



THE Bidvest GROUP LIMITED

BIDOFFICE – Division of Bidvest Group Limited

Online sustainability report

Reporting 2010/2011 financial year

Highlights

- Trading profit 9.2% higher at R215 million
- Konica Minolta enters radiology market
- Océ creates bridgehead into digital full-colour printing
- Cecil Nurse brand reintroduced
- Furniture manufacturing centralised and consolidated
- Global Payment Technologies drives strategic expansion of customer-base
- Konica Minolta is 'green leader' in office equipment
- Seating's Form concept is now the preferred 'green chair' for corporates

Material issues

- Challenges of operating in an extremely competitive environment in difficult economic circumstances
- Challenges of making progress with skills development following rationalisation
- A need to improve employment equity and management scores for BEE
- A need to maximise energy efficiency in response to steep rises in energy costs

BUSINESS CONTEXT AND TRADING CONDITIONS

The Bidvest South Africa restructuring and the creation of our new Bidvest Office division ensured a strong focus on core competence. Previously, some businesses were part of Bidserv while others were housed within Bidvest Industrial and Commercial. The new set-up was welcomed by all teams and a new sense of mission emerged in the second half. Tight focus on areas of traditional expertise is balanced by efforts to maximise growth opportunities in new markets.

Higher environmental awareness and standards are regarded as an opportunity rather than a risk, and the Form chair's marketplace successes spotlight our commitment in this area. Our partnership with technology leaders such as Konica Minolta and Océ helps keep us at the forefront of international environmental developments.

As representatives of international principals we acknowledge our exposure to currency risk. This is mitigated by the fact that exposure is distributed among a number of currencies. In the first half, Océ benefited from rand strength versus the euro. In contrast, the strong yen kept pressure on margins at Konica Minolta.

The business environment remained extremely competitive. However, after three years of sweating assets and delayed capital goods replacement there were welcome indications that businesses were

again investing in new office equipment, though the uptick came late in the period. Improved demand was not uniform across all sectors and remained sluggish in some parts of the economy.

Margins stayed under pressure, and corporate expense control was stringent.

Technology companies benefited more from reviving demand than the furniture and stationery businesses, which continued to trade in a challenging environment.

PERFORMANCE

Revenue rose only marginally, easing 5,3% higher to R3,7 billion (2010: R3,5 billion). Trading profit rose 9,2% to R215,4 million (2010: R197,3 million).

ROFE was 34,5%. Trading margins stayed thin at 5,8%.

Technology businesses optimised opportunities in the second half, while furniture teams were often under pressure to mitigate loss. Unit sales grew in stationery, but sales growth and margins were muted as a result of price erosion.

COMPANY PROFILES, INNOVATION AND INVESTMENT

Konica Minolta South Africa

Konica Minolta South Africa has seen good returns, and the continued strength of the bizhub offering enabled us to entrench our leadership position in the core office copier and multi-functionality market.

Konica Minolta is also leading the industry in green office equipment through its use of advanced toner technology, in which polymerised toners account for more than 99% of its colour toners and more than 96% of its monochrome toners – far ahead of the industrial averages of 57.2% and 13.3% respectively. These polymerised toners reduce environmental impact as they are composed of plant-based substances rather than components of petrochemical origin. This translates into significantly lower electricity consumption such that Konica Minolta is also at the forefront of its industry regarding energy efficiency.

In pursuit of Konica Minolta's international environmental vision, 'Eco Vision 2050', the Green Factory Certification System has been introduced. This is a new method to comprehensively evaluate our impact on the environment from the production point of view. The system certifies a production base as a Green Factory if it passes evaluation standards with respect to global warming, supports a recycling society, and reduces the risk of chemical substances.

Most of our Konica Minolta black and white devices are equipped with an efficient toner recycling system that collects, recycles and reuses toner that is not fused to the paper during the printing process. Saving toner for re-use, this system not only increases cost efficiency, but considerably reduces toner consumption and lowers related CO₂ emissions. A client organisation switching from the older bizhub C252 to a bizhub C280, for example, would gain an annual energy saving of 273 kWh and an emissions reduction of 137.05 kg of carbon dioxide equivalent.

Konica Minolta continues its commitment to reclaim and recycle end-of-life electronic equipment in an environmentally friendly manner. During the 2010/2011 financial year, another three tons of old electronic equipment were dismantled. This process was initiated and implemented during the

2009/2010 financial year and started with a big clean-up in which a massive 12 tons of carcasses were dismantled. This is an ongoing process as we remove end-of-life equipment from our facilities.

Konica Minolta Medical South Africa

Bidvest Office launched a new business unit, Konica Minolta Medical South Africa, which has introduced new digital radiology products using a flat panel detector system. This development, which heralds a new wave of innovation in the radiological industry, has three sustainability consequences. First, it enables radiologists to migrate from analogue to digital diagnostic imaging without total replacement of existing hardware, circumventing the ecological costs of total replacement. Second, it enables X-rays to be taken at higher quality resolutions at much lower radiation doses. Patients are exposed to doses that are an estimated 15-20% lower than those typical of previous technologies. Third, the use of a new lithium ion capacitor rather than a lithium ion battery reduces the ecological impact of battery disposal compared to previous types of batteries used in radiological techniques.

New radiology hardware exhibited in the third quarter proved to be one of the hits of the SORSA-RSSA show in Durban. Marketplace reaction to the prospect of affordable migration to digital radiology has been highly positive, but the impact on volumes will not be felt until the new period.

Ocè South Africa

Ocè South Africa has seen good returns and has reinforced its positioning as an innovator in the printing and document management field with the local launch of the latest JetStream digital full-colour printing system. This is the first of its type in Africa and sets new standards for high-speed digital printing. As a new market is opening up for light production printing, Ocè is well positioned in the growing colour market with its recently introduced Canon light production printing machines.

Ocè South Africa has also achieved a technological leap by introducing new 'transactional promotional' (TransPromo) printing technology. A TransPromo document combines a transaction document such as an invoice with variable messages that target each customer's unique purchasing patterns. The promotional messages are selected and tailored to customers' preferences, and printed directly onto bills and statements. They can be further enhanced by placing black and white or full colour images in the document's white space.

Global Payment Technologies

This well-established company provides equipment for money security operations, including cash collection security equipment. While GPT has outstanding financial performance and understands the market well, the challenge is how to grow the company, considering that it occupies a specific niche.

The team achieved continued growth this period by successfully addressing this long-standing constraint – reliance on a single sector (financial services) for most volumes. Shopping centres, large retailers and casinos are making increased use of centralised technology to manage cash. GPT solutions are therefore in growing demand across a broader range of customers, and continued growth is expected.

Cecil Nurse Business Furniture, Dauphin, and Seating

The furniture businesses have taken great strides towards greening the product offering, particularly through Seating's Form Chair, which incorporates 25% recycled materials, 81% local content, and 95% recycling capability. The Form Chair was developed in South Africa at the research centre in Industria, and is made to strict ergonomic and environmental standards at a plant with ISO 9001, 18001 and 14001 accreditations. Setting the benchmark for eco-design, the chair has beaten off

foreign competition to secure contracts from major players in the banking sector. It has quickly become the preferred chair of environmentally aware corporates and is the best-selling product in Seating's range, justifying five years of development and marketing investment. The group's desks are also locally made, in Cape Town.

Manufacturing, previously done separately by Cecil Nurse Business Furniture, Dauphin, and Seating, has been rationalised into a single BidOffice Furniture Manufacturing unit. This action has freed up each business to concentrate on market-facing activities, such as marketing and consultative selling, in which they excel.

The Cecil Nurse brand was revived and supported with higher marketing spend. In a difficult year, savings and efficiencies unfortunately resulted in some job losses, and the Rivonia showroom was closed. However, a new business furniture catalogue and the return of the Cecil Nurse name created an opportunity for new focus on the brand's established appeal in the mid and upper segments of the corporate furniture market.

Challenges continued at Dauphin as a result of sluggish demand in the corporate project sector. The company's business model is being adjusted to improve its focus on brand optimisation. We are also exploring collaboration with other parties to widen the distribution network.

Waltons

Waltons provided some management challenges and, whilst improving on 2010 earnings, produced disappointing numbers. The decision was taken to merge Contract Stationers into Waltons Gauteng, in order to produce some economies of scale while honouring existing contracts. We are in the process of optimising the retail space required. Significant costs have been extracted from the business, creating a more nimble operation.

PEOPLE, TRAINING AND SKILLS

The quality of our people and our high standards of technical training are sources of competitive advantage. In the office equipment industry, the Colour Master Diploma bestowed by Konica Minolta Japan is regarded as the benchmark for top technological talent. Only 16 graduates worldwide hold the diploma, and three are employed by Konica Minolta South Africa.

Bidvest Office improved its overall performance across the BEE scorecard to become a Level 3 contributor on the dti's CoGP for B-BBEE. Management, employment equity and skills development are our main focus areas to help facilitate further transformation.

Training and development

Training spend, totalling 91 668 training hours, fell by 22,8% to R11.9 million, mainly due to restructuring and rationalising. Some training initiatives, mainly in the furniture businesses, were put on hold, and we focused only on critical skill requirements.

A large portion of training spend occurred in our high-tech businesses, namely GPT, Oce and Konica Minolta, where the highest skill levels are required. This involved a substantial amount of training time. In our service industry businesses, training spend was more focused in areas of particular need.

Bidvest Office is serious about training and development and is encouraging learnerships and learning programmes throughout the division. Investment in these accounted for 46% of total training spend.

Konica Minolta's management training efforts focused on implementing a Management Development Learning Programme in partnership with the Workwise Training Network. This programme runs over two financial years, and participants submit a portfolio of evidence. This will be assessed and moderated by the Workwise Training Network and unit standard credits allocated by the Services SETA. Staff are identified and chosen according to their leadership and management potential, as this programme will ultimately provide employees with the necessary qualifications and skills to fulfil a managerial position. Each programme's total cost is R1.1 million.

Enterprise development

Bidvest Office has a very successful enterprise development project with Ditulo Office (Pty) Ltd. Ditulo Office was established in July 2001 and as a black majority-owned supplier, is a Level 1 B-BBEE contributor and an accredited BEE supplier of various office furniture brands.

Our support and development for Ditulo Office includes discounts and special payment terms, as well as management and administrative assistance, and product knowledge and training provided by Seating and Cecil Nurse Business Furniture.

A European brand of office automation equipment, Develop, was launched into the South African market, primarily aimed at enterprise development, facilitating the entry of black entrepreneurs into the industry. The management, marketing and technical support of Konica Minolta South Africa underpins the success of this brand.

Konica Minolta is also running an enterprise development project with five black-owned independent dealerships, offering business support that includes product training, technical training and other day-to-day assistance.

Corporate Social Investment (CSI)

Each company within Bidvest Office runs its CSI programmes independently. Approximately 52% of our CSI spend supports educational institutions in disadvantaged areas. Assistance has been mainly in the form of products and some monetary donations. Community development accounted for a further 19%, and 14% was spent on environmental projects.

Our single biggest contribution was to Conquest for Life, an initiative aiming to empower youth through a variety of programmes designed to foster a safe and structured environment in which young people can realise their potential and build life skills needed to enrich their lives.

LABOUR PRACTICES

Employee engagement and staff satisfaction

BidOffice's employee engagement is very decentralised, each company in charge of its own practices. Overall, BidOffice is not prescriptive; employee relationships are always more about developing a culture than about rules.

Staff numbers have remained mostly static since the rationalisations that took place soon after the start of the financial crisis in 2008. The exception in 2011 was at Cecil Nurse Business Furniture, where employee numbers decreased by 12.24%, and at Waltons where the staff complement also decreased by 7%. There were no employee industrial actions.

Absenteeism is our main proxy measure of staff satisfaction; if this was to rise, it would be noticed and dealt with accordingly. Currently our absenteeism rate is less than 2% and staff turnover is at 9%.

Health and safety

Though HIV/Aids affects all business sectors, the number of employees affected is not available. Estimates, however, put the number at approximately 11% of employees.

We are disappointed to report that our lost-time injury frequency rate increased from 4,9 to 8,7 in 2011, and we have stepped up safety awareness efforts to reverse this. There were no fatalities.

ENVIRONMENT

Energy efficiency

Steep rises in energy costs drove renewed focus on energy efficiency at all businesses. We are happy to report that last year's improvements in efficiencies have translated into further improvements. Waltons KZN is currently in the process of being centralised, and will be moving to a new energy efficient facility. We estimate that this will be functional by November 2011.

Climate change

The Department of Environmental Affairs commissioned Succeed magazine (Essential Publishing) to produce a special publication on climate change. An invitation was extended to KMSA to support the publication with advertising, to help make this project a success.

The result, "*The Earth in our Hands – Cancun and Afterwards*", was issued in May 2011. This publication provided feedback from the UNFCCC COP16 while also presenting a broad range of views from various key stakeholders with an interest in climate change, including government, academics and the private sector. A total of 28 500 copies were distributed to CEOs of JSE listed companies, decision makers in the mining industry, the office of the Presidency and other participating organisations in the public and private sectors.

HUMAN RIGHTS

Our major brands supply the US and Europe, which are more stringent than South Africa in terms of human rights demands. While in future we will be seeking to improve our monitoring of suppliers, particularly of our unbranded imports, at present we are confident that our brands are reputable and that they manage the supply chain responsibly.

BUSINESS ETHICS

We completed our employee education and awareness programme regarding ethical governance that was commenced last year, and we have experienced no violations of our core business values. Sound practices are embedded in Bidvest Office's culture, including the encouragement of whistleblowers. A discussion on this topic and opportunity for disclosure is integral to every board meeting.

86% of CCMA cases brought against our Bidvest Office organisations were resolved in our favour. Most cases arose after dismissals relating to misconduct and poor work performance.

PRODUCT RESPONSIBILITY

The new Consumer Protection Act has far-reaching ramifications throughout the supply chain. The strength of our existing reputation and quality standards gives us confidence that few if any changes will be necessary at Bidvest Office. In addition, only Waltons is involved in retail, and this is therefore the only company that deals directly with matters arising from the Consumer Protection Act. No material issues arose.

FUTURE

Our businesses market some of the best products in their industries. The quality of our brand offering is expected to drive market share growth in sectors that have witnessed casualties and consolidation for the last three years. The teams in our newly refocused division work in sectors they know well, and we plan to optimise growth in core markets while pursuing opportunities in related or totally new markets. Marketing budgets have been increased.

Signs of stirring business-to-business demand in the final quarter suggest that a measure of growth can be achieved in the year ahead, and we will aim for a revenue increase of 8.8%.

Rigorous expense management by streamlined teams is expected to result in improvements to our margins. Growth in trading profit in excess of 20% has been targeted.