hazardous by their very nature. The risk is managed by constant vigilance, continual training in safety procedures and ongoing investment in equipment and modern facilities.

People risk is integral to all businesses that depend on dedicated, experienced staff. We operate in Africa and the entire continent suffers from a continual haemorrhage of managerial, engineering and specialist skills. We respond through formal training, on-the-job training and special interventions such as cadet management programmes.

#### Sustainable development

Our culture contributes to talent retention. Our staff take pride in their performance and their membership of teams that set the industry standard for efficiency and delivery.

**Economic performance** – Bidfreight Port Operations and SACS have joined Bidfreight Intermodal as level 2 contributors under the DTI Codes. Others are at level 3 or 4, with the exception of Manica Africa and Ensimbini Terminals where the focus is to achieve a minimum of level 4.

**Environment** – Electricity and fuel consumption are the main contributors to our carbon footprint. The trend to replace rail with road transport continues to present challenges in the form of damage to infrastructure and increased fuel usage, but we are working with port and transport stakeholders to find solutions. Bulk Connections was awarded the "Best Environmental Protection Award" by the International Bulk Journals, recognising work over several years. Bidvest Freight continues to focus on the management of dust levels.

**Human resources** – Recessionary pressures resulted in 97 people being retrenched from Safcor Panalpina. Training focused on literacy, lifeskills and supervisory management skills, an area in critical demand in our industry. Safcor Panalpina and Rennie's Distribution Services have training academies on site, enabling the businesses to customise training to their needs.

**Health and safety** – Though we have active health and safety committees and safety personnel are employed to improve awareness and prevention, Bidvest Freight regrettably suffered two fatalities and the death of one casual labourer. We are proactive in tackling HIV/Aids, offering training and VCT programmes. We

distribute ARVs, immune boosters and vitamins at no cost to employees. Expenditure on these programmes rose by 77%.

**Labour disputes** – CCMA cases brought against Bidvest Freight dropped 14% to 32, with 26 findings in favour of the division. No Department of Labour fines were incurred for non-compliance.

**Society** – Internal audit manages various aspects of ethical business conduct, including whistle-blowing, gifts register, fraud, corruption and anti-trust behaviour. Due procedure is set for all significant incidents, including the involvement of the South African Police Services. One serious incident was encountered at Manica Africa's Durban operation. Investigations are underway in conjunction with the SAPS.

**Corporate social investment** – Individual businesses conduct their own programmes serving the needs of communities affected by the company, with a focus on education and HIV/Aids.

**QUICK LINK: Divisional sustainability report**  
[http://www.bidvest.com/bidvest\\_ar2010/011.html](http://www.bidvest.com/bidvest_ar2010/011.html)

#### Future

High levels of manganese and coal exports confirm that demand from newly industrialised India and China is strong and can be expected to continue for some time. Growth rates in the rest of the world are somewhat lower, but appear to be improving.

South African consumers remain under pressure, but recovery seems to be under

way, suggesting that consumer demand will gradually revive.

Our capacity has been expanded while staffing structures have been streamlined. Bidvest Freight is therefore well positioned to benefit from any increase in world trade and in commodity imports and exports.

The non-financial targets are largely unchanged. We want to achieve zero fatalities and our industry's lowest accident rates while positioning ourselves as the employer and supplier of choice.

### **BULK CONNECTIONS**

The business achieved very good trading profit on the back of extremely high capacity utilisation and strong demand for coal and manganese. Rail services were sometimes unpredictable, resulting in growing reliance on road transport.

Renegotiation of the lease and subsequent investment will permit the business to store and handle a wider range of commodities while recent expansion of facilities will enable our teams to process even higher volumes. Congestion in an around the Durban terminal may, however, constrain the rate of growth.

### **ISLAND VIEW STORAGE**

Demand for liquid bulk storage moved higher and IVS performed well, achieving a record trading profit after a strong second-half performance. The new Richards Bay tanks were commissioned, adding to capacity from the third quarter. The fire control system at the Isando facility is being upgraded.

Demand for storage services for chemicals, gases, fats, oils and additives is expected to remain high as the economy recovers. IVS is well placed to benefit, given recent expansion.

### **BIDFREIGHT PORT OPERATIONS**

BPO recorded a very pleasing result. Higher levels of steel and forest products exports and bulk imports underpinned growth, aided by improved earnings from stevedoring, warehousing and transport operations. The new bulk fertiliser business performed well, more than offsetting lower food imports.

### **RENNIES DISTRIBUTION SERVICES**

Implementation of last year's turnaround strategy continued. Despite the challenging retail environment, a leaner RDS team secured improved revenue by growing volumes from existing customers while winning new business. Costs were strictly controlled, contributing to a significant increase in trading profit.

### **SACD FREIGHT**

Depressed demand for consumer and automotive products resulted in a difficult year. Both trading profit and revenue were below last year. New capacity came on-stream in Johannesburg and Cape Town. Mineral volumes through Johannesburg showed strong growth in the second half.

### **SOUTH AFRICAN BULK TERMINALS**

Strong revenue streams and strict control of costs helped the business to record levels of profitability. Capacity utilisation was driven by strong wheat imports while a bumper crop resulted in buoyant maize exports in the fourth quarter. Rice volumes were also strong, though they tapered off toward year-end.

### **NAVAL**

Trading conditions remain challenging. Trading profit rose significantly, though foreign exchange gains contributed strongly to the overall result. Performance was driven by coal-handling work and new business gains, relating primarily to the

handling and containerisation of chrome ore. Tallying revenue increased off the back of increased container volumes.

### **SAFCOR PANALPINA**

Volumes fell dramatically, leading to a major retrenchment programme in the second quarter. Cost control remained a critical area of focus for management. Revenue and trading profit were well below expectation, though stability and a measure of improvement were evident towards year-end.

### **MARINE SERVICES**

The business performed exceptionally well in challenging circumstances. A major customer was lost at the beginning of the year. Expense control and cash flow management were stepped up. Port Operations and P & I Associates had a great year. Rennie Murray was under pressure as work in the automotive industry fell away.

### **MANICA AFRICA**

Results were disappointing. The business was impacted by a reduction in aid cargoes into Africa, inconsistent cargo flows from the DRC, the closure of copper mines in Zambia and continuing political and financial challenges in Zimbabwe and Malawi.