



THE Bidvest GROUP LIMITED

Bidvest Paperplus online sustainability report

Highlights

Kolok's integration into division underlines multi-media positioning

Strategic packaging expansion through Sprint Packaging acquisition

Export project successes in Africa

Industry leadership in full-colour digital printing drives increased volumes. Innovative solar-powered kit for on-site production of voter registration cards positions us as innovators and leaders in voter and voter registration solutions

Strong BEE credentials a source of competitive advantage

Material issues

- Challenges associated with the shift away from traditional print/paper products and development of new integrated electronic solutions
- Continuing difficult economic conditions
- Economic hardship of employees in the economic downturn
- Increasingly volatile demand patterns
- Skills shortages, particularly in technical roles
- Risk of injury when working with equipment
- Reducing consumption of electricity and water

Business context

Bidvest Paperplus is shifting its business away from traditional product offerings in the form of commodities and material paper products and moving towards providing customers with more holistic and integrated electronic solutions. This transition is a response both to market demand and environmental imperatives. Supporting this vision, we are developing our employees to build a highly skilled, motivated and nurtured workforce to complement our ongoing investment in leading-edge technology.

Trading conditions

Industry conditions have remained challenging. Demand for traditional print and long-run forms manufacture is now in serious decline, and over-capacity in some segments of the industry places continued pressure on margins. Traditional products are no longer the dominant element of our product and service offerings, but diversification into laser, digital and personalised formats cannot totally negate the impacts of the decline in demand for paper products.

Competition intensified in the labels business, and the strong rand adversely affected some customer groups. Exchange rate pressure was also negative for Kolok, which is new to the division this year.

Volumes from some segments of the retail industry were depressed by a trend toward the import of fully pre-packed, shelf-ready goods requiring no local print component.

Customer billing activities for credit-retailers showed good growth, with a continuing strong trend towards personalisation. Data repository services also emerged as a growth area as retailers, financial institutions and others require ready archive access for prompt responses to customer queries.

Activity relating to marketing spend moved higher from a low base at the start of the year.

Demand patterns are increasingly volatile, affecting volumes in different parts of the business. Management is continually challenged to transfer under-utilised capacity to areas experiencing an uptick. This is not a short-term development that will 'normalise' as economic recovery becomes more general; instead it seems that volatility is becoming the 'new normal'.

Within the printing industry, the strong rand was generally positive as it put a brake on import parity-based cost rises from paper suppliers.

Performance

Revenue rose 7% to R3,7 billion (2010: R3,4billion) while trading profit of R325,6 million (2010: R312,6 million) was up 4,2%. The target of a 9% increase in trading profit was not realised, although trading profit increased by 13% before inclusion of Kolok with prior year comparatives. A stronger recovery and revival of consumer spending did not occur as expected. In the context of challenging industry conditions, performance was satisfactory. Overall volumes were boosted by Kolok's incorporation into the division.

ROFE increased to 37,5%. The trading margin eased higher to 37% (2010: 36,5%), reflecting continued migration into new technology areas and away from low-margin traditional print. (We continue to include low margin media products, however.)

Technology investment and acquisition enable the pursuit of market-share gains in the industry's growth sectors – packaging, full-colour digital printing and personalisation or 'transpromo' (promotional material in a transactional environment). Product innovation and the introduction of a wider range of hardware by Kolok's brand principals helped to drive an increase in unit sales.

Our ability to win contracts for exports to other parts of Africa became an important means of offsetting lost volumes associated with last year's World Cup. We supplied voter registration solutions to Liberia and Tanzania while providing the ballot papers for elections in Uganda (for more detail on these products, see *Energy* section under Environment below).

Lithotech Conversion & Distribution faced continued challenges as a result of the shift away from traditional print, and rationalisation continued with 85 jobs lost.

Innovation and investment

Recently incorporated into Bidvest Paperplus, Kolok is one of country's largest suppliers of printer supplies and storage data and represents some of the world's strongest computer

and computer consumables brands. Kolok's realignment into Paperplus highlights our positioning as a multi-media business.

We continued with our plans to improve our packaging capability, and early in the period we acquired the nationally-represented Sprint Packaging. Sprint is a manufacturer and distributor of packaging materials, with a bias toward solutions for the food and restaurant industries. Its distribution capacity is a strength, and scope exists for increased in-house production, which is being energetically pursued. We will be investing in a hygienic, food-safe production facility.

Continued investment in Lithotech Afric Mail's digital printing technology has established Lithotech as the country's leading digital printing specialist. Production facilities in Johannesburg, Cape Town and Durban are now supported by a print-on-demand operation in Parow, Cape Town.

We launched a new scholastics supplies brand, Soluxions. Its affordable stationery and scholastic supplies are designed for distribution to individual schools in a response to changes to the procurement model used by the education authorities. (Individual school principals are increasingly responsible for determining local needs and placing orders.)

At year-end, Paperplus acquired the exclusive South African manufacturing and distribution rights to the Thrass phonetic software and phonetically-based learning programme. The multi-media system is widely used in private schools, and we will be exploring adapting the programme for use in state schools, and developing a Thrass module for adult education.

Capital expenditure on new and replacement plants totalled R81,9 million while approximately R10 million was spent on computer software.

Product responsibility

Bidpaper Plus operates predominantly in the business to business market, where our business partners are credible and our product lines stable. We have very limited exposure to product responsibility issues such as fair product labelling and the integrity of customer information.

The wide-ranging new Consumer Protection Act has repercussions that affect parts of our business. We are working to ensure all our stationery items are certified non-toxic; moreover, our food packaging production is subject to strict health audits with respect to materials used and the environment they are made in.

Labour practices and decent work

Staff numbers declined slightly from 4730 to 4418, with the most acute changes being felt at Lithotech where there were 85 retrenchments, and in Lithotech Afric mail, where the outsourced manual mail insertion operation was closed in response to changing industrial trends.

Employee engagement

We engage with our employees through employment equity forums, as well as through the unions. Some 49,9% of our employees belong to unions (35.5% belong to the Chemical,

Energy, Paper, Printing, Wood and Allied Workers Union and 13.1% to the South African Typographical Union, the balance subscribing to other minority unions in our industry).

Annually we enter into substantive and wage negotiations at 16 of our business units nationally. The wage negotiations are based on existing recognition agreements with the different trade unions and instead of centralised bargaining, the focus has been on negotiating those terms at operations level.

Overall labour relations have been consistently positive during this reporting period. Bidvest Paperplus has now entrenched its policy of giving higher proportional salary increases to lower-level earners, as part of an effort to reduce salary differences. In this system, the lower the salary is, the larger the proportional increase will be.

In managing employee expectations regarding increases, we have been able to communicate successfully to staff that wage increases are not always realistic because we are operating in a deflationary environment. We continue to offer financial life skills training and debt counselling programmes to our employees.

Health and safety of employees

Health and safety of our employees will always be a major priority at Bidvest Paperplus. The handling of chemicals poses both a health and environmental risk, which we manage by careful compliance with the tightly regulated Occupational Health and Safety Act.

There were no fatalities nor other major incidents to report. Independent risk assessors, appointed by our insurers, do regular sight visits to check and monitor our procedures in addition to our own established system of regular and rigorous assessment of fire and workplace risks. Through this process, corrective action is taken promptly to prevent the build-up of safety and health risks.

We continue to provide HIV/Aids awareness training and voluntary counselling and testing to our employees. This ongoing initiative places extra emphasis on education and VCT during Aids week in December.

Human rights

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

Our biggest area of risk in this regard is in imports from other countries, particularly from the Far East, where human rights may be a material issue in the supply chain. In our industry there is a large Far Eastern import component which grows every year, mostly of stationary and also some paper products. Some of this involves supply for our retail business.

Screening of suppliers and contractors outside of South Africa is largely covered by the quality of our business associations, and Bidvest Paperplus deals largely with well-known brands that are active in examining their supply chains. Formalised screening of suppliers is not yet in place and we acknowledge that this is an area for improvement in the future.

Community

Although Bidvest Paperplus is a large employer in South Africa, our operations are fairly spread out with the result that we do not have a dominant impact on any particular community. We focus our socio-economic development efforts on the country's future education needs.

Each of our companies adopts a disadvantaged school in its area and supports the learners and staff through substantial donations of education materials including scholastic stationery and books. We encourage our companies to dedicate a pro rata amount of their budgets to CSI, which then affects all the communities where we operate. We also encourage staff to get involved with running the programmes and visiting schools to present donated materials.

Economic equity

Our status as a BEE supplier has proven to be a key differentiator in a highly competitive environment. This year we maintained our Level 3 VAE contributor status. Improved scores on our B-BBEE scorecard were underpinned by strong connections with BEE suppliers, and we continue to stand at the forefront of empowered companies in the printing and publishing sector in South Africa.

Training and employment equity

Skills development is part of a long-term solution to addressing employment equity in the workplace. Our training spend was 2,09% compared to the COGP of 3% of annual payroll required, while the number of training days over the financial year was 114 811 days, which equates to an average of 26 training days per employee. Training spend increase was due mainly to Kolok inclusion to the Division.

In the printing business, there is a lack of experienced historically disadvantaged individuals who have moved up from lower skill-sets. This creates a shortage of more skilled and experienced HDIs at higher levels within our business, and the shortage in the external pool is even more acute. This problem is compounded by the fact that paper and printing are mature, well-established industries and not seen as 'exciting' career choices by new talent.

Our response to the succession problem is to work with existing candidates. We are now moving responsibility for identifying talent down towards operational level. Identifying potential candidates for development to higher positions is a key performance area for managers at every level. This process has become essential for the business, as B-BBEE performance is an important factor in our competitiveness.

Following the collapse of the MAPPP-SETA (the sector training authority for the media, advertising, publishing, printing and packaging industries), overall responsibility for print industry training has moved to FP & M-SETA (the training authority for the fibre production, manufacturing and related services industries). We are now building a relationship with the FP & M-SETA, and we continue to offer courses at the Paperplus training academy.

Adult basic education and training (ABET) was enhanced, and the focus of the learnerships has widened. Clerical and administration learnerships now cover trade skills, and we have added a learnership in receptionist skills. We continue to aim for the dti target of having 5% of employees in learnership positions.

ABET is a foundation for all further learning and is vital that it is introduced as a first form of training to provide our employees with the means to participate in higher level learning and training initiatives offered by our group of companies.

For the second year we assessed in excess of 450 employees for adult basic education and training (ABET) and 276 were signed up nationally to partake in this learning initiative. Of the 276 ABET learners, 98% were from historically disadvantaged population groups, 57% were female, 43% were male and just under 5% were disabled. From the employees who participated in the training, 86% successfully completed their ABET level development, thus moving one step closer to their educational goals. This totals 572 entrants over the last 2 years with an 88% successful completion rate, which is an extremely high and pleasing result.

Owing to the emphasis on shift work and physical labour hours, we have found that the expectation of equal numbers of male and female employees has not been realistic, and balancing numbers of employees according to gender remains an issue across our industry.

Preferential procurement

Using our web-based tool to help register BEE suppliers, 622 suppliers (and potential suppliers), have successfully registered on our BEE procurement database.

Procurement from BEE-rated suppliers rose to R895 million (from R650 million in 2010) and now represents approximately 60% of our total procurement spent in the domestic market.

Environmental performance

While society has strong ecological reasons to reduce its use of paper and printed media, there are also strong economic motivations to move towards paperless electronic solutions. There are signs of a permanent change of mindset occurring in which paper-based processes are on the decline. Paper is expensive, and while many users may switch to cheaper electronic solutions during difficult economic conditions, change is largely one-way, and people tend not to return to using paper even when the economy improves.

In response, Bidvest Paperplus is using its innovation to develop more intelligent, paperless solutions such as our fast-growing electronic billing products. Driven by demand, the move away from paper has positive environmental implications.

Energy

Improving our lighting systems represents a major opportunity to improve our energy efficiency and reduce our power consumption. More efficient lighting installed in one of our Lithotech facilities has enabled us to run an extra multi-colour full-production printing press. The change involved replacing conventional high-bay factory lighting with low-power alternatives, and as a result of this significant saving, we are continuing to review our lighting systems.

Overall Carbon emission and usage declined. There are no particular projects that are outstanding with regard to reducing electricity and water but there is a greater awareness of reducing usage within our operations. In the manufacturing side it is clear that operations have used less electricity due to reducing things such as overtime worked as well as adjusting shift structures for better utilisation of equipment.

We are in the process of refurbishing one plant to become a packaging station and plan to open parts of the roof to natural light to further reduce electricity use.

We remain major users of power and water. Our driers consume a significant amount of electricity, and hefty increases in power tariffs have focused our attention on energy-saving, as has our recognition of the risks of depending on the Eskom grid. To increase reliability, generators are in place at all our major installations that undertake time-sensitive print runs, including back-ups for short-run colour work. It is not economically feasible for us to use in-house power generation as a full-time alternative to the Eskom grid, and reducing our consumption remains a priority.

One product innovation is our solar voting solution for rural areas where electricity does not tend to be available. This portable solar-powered kit, developed in collaboration with a South African inventor, enables people to produce durable voter registration cards in rural areas at voting stations that are independent of external power sources and do not need generators. Mini-cameras are built into the kits, and the system allows instant validation of voter identity against an electronic voters' roll. We delivered this product successfully in Liberia and Tanzania. Owing to the sporadic nature of elections, we will only be able to measure the extent to which this product proves to be an ongoing success at the next elections. Part of our product delivery involved training local people and local companies to operate these voting stations. The initiative supports Lithotech Exports' goal of becoming the premier supplier of electoral solutions across Africa and Europe.

We see the solar voting station as a cornerstone product around which we can develop other products including more electronic solutions. For example, in future we envisage linking registration into the actual voting process, and where possible, adding an automated counting system. Where lower-tech solutions are still relevant, we will continue to supply traditional products such as ballot papers, ink for marking voters' hands, and so on. Given the scale of national elections, we see substantial potential for the development of this product area.

Waste, packaging, water and environmental management

Overall, our paper consumption is on the decline as the market is moving away from using paper towards electronic solutions. The conversion to electronic solutions is driven primarily by business demand, because they tend to be less costly.

This year, we maintained our responsible waste disposal practices and safe handling of hazardous material, while offering our customers a wide range of recycled paper products.

The following achievements are relevant in addition: the Durban factory of Lithotech Conversion & Distribution reduced its dependence on its mains water supply by drilling its own borehole; Lufil and our Lithotech labels business received Woolworths certification for the supply of packaging products; Rotolabel achieved ISO 14002 accreditation in recognition of its sophisticated environmental management systems; and six-sigma quality measurement standards are now applied at four plants – Silveray Manufacturing, Lithotech Manufacturing (Pinetown), Lufil and Rotolabel.

Business ethics

Last year we embarked on an awareness campaign about ethical business practices, sent out a questionnaire to managers testing their understanding of ethical business choices, and conducted a management seminar that covered issues such as anticompetitive behaviour and corrupt practices. These improved awareness throughout the division regarding ethical marketplace conduct.

This year we went a step further, taking all customer- and supplier-facing employees through an online course about the Competition Act. Run by Deloitte, this course clarified what counts as anti-competitive behaviour. Five hundred employees were enrolled in this month-long course.

The audit committee plays an oversight role, recording no significant incidences of fraud, corruption or anticompetitive behaviour.