

Chief Executive's Report



Incentivisation

People create growth. Companies report it! The key is to develop relationships, attract and retain motivated people, with skills honed in a transparent and competitive environment.



Brian Joffe
Chief Executive

Since founding Bid Corporation in 1988, Brian served as Executive Chairman until his appointment as Chief Executive in 2004. He has over thirty years of local and international commercial experience. He was one of the Sunday Times' top five businessmen in 1992 and is a past recipient of the Jewish Business Achiever of the Year award. Brian was voted South Africa's Top Manager of the Year in 2002 in the Corporate Research Foundation's publication "South Africa's Leading Managers" and was selected as South Africa's candidate for the coveted "Ernst & Young Entrepreneur of the Year" award 2003.



Bidvest's results are pleasing given the challenging trading environment experienced during the year. Deflation and the effects of an appreciating currency significantly impacted markets. However, there was evidence of improving conditions in the last quarter of the year. Growth under these conditions is further confirmation of the resilience of Bidvest's entrepreneurial business model and the depth of the Group's management.

McCarthy, which was acquired for R980 million with effect from January 2004, positively benefited the Group for the period of its inclusion. Steps were taken to bring our listed subsidiaries under full ownership in line with the Group philosophy. Bidvest made an offer, which immediately became unconditional, to acquire the minority interests in Bidvest plc with effect from April 2004. In June 2004, an offer was also made to the Bidcorp plc minorities which became effective on August 2 2004. Consequently, Bidcorp plc became a wholly owned subsidiary from that date. The full effects of these acquisitions will benefit the Group next year.

Financial highlights

Revenue grew 8,9% to R51,3 billion (2003: R47,1 billion) and the trading margin increased to 5,0% (2003: 4,8%). Trading income reached R2,6 billion (2003: R2,2 billion), an increase of 13,9%. Income attributable to shareholders increased by 15,2% to R1,5 billion (2003: R1,3 billion).

The Group achieved credible growth in headline earnings per share of 15,1% prior to the change in the basis of accounting for secondary tax on companies and goodwill. Following the restatement, headline earnings per share increased 17,7% to 546,7 cents per share (2003: 464,5 cents per share).

The impact of the strength of the rand on the results of the Group is material. On a constant currency translation of foreign businesses, headline earnings per share would have been 567,5 cents per share, an increase of 22,2%.

Assuming that the acquisition of McCarthy and the minorities of Bidvest plc and Bidcorp plc were effective for the full reporting period, the pro forma headline earnings per share would have been 565,9 cents.

An annual compound growth rate in headline earnings per share of 26,6% per year has been achieved over the last 13 years.

Total distributions to shareholders increased 13,7% to 250,2 cents per share (2003: 220,0 cents per share). In terms of the Dinatla scheme of arrangement, all Dinatla's normal dividends and distributions accrue to the scheme participants or their successors and not to Dinatla itself. As a result, the actual final distributions to shareholders have increased by 16,6% to 159,548 cents per share.

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- Annual compound growth rate in headline earnings per share of **26,6%** per year has been achieved over the last 13 years
- The **gearing ratio** at year-end was about 10%
- **£103 million** raised to fund the buy-out of minority shareholders in Bidvest plc
- The Public Investment Commissioners and the Dinatla BEE consortium now the **largest shareholders** in Bidvest
- Bidvest has helped create a new BEE investment vehicle, **Dinatla New Ventures**, to pursue large investment opportunities
- **Bidvest Charter** drawn up to foster enterprise-wide empowerment



The acquisition of McCarthy was funded from cash and banking facilities

We avoid complexity and interrogate all obstacles to a simple solution

We have announced a ground breaking BEE initiative with Dinatla for a 15% equity share in Bidvest

Bidvest's dividend and distribution policy is to approximately twice cover earnings available for distribution.

The balance sheet remains strong and cash generation has been significant.

Gearing

Bidvest consciously increased its gearing during the year, though borrowings were well within the targeted range. It is Bidvest's intention to keep the debt-to-equity ratio below 40%. At year-end, the gearing ratio was about 10%.

£103 million was raised to fund the buy-out of minority shareholders in Bidvest plc. A facility for a further £25 million was arranged for the acquisition of Bidcorp plc shares not already owned. The acquisition of the minority interests will further allow the unrestricted allocation of funds within Bidvest and release cash resources to repay a large part of these borrowings.

Ratings and accreditations

Our credit rating of AA- (zaf) was reaffirmed by Fitch Ratings. Bidvest, a black influenced company and a good broad-based BEE contributor with unrestricted operational capacity, has an "A" empowerment rating from Empowerdex.

Bidvest is one of only four South African companies listed in the Dow Jones Sustainability World Index 2005 and was one of the founding constituents of the Socially Responsible Investment Index launched by the JSE. Bidvest is ranked 1 296th in Forbes 2000, a comprehensive list of the world's largest and most influential companies. In September 2004, Bidvest was included in the Forbes Global Roster of the world's most attractive big companies for investors. The 400 companies listed represent less than 1% of the world's publicly quoted companies.

McCarthy acquisition

The acquisition of McCarthy was funded from cash and banking facilities. It is testimony to our strong cash flows and prudent debt management that a transaction of this magnitude required no significant gearing. Unlocking optimum value from the transaction will be a point of focus in the year ahead. We welcome the McCarthy team and look forward to extracting synergies and exploring opportunities.

Philosophy at work

Bidvest is conscious of "noughts-panic" – the apprehension that sets in when faced by seven-, eight- or nine-figure numbers. Staff are encouraged to behave with the same financial commonsense that is brought to bear when controlling one's household budget where big numbers are not an issue.

We avoid complexity and interrogate all obstacles to a simple solution. This philosophy was applied in London when raising finance for the Bidvest plc and Bidcorp plc buy-outs, and by challenging longstanding practice we implemented simple funding structures.

The Dinatla partnership

An important development for the long term was the completion of a BEE transaction in December 2003

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resulting in the acquisition of a 15% equity stake in Bidvest by Dinatla. The Public Investment Commissioners and Dinatla are the largest shareholders in a company with a market capitalisation of R17 billion. This stake has enabled Dinatla to participate at the Group level in both the local and international activities of Bidvest.

Dinatla was our natural choice of BEE partner. The consortium's core shareholders were well known to us as we are longstanding business partners. We were eager to achieve broad-based representivity by including additional partners from all regions in South Africa. We are confident the wider consortium structure will enable us to channel benefits to all sections of the community in line with our commitment to sustainable empowerment.

Since the commencement of the partnership, Dinatla has four seats on the board, seven new historically disadvantaged individuals (HDIs) have been appointed as commercial directors in the divisions, The Bidvest Charter has been drawn up and open days between Dinatla and Bidvest companies have been held throughout the country to form linkages for BEE procurement opportunities.

New BEE impetus

Shanduka Group, the black-owned and managed business led by Cyril Ramaphosa, our new Chairman, will by agreement obtain a 15% stake in Dinatla.

Bidvest has helped to create a new BEE investment vehicle – Dinatla New Ventures, which, with the participation of certain major financial institutions, will pursue large investment opportunities and be positioned as a potential empowerment partner capable of adding value to any business in which it

makes an investment. Dinatla New Ventures will focus on areas that involve no competition or conflicts with Bidvest's current activities.

BEE philosophy

BEE is not just about percentage ownership or the number of transactions concluded. It is more about overall and meaningful transformation and value creation for BEE. In terms of the Broad-Based Black Economic Empowerment Act, all elements of the scorecard are important and Bidvest has made enormous progress internally and with its Dinatla partners in achieving true transformation.

Empowerment challenges

The merits of BEE transactions are constantly debated and compared in the business community. This tendency creates a danger that empowerment will degenerate into a "BEE beauty contest". Supporters punt their own model, with the implication that others are inadequate. Point-scoring like this could lead to the perception that no structure goes far enough. Instead of creating hope, we could create cynicism and frustration.

Let's all give credit where it's due. BEE initiatives spring from a sincere desire for national transformation. The architecture might not always be perfect, owing to company-specific, legislative and fiscal parameters, but it's a tremendous advance on what went before and sets the scene for further progress. BEE is hugely important to South Africa. As South Africans we dare not fail. The process will take patience and goodwill.

Bidvest, for its part, believes the process can be assisted by greater legislative and fiscal clarity. In saying this, we acknowledge the challenge faced by Government, which has to give policy direction without



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being prescriptive. Companies need freedom to manoeuvre when deciding issues vital to their future. Government, quite rightly, prefers to give business a BEE compass rather than a detailed BEE roadmap. However, any company preparing a BEE strategy confronts a welter of legislation, including the Constitution and the National Small Business, the Employment Equity, the Skills Development, the Competition, the Preferential Procurement Framework and the Broad-Based BEE Acts.

With such a multiplicity of Acts it is not surprising that some interpretations differ and some clauses contradict one another. At the same time, different industry charters and companies have adopted different BEE criteria. Inconsistencies in BEE scoring methods are also evident.

I believe Government should review all BEE legislation, remove the contradictions and create clearer definitions. The imminent release of the "Code of Good Practice" will help create a stable BEE framework, enabling us all to move forward.

Occasional lack of BEE clarity is no excuse for BEE inertia. Bidvest is determined to make progress and has made an exciting beginning. BEE is work in progress. We are eager to reach the finished product.

BEE opportunities

Within South Africa, many opportunities exist for growth through acquisition. Bidvest is by nature an acquisitive company. The quest for BEE partners or credible BEE companies creates opportunities for strategic expansion and has led to discussions with several businesses, as an increasing number of companies review their BEE options.

The democratic dimension

South African democracy's 10-year milestone was celebrated by many communities for many reasons. The business community has particular reason to celebrate. Today's strategic environment is infinitely superior to anything that went before.

In the 1980s, the effective consumer market in South Africa consisted of only 4 or 5 million people. Significant disposable income was concentrated almost totally within the white community. Today the market approaches 50 million.

From being the pariah of the world we now have friendly relations with virtually every country on earth. Our global trading networks have developed to the extent that commodity demand from Communist China now has significant influence on our economy. Apartness has been replaced by togetherness and we are immeasurably better for it.

South Africa's market

Our market is small by world standards, but offers growing opportunities for international and local brands. Competition therefore intensifies.

This was certainly the case last year as the rand gained strength against the US dollar and other major currencies. Imports were more affordable while the competitive advantage of some exports was eroded. Local manufacturers looked to build domestic market share even as overseas competitors sought to make inroads.

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Personal ownership

Empowered managers take personal ownership of their business canvas and activities and have the authority and responsibility to deliver returns on the funds which they employ. By creating pride and commitment in individuals and teams, we inspire them to build a new future for themselves and a better tomorrow for the countries in which they operate.

The diversified Bidvest business model makes “owner-managers” accountable for all aspects of performance

We are comfortable to cautiously increase our debt to a maximum debt-to-equity ratio of 40%

South Africa remains an emerging market, but growing maturity is apparent. Two years ago our currency was subject to wild volatility. Exaggerated market movement is typical of an emerging nation. Movement in a narrower range is associated with a more mature economy and a stable political climate.

Last year, for the first time in nearly a generation, the rand behaved like a grown-up currency. Long-term optimists – and I’m one – will see such maturity as an indication that South Africa’s fiscal discipline and social cohesion are having the desired effect on global perceptions.

Salute to the authorities

Another positive change involves offshore transactions. In his 2004 Budget Speech the Minister of Finance announced the removal of the two-year waiting period for the repayment of loans raised abroad against guarantees given by local companies to international businesses and foreign institutions.

This regulation had prevented local companies using their balance sheets to raise capital at competitive rates. Removal of these restrictions enables South African companies to enter a transaction on the same basis as their global peers. In our case, the level playing field proved helpful when buying out the minorities in Bidvest plc and Bidcorp plc as it lowered the Group’s cost of capital.

Another effect of this change could be to weaken the case for an offshore listing by a local company with ambitions in offshore markets. An offshore listing is no longer essential for international subsidiaries in order to achieve long-term growth.

This relaxation of exchange control regulations went largely unnoticed. It may be a technical issue, but the positives flowing from it could be substantial. Bidvest salutes the authorities for taking this step. It is far-sighted and will help world-class South African companies build critical mass in overseas markets.

Minority protection

In recent months, the issue of minority rights has caused considerable public comment. As an acquisitive company known to prefer full ownership, it is perhaps appropriate for Bidvest to state its position.

Bidvest has a duty to behave responsibly, reasonably and with due care with regard to its own minority shareholders. This it does. When Bidvest acquires another company it is obliged to treat shareholders equally, but not necessarily to show special consideration for minorities. The purchaser’s duty is to further the interests of its own shareholders by concluding the transaction on the best terms. Payment by the purchaser of an additional premium to minorities out of a sense of moral obligation defies business logic.

If there is a special duty of care for minorities within the company that is about to be acquired, then that duty falls on major shareholders who are negotiating the sale, especially if they believe the prospective purchaser will ultimately seek complete ownership.

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Risks to the business

Bidvest has an entrepreneurial culture. Entrepreneurship implies risk. Bidvest is therefore obliged to rigorously identify and manage risk.

The most fundamental mechanism for managing risk is the diversified Bidvest business model that makes "owner-managers" accountable for all aspects of performance.

Furthermore, geographic diversification helps us manage portfolio risk. About 22% of Bidvest earnings are generated by international operations, a position balanced by our leading position in domestic markets.

At an operational level, people risk comes down to attracting, training and retaining the right people. Internationally, the Group is regarded as the employer of choice in its chosen industries.

Another tool for minimising people risk is skills development. A key initiative was the creation in 2003 of The Bidvest Academy for a new generation of executives. Our entire BEE investment in training and skills transfer can be viewed as long-term management of people risk.

In addition, our alignment with communities and markets is crucial. To put it simply, good corporate citizens are good risks.

Business diversification

Business diversification not only balances risk, it also helps us build critical mass. Research published in the Harvard Business Review has indicated that a diversified structure is more suited to the challenges of a developing, as opposed to, a developed market.

This positive perspective was reinforced by research by Marakon Associates (Kaye and Yuwono, 2003) into superior conglomerate performance worldwide. This study rated Bidvest top among 88 diversified companies with market values of more than \$500 million. Researchers found Bidvest had delivered 36% annual compound growth in total shareholder returns in US dollars over 10 years.

Innovation also combats risk. Bidvest has demonstrated locally and internationally that new ways of looking at a business can create competitive advantage and lead to sustained growth.

HIV/Aids

The incidence of HIV/Aids is not only a business risk; it is a national and personal tragedy. This has long been recognised by Bidvest and all operations rooted in Africa. Many of our companies have instituted Aids awareness programmes. Some have now launched counselling services and wellness programmes and have made anti-retroviral drugs available.

As Bidvest operates a decentralised business model, each management team is responsible for performance, returns and profits. However, Bidvest acknowledges that Aids awareness is no longer enough and a more proactive approach has to be adopted. We will ensure that the experience of those companies giving a lead in proactive programmes is shared across all operating companies.

The national priority – employment

Some macro risks cannot be directly addressed. They have to be tackled by the nation, not the corporation. For South Africa, the big issue is the long-term risk posed by unemployment. Crime and social ills cannot be eradicated while jobs are scarce.



The Group will continue to seek out acquisitive opportunities whilst organic growth will be vigorously pursued

Export initiatives continue to be proactively pursued – the rand strength has slowed these initiatives

Bidvest's primary goal will be consolidation and the extraction of synergies and efficiencies created by low inflation and current economic conditions

Companies such as Bidvest can rescue jobs by helping transform underperforming businesses. But sustained job creation at scale depends on the policies and interventions of Government.

The first step is accurate record-keeping. In my view, Government should task Statistics SA with measuring, month by month, how many jobs are created or destroyed by South Africa Incorporated. Open disclosure of the "jobs score" would focus minds on the issue and spur on policy initiatives, creating a sense of national urgency.

Prospects

Bidvest's primary goal will be consolidation and the extraction of synergies and efficiencies created by low inflation and current economic conditions. Our businesses are well placed to add further impetus to the underlying momentum.

The full benefits of the inclusion of McCarthy and 100% of Bidvest plc will be realised in the year ahead. Underperforming offshore businesses are expected to make a positive contribution. Further investment in African markets to boost export initiatives will be investigated.

The Group will continue to seek out acquisitive opportunities whilst organic growth will be vigorously pursued. Management is budgeting for real growth in earnings off the pro forma base. Focus will be on enhancing stronger relationships across the businesses accompanied by significant personal development of the people of Bidvest.

Appreciation

I extend thanks to all members of the Board, our executive team, management and staff for their dedication, professionalism and hard work. At Bidvest, adverse trading conditions are seen as a worthy challenge rather than a good excuse. This unflagging determination to succeed is fully reflected in our results. I also express my appreciation to our shareholders, suppliers and customers for their continued support and ongoing relationships. Hopefully, all stakeholders are now in the picture . . .