



THE Bidvest GROUP LIMITED

Bidvest Automotive sustainability report for the web

Highlights

- McCarthy celebrates 100 years in business
- Revenue rises to R18,6 billion across a more streamlined business
- Trading profit 10,7% higher at R255,4 million
- ROFE up to 27,2% from 23,1%
- New vehicle sales up 22,1% to 36 269 units
- Concerted effort across B-BBEE scorecard lifts division to Level 3 status
- Systems implemented to facilitate and measure sustainability activities
- VW/Audi remains top motor franchise profit contributor
- Training spend rises to 93,1 million despite lower staff numbers and challenging trading conditions

Material issues

- Adverse effects of the earthquake and tsunami in Japan on the supply of new vehicles and parts
- Declining vehicle parc resulting in lower contributions from parts sales and workshop services
- Share of the national dealer market remained flat
- Extreme reliance on business confidence and consumer confidence, which has declined since 2008
- Effect on turnover and business practices of the economic downturn and legislation
- Retaining customer loyalty through responsible business practices
- Difficulty in attracting and retaining HDIs at senior level
- Challenges of talent attraction and retention
- Impact of increasing fuel prices and stricter emission standards on sales in certain vehicle categories
- Imperative to grow the value segment of the vehicle market
- Management of HIV/Aids in the workplace
- Impact of crime on dealerships
- Effect of fringe benefit tax increase

Sustainability at Bidvest Automotive: management approach

The new Bidvest Automotive division consists of the McCarthy Motor Group and no longer incorporates Budget Rent a Car, Yamaha or McCarthy Insurance (now Bidvest Financial Services), which have been moved to other Bidvest South Africa divisions.

While Bidvest Automotive has always complied with legislation, in 2010 the company decided to formalise sustainability compliance. The resulting compliance department focuses on skills compliance, B-BBEE scorecard performance, employment equity reporting to the Department of Labour and sustainability compliance.

We initiated research into what sustainability means at a global level, in the South African context and for Bidvest Automotive and assessed the impact of sustainability legislation on the motor industry. We also researched the sustainability achievements of our competitors, other companies and Bidvest divisions and familiarised ourselves with internal and external reporting requirements.

Bidvest Automotive has a holistic approach to sustainability. Our research resulted in the design of a balanced sustainability scorecard, reflecting a four-pronged approach that addresses compliance, social, environmental and economic impacts.

Improving the sustainability of our business requires the buy-in of top management, a sustainability committee that has authority and mobilisation of the whole organisation. We are developing strategies to address each of these needs.

Bidvest Automotive's sustainability mission statement involves:

- Commitment to transparent, accurate and integrated reporting
- Improving the quality life of our employees and wider community through skills, education, development and wellness
- Creating sustainable employment for South Africa's economically productive population
- Reducing our environmental impact on natural resources

We made progress towards our vision of sustainability in a number of areas. We conducted a GAP analysis to benchmark Bidvest Automotive's performance against global and South African trends and used this to identify actions that we could map against GRI guidelines. We engaged our employees as stakeholders, conducting a survey to gather their input and developed a business case for sustainability. These actions led to the development of our sustainability strategy and action plan.

In June 2011, we established a sustainability committee based on our sustainability charter developed earlier this year. We assigned sustainability champions and defined their roles and responsibilities. The fact that most of the committee are also exco members demonstrates Bidvest Automotive's strong commitment to sustainability.

The sustainability journey begins by measuring current performance as we can only manage what we measure. Our objectives for 2011 were to obtain baseline information to enable realistic reduction targets. (See *Environment* section below for more detail.)

A selection of this year's key sustainability achievements is listed in the table below.

• Leadership transformation strategy finalised	Oct 2010
• Established processes for accurate reporting in the future	Oct - Nov 2010
• Achieved B-BBEE level 3 certificate	Nov 2010
• Finalised the environmental policy	Nov 2010
• Sustainability strategy presented and adopted at planning committee	Jan 2011
• Sustainability strategy presented at motor exco	Feb 2011
• EE target-setting process by business units	Feb 2011
• Workplace skills plan completed by business units	March 2011
• Carbon footprint assessment conducted	March 2011
• Sustainability charter and committee structure development	March 2011
• Sustainability charter and carbon footprint assessment results / recommendations presented at motor exco	May 2011
• Disability strategy development and presentation at MMG National EE & Training Sector Forum meeting	May 2011
• Water efficiency audit conducted	June 2011
• Sustainability committee establishment	June 2011
• 1 st sustainability committee meeting	July 2011

Trading conditions

New vehicle sales continued to rise this year, but at a lower rate in the second half, suggesting the exceptional growth of the past 18 months may be coming to an end. Trading was highly competitive. International over-capacity fuels pressure by manufacturers on dealers to 'move metal'. The result is intense price-based competition that puts motor retailing margins under constant pressure. In the 12 months to the end of June 2011 there was 22,8% growth in the dealer market (vehicle sales from dealerships, excluding sales by manufacturers to government and car rental firms).

A strong rand contributed to new vehicle price deflation in real terms. Corporate customers continue to display a cautious approach as the economy and business activity are inconsistent. Credit availability from the banks has improved, but the approval rate is still conservative.

Slower retail activity in the second half was the result of steady dissipation in the strength of replacement demand, some supply shortages after the Japanese tsunami in March and growing

pressure on household disposable income. The impacts of the tsunami and the Fukushima accident were only felt in our business from late May, impacting supplies from Toyota, Mazda, Mitsubishi and Nissan. The impact was felt on component supplies as well as vehicle supplies.

Supply challenges were sharpened by two months of strike action affecting both local manufacturers and component-makers.

Industry projections are that new car sales for calendar year 2011 will be 12% up on calendar year 2010.

Used vehicle prices were depressed by substantial de-fleeting following a World Cup that was disappointing for car rental companies. Used vehicle volumes were down 11,2% year on year and used vehicle profitability fell substantially.

Deflationary pricing narrowed the price gap between new and used vehicles, prompting a major purchasing swing towards new units. In 2010, 1,43 used vehicles were sold for every new vehicle. In 2011, this swung to 1,04 used vehicles for every new vehicle sold.

The effects of legislative changes were difficult to assess. CO₂ emissions taxes were introduced on new vehicles in October 2010 and a dramatic increase in perks tax on company vehicles took effect in March 2011. Both changes led to buying-down.

Performance

Exceptional factors influenced revenue and trading profit. Our asset-based finance business (a major contributor in previous years) was sold to Bidvest Bank in the prior financial year while in 2011 several other entities were realigned to sister divisions at Bidvest South Africa (including Yamaha Distributors, Bidvest Financial Services, Budget Car and Van Rental and the materials handling business). Income was also lost from properties that had previously been part of the Bidvest Automotive portfolio. In addition, dealership closure and retrenchment costs of R18,1 million were absorbed.

In these circumstances, the division put in a satisfactory showing and demonstrated renewed vigour as McCarthy celebrated 100 years in business.

Revenue rose 17,4% to R18,6 billion (2010: R15,9 billion) while trading profit moved 10,7% higher to R255,4 million (2010: R230,8 million).

Expense management remained intense and ROFE increased to 27,2%. The trading margin narrowed, however, from 1,5% to 1,4%.

Our new vehicle sales rose 22,1% to 36 300 units up from 29 700. Used vehicle sales fell 11,2% from 42 600 to 37 800.

The McCarthy Motor Group (MMG) share of the dealer market remained flat year on year. VW/Audi remained the top motor franchise profit contributor. Our challenges were related to vehicle auction activities, used vehicle sales and parts and service volumes.

Consumers de-leveraged and the level of vehicle repossessions by banks fell dramatically, affecting volumes at Burchmores, our car auctioneer. The business was simultaneously impacted by the swing to new vehicles.

Parts and service revenue remained flat. This was largely the result of lag-effects from 2007 to 2009 when new vehicle sales plummeted. After-sales volumes were also impacted by price-sensitive consumers who opted for only essential items from the service department.

Environment

The automotive industry has begun to take its environmental impact seriously. International manufacturers are investing billions of dollars on greener solutions. In South Africa, a large vehicle remains a status symbol, but in Europe more environmentally friendly alternatives such as the Prius and Smart Car are increasingly popular. Attitudes may also be beginning to change in South Africa. The theme of this year's annual conference of the automotive industry (the South African Automotive Week conference) is 'green machines'.

At Bidvest Automotive, we intend to be part of the solution to the environmental challenges presented by the industry. We are considering how best to position ourselves for this shift and wholeheartedly support our manufacturers in their attempts to make their current product lines greener and more energy efficient; for example, through the development of electric and hydrogen cars.

Carbon footprint and setting targets

We conducted an initial carbon footprint assessment that highlighted several areas for attention. However, many extrapolations were used in our reporting, compromising the accuracy of the results. We are implementing processes to obtain accurate data for future reporting. The upgrading of some systems has begun.

The carbon footprint exercise identified two key focus areas: reducing our impacts on climate change (by electricity reduction, water savings) and improving our waste management (implementing the concepts of reduce, reuse and recycle).

Water and energy efficiency assessments provided us with short- and long-term recommendations and we developed a sustainability awareness strategy to mobilise employees.

We have set the following targets so far:

- to reduce electricity consumption by 10% by 2012
- for all business units to have action plans in place by the end of calendar 2011 for electricity reduction, water savings and waste management
- to implement a sustainability structure at Bidvest Automotive to measure and monitor sustainability by the end of calendar 2011
- to conduct another carbon footprint assessment in 2012 to determine baseline information, once systems have been put in place to provide data

Energy and water

Energy costs – especially power supplies from Eskom – have risen dramatically, adding weight to the environmental motivation for increased efficiencies and savings. Water cost increases are also imminent. Bidvest Automotive saw a 7,4% increase in electricity usage in 2011. Diesel consumption increased by 13.3% and total carbon emissions increased by 7.7%. For the first time, the budgetary process is being deliberately used to drive efficiencies in the sustainability and risk areas of the business. Key objectives are to reduce energy consumption by reducing electricity, fuel and water use. In future, managers at all operations will not be allowed to simply pass on utility price increases when preparing budgets. Only a portion of the increase will be admitted into cost calculations. The intention is to incentivise managers to seek efficiencies and reduce resource use.

Dealerships are running energy-savings initiatives; some have become proactive by switching off all energy-using devices at 6.30pm. The division is investigating a partnership with Eskom to extend this initiative.

With varying levels of success, we have run several water-saving initiatives, including ‘eco-steam’ and ‘eco-wash’ water-efficient car washes. Water-efficient washing solutions have been rolled out to a number of dealerships, particularly in KZN.

Risk management

Transition to a risk assessment approach to business sustainability gathered momentum toward year-end.

Legislative risk is constant in a high-profile industry like ours. In the area of service quality, the risk is addressed by our tradition of fair dealing and our long-standing commitment to ethical service standards. We are also well represented on industry committees and consultative bodies.

Currency risk eased at our newly streamlined division. We are no longer in the vehicle import business and the integration of Yamaha Distributors into Bidvest Industrial means yen movements are less of a concern.

The introduction of the Gautrain from Johannesburg to Pretoria represents a risk, as it is likely to reduce vehicle mileage and associated wear and tear incurred by motorists, consequently reducing our service revenue.

The introduction of e-tolling in Gauteng will have a major impact on vehicle ownership as commuters reassess whether it is still economically worth their while to own a vehicle. Minibus taxis will pay a reduced toll, further encouraging a shift away from vehicle ownership.

Innovation and investment

This period's most significant change was our restructure as a dedicated automotive retailing and services business. Focusing on core competences has helped us achieve continued efficiencies and savings while giving further impetus to the rationalisation process. Our streamlined business proved well adapted to an industry now characterised by slim margins and strong competitive pressures.

We closed eight dealerships during rationalisation. In 2012 we have opened two new dealerships in Hatfield and Midrand.

We have established a central marketing unit focusing on digital marketing channels, including web sites, Google, other search engines, white labelling and cooperative marketing via the intranets of large organisations.

We launched a focused effort to improve the conversion rate of leads into sales. The initiative calls for better utilisation of the Client For Life relationship management tool, the Call-a-Car online dealership platform and the Collaboray IT system for driving higher levels of service in the corporate fleet environment. Results to date are encouraging.

In addition, we adopted the computerised AutoBid system, linking Burchmores, our dealers and pre-screened bidders. So far, 130 trade 'friends' have been connected by the system. Customers benefit from the best bids across a digital auction floor while dealers have access to a new source of used vehicle stock.

Capital expenditure was R52 million, up from R47 million.

People, training and skills

In parallel with reducing our environmental impact, Bidvest Automotive is committed to building social and human capital in ways that address poverty, employment, education and health.

Employee satisfaction

We believe that long-term business success and healthy employee relations are not separate domains, but closely intertwined. We gather information about employees' needs through internal communication structures. For example, our employee satisfaction index (ESI) is calculated from a survey conducted every October. This survey enables managers to gain insights into employee's feelings, views and perceptions about the company and is particularly important as attitudes can affect customer experiences and general effectiveness. Our score has steadily improved over the last 10 years.

Our improving scores are a reflection of our proactive response: ESI action plans are implemented annually after we receive survey results.

Employee engagement

Rationalisation unfortunately resulted in some job losses, and eight Call-a-Car and Value Centre dealerships were closed. Structural efficiencies continue to be sought, but increasingly the emphasis is on creating multi-franchise facilities rather than cutting jobs.

The industry experienced some strike action, affecting equipment and component suppliers, but with little effect on our dealerships. These strikes had a material impact on our parts businesses and this was a key factor constraining our performance.

Labour relations have remained stable. The Retail Motor Industry-negotiated wage agreement was agreed in late 2010 and is fixed for three years, providing some stability for the near term.

In 2011, 73 CCMA cases were brought against the company. All were resolved in the company's favour.

Skills and training

Despite the fall in staff numbers from 5 922 to 5 869 as a result of rationalisation and retrenchments, training investment rose 10,7% from R84,1 million to R93,1 million. The amount spend on learnerships increased from R51,8 million to R57,2 million. We remain our industry's top trainer with 599 learners (2010: 597).

Courses offered through our dedicated training centres include technical learnerships, sales and management training to mention a few.

Many of our senior managers are now approaching retirement age. In response, we are training to ensure a smooth transition to a younger generation of managers, while simultaneously encouraging the promotion of historically disadvantaged individuals to these positions.

In addition to in-house training, we offered external bursaries and study assistance to employees totalling R661 000.

Health and safety

We monitor health and safety carefully. Our compliance with relevant legislation is reviewed quarterly and results fed to senior management. Our lost-time injury frequency rate (LTIFR) remained very low and there were no fatalities.

HIV/Aids awareness and prevention campaigns are run every September during our Wellness Week programme. In response to difficult economic conditions, we expanded the Wellness Week effort to assist employees suffering from stress-related conditions. The resulting employee assistance programme has continued in 2012.

Bidvest Automotive contributes to Lifeline, a confidential professional helpline offering free crisis counselling for people in need.

We distribute a monthly educational newsletter on wellness and health to our employees.

Transformation

One aspect of our social commitment is to transform our business through a variety of initiatives and development programmes.

A concerted effort across all pillars of the B-BBEE scorecard has led to significant improvement in our empowerment credentials and we have moved from Level 4 to Level 3 contributor status.

Enterprise development

Total enterprise development (ED) spend was approximately R4 million. Our ED efforts have focused on our flagship owner-driver scheme, in which we invested approximately R3,7 million. Drivers who own delivery vehicles deliver parts across Gauteng from parts hubs to dealerships. The scheme has been a success as participants' businesses are generally sustainable and running at a profit after three years.

We run several smaller ED programmes, with commitments totalling approximately R326 000. In Soshanguve, Kgabo Cars Training Centre trains learners to become qualified vehicle technicians. They have 10 learners on merSETA learnerships. We assist by providing formal classroom training at our technical training centre in Midrand.

Another initiative is Vanessa's Kitchen. Vanessa was a cleaner at the McCarthy Training Centre in Cape Town. One of our dealer principals noticed her entrepreneurial potential and gave Vanessa an opportunity at Toyota Table View to operate her own canteen. She is running a profitable business serving meals to staff. Vanessa has further growth aspirations.

Employment equity

Bidvest Automotive is pleased with progress towards employment equity. We have set up a successful employment equity forum in all our businesses which meets twice a month. Issues raised in the forum are addressed at twice-yearly divisional, regional and national level meetings. In 2011, we formalised the process and involved more people in the discussions.

Ownership

Most of our dealerships are wholly-owned by McCarthy Ltd.

Employees with disabilities

Bidvest Automotive has developed a disability strategy with the objective of becoming a disability-conscious company. We have implemented a disability campaign to raise awareness among employees. Part of the process involves a sensitisation programme to create an environment in which employees feel comfortable about disclosing their disability status.

Human rights

Human rights issues such as freedom of association and freedom from child labour or forced or compulsory labour are enshrined in South Africa's constitution and well legislated under various acts. Incidents of discrimination are monitored in accordance with legislation and there were no significant incidents.

Outside South Africa, we deal with well-known, reputable brands. Formalised screening of suppliers is undertaken in terms of product responsibility issues, but not necessarily for human rights issues – an area for future improvement.

Product responsibility

The Consumer Protection Act

Bidvest Automotive took the lead in investigating the repercussions of the Consumer Protection Act (CPA) in our industry. The CPA encourages responsible and robust business practices. Our values have been aligned with the CPA for many years. This meant no amendments to standard trading practice were necessary, though substantial investment was made in training and up-skilling of our people. We also improved customer assistance systems and documentation at the point of sale. Our staff training on CPA was compulsory and varied according to function (eg. sales, parts, service and advertising). Our proactive approach to the CPA has been highly beneficial and meant the act has so far had relatively little impact on our business.

Customer satisfaction and IT governance

We monitor customer satisfaction and complaints. We also monitor customer satisfaction on used vehicles (for new vehicles this is the duty of the manufacturer) and the resulting satisfaction index helps determine the remuneration and incentives of relevant employees. We also have a Client for Life customer care centre. All complaints are monitored and followed up. There were no material complaints as a result of the CPA.

The Client for Life system incorporates internal client relations software, a powerful tool enabling us to develop a useful database on each customer. Tight controls ensure the security and privacy of customer information. We are embedding client consent and an opt-out register into the system.

Business ethics

Fraud, theft and misdemeanours

We have relaunched our code of ethics, which every employee must sign on engagement. The Bidvest Tip-Off Anonymous line is open to anyone who becomes aware of unethical practices.

We take any occurrence of fraud very seriously. Any employee guilty of fraud faces immediate dismissal and legal action. We experienced a small number of incidents totalling R1,48 million (2010: R578 000). All cases were reported to the risk and audit committees.

Anti-competitive practices

Our biggest area of risk with respect to anti-competitive practices is inappropriate discussion at dealer council meetings. We have hired a competition law expert to address our Exco team and have drafted a competition law compliance policy.

Corporate social investment

Alignment with the communities we serve remains a priority and we ran a variety of socio-economic development (SED) and corporate social investment initiatives. Expenditure topped R7,5 million.

Our main focus continues to be the Rally to Read programme, a partnership between McCarthy, Financial Mail and READ Educational Trust and its 95 sponsors. Rally to Read currently supports 134 rural primary schools, providing resources and teacher training to improve the quality of literacy teaching. The children at these schools come from disadvantaged communities. This year 43 220 learners and 1 418 teachers benefited from the programme. All beneficiaries were black. We contributed approximately R4,7 million to Rally to Read.

In addition, black schools received R40 958 in contributions for school computer centres. Our bursary fund assisted 22 students. We also contributed R78 300 to children's centres that focus on the welfare of black children, including those living with disabilities. We contributed R213 482 to community development projects. Initiatives focusing on HIV/Aids received R37 991.

Future

Supply problems relating to tsunami-effects in Japan were evident late in the period and may persist into the first half of 2012, but we do not believe the impact will be severe.

Automotive retailing remains acutely sensitive to business and consumer confidence, and stability and interest rates. However, we believe economic recovery, though hesitant, will continue. The rate of market growth may slow, but we believe growth of 7,5% is possible.

Company summaries

Toyota/Lexus/Hino: A solid performance took new vehicle retail volumes and sales values well above budget. Margins remained under pressure while used vehicle retail volumes and sales were well below budget. Challenges are expected in 2012 as a result of stock shortages after production problems in Japan.

Audi/VW: Teams put in another exceptional profit performance, driven by strong new vehicle sales.

Mercedes-Benz / Chrysler / Jeep / Dodge / Mitsubishi / Kunene / Inyanga: The combined franchise produced good results.

BMW: Results were disappointing, particularly at the Sandton Approved Repair Centre.

Land Rover/Volvo: Land Rover performed well, driven by strong demand for the brand, though lack of stock created some problems in the first half. Volvo's performance was disappointing.

Ford and Mazda: Both brands had a difficult year. Stiff competition and discounting put pressure on the margins.

Nissan/Alfa/Fiat/Renault: Nissan performed well, but Alfa/Fiat faced continued difficulties. Renault was challenged by low trading volumes at a number of dealerships.

Peugeot/Citroen: Citroen's introduction boosted franchise performance. Trading conditions remain difficult.

Value Centre: The franchise was streamlined further to remove loss-makers. The remaining seven operations are making a success of the multi-franchise model.

Burchmores: The car auction business had a disappointing year. Focused management attention has been given to improved second-generation selling of finance packages and closer synergies with McCarthy Call-a-Car and other digital tools for improving customer service and sales volumes. A dedicated team was set up in Sandton to follow up Call-a-Car leads.