

# CHIEF EXECUTIVE OFFICER'S REVIEW



TONY PHILLIPS

## CREATING SUSTAINABLE VALUE THROUGH OUR PEOPLE

We have now completed four years of implementing Value Based Management (VBM) throughout Barloworld and are ratcheting up our performance as we continue to develop and expand our company. In that context, in September 2002, I set our global management team the goal of doubling the value we create for all our stakeholders over four years. Internally, we have captured the essence of this ambitious objective in the phrase "2x4x4".

*We are focused on building an international industrial brand management company that delivers sustainable value to all our stakeholders*

## MANAGING BARLOWORLD

*We use one global cost of capital as a performance measurement parameter for all business units, for every item of capital expenditure and for every acquisition target.*

*I am pleased to report that we have continued to create value for our shareholders.*

Having achieved our initial target of a real cash flow return on investment (CFROI®) in excess of our cost of capital in 2001 the figure for 2003 was 8,1% compared with 8,5% in 2002. This was an excellent performance in the face of an extremely strong rand.

As I reported last year, this is the visible aspect of VBM. What remains invisible, but essential for the long-term durability of the company, is the manner in which the VBM process is driving an ongoing review of the way we do things in every part of the company. During 2003 we continued to concentrate on achieving tangible results in value creation for other stakeholders in addition to our shareholders – customers, employees and the communities in which we operate.

***VBM is not a management fad in Barloworld, it is a never-ending journey of value creation now and into the foreseeable future. It is built on a foundation of our world-class people who have once again made an extraordinary contribution to our success and throughout this report we have highlighted the contribution of individuals who have been recognised in my CEO's excellence awards programme. These awards recognise individuals who make exceptional contributions above and beyond the call of duty. The 2003 programme highlighted some outstanding contributions by our people and the ten finalists set an example to each and every employee. The overall winner was Gavin Knight from our Barloworld Equipment operations. Pen sketches of the finalists are spread through the corporate citizenship section of this report (pages 36 to 97).***

**Product, service and business solution innovation is at the heart of the way we do things in Barloworld.**

An example is our Barloworld CVT Technologies joint venture which is developing a Continuously Variable Transmission (CVT) to address the need for an all gear non-traction fluid, non-hydraulic, continuously variable gearbox/transmission. The CVT results in a more efficient and versatile drive train in comparison to conventional drive trains and has been designed as an alternative to existing gearboxes, providing greater efficiency for equivalent cost. Applications for this technology include automotive including racing, trucks and buses, construction, mining, agriculture and military vehicles as well as bicycles and machine tools. For more information visit [www.barloworld-cvt.com](http://www.barloworld-cvt.com).

Another illustration of our approach was the very active year for new product development within our South African coatings business, Barloworld Plascon which introduced eight new products. Of these, one of the more innovative is Suede which, when applied, gives the wall a finish that resembles suede leather. This product was made possible by the development at our Stellenbosch research centre in the Western Cape of vesiculated bead technology. This technology reduces the percentage of high cost Titanium Dioxide pigment required in paint and can facilitate the formulation of specialist products like Suede. Plascon has another dedicated research facility in Alberton, Gauteng, that concentrates on new product development. We have introduced and re-launched 30 products in the past four years. The Stellenbosch facility is dedicated to polymer research and the conversion of laboratory technology into factory application.

ENDURING  
RELATIONSHIPS,  
TRUST AND  
PERSEVERANCE  
ARE THE HALLMARKS  
OF THE WAY  
BARLOWORLD PEOPLE  
DO BUSINESS

### Employee retention remains high

Industrial brands are built on the strength of long-term relationships forged between Barloworld people and the owners and employees of the companies who form our customer base. Such relationships can only be built if we have employees who understand and live by our company ethos of maintaining the highest level of integrity in everything they do.

### Training, developing and motivating our people

Part of our strategy is to seek positions of market leadership in everything we do. Our world-class people are the foundation on which this is built and throughout the company we are enhancing our people development. Notable business unit specific programmes are:

- Barloworld Scientific's Stone operation in the United Kingdom which has achieved the prestigious Investors in People standard (see page 120)
- Barloworld Coatings Australia's "Creating a point of difference" programme, now in its third year (see page 123)

The 'Barloworld University' programme of executive education for our senior managers, which we operate in conjunction with the Gordon Institute of Business Science in

**BARLOWORLD FINANZAUTO IN SPAIN SOLD THE HIGHEST NUMBER OF BACKHOE LOADERS OF ANY CATERPILLAR DEALER IN EUROPE IN 2002**



Johannesburg, South Africa, is in its fourth year and working well. Since inception, a total of 171 managers from around the world have benefited from the programme. It is linked to an MBA programme which ensures that the participants gain credits towards this qualification for the studies they undertake. We also run an executive development programme which has one module in London and one in Johannesburg. This programme has involved 30 senior Barloworld leaders over the past two years.

**Leadership renewal**

During the past year the retirement of Des Arnold (Finance and Administration), Ramon Fernandez Urrutia (Equipment) and Ken Brown (Industrial Distribution) has created an opportunity to bring new blood into the executive team and provide new challenges for a number of the existing members. Accordingly Martin Laubscher joins the executive to head up Barloworld Motor while his predecessor Brandon Diamond has taken over responsibility for Industrial Distribution and moved from Johannesburg to Charlotte, North Carolina while Clive Thomson, previously General Manager Finance in the corporate office has been appointed Finance Director. André Lamprecht and Peter Surgey are exchanging roles to Coatings CEO and Human Resources respectively. Peter also takes on company-wide responsibility for Risk, Black Economic Empowerment, Medical Aid and Corporate Social Investment. John Gomersall is increasingly focused on group strategic planning and the development of Barloworld Logistics. It is a tribute to the strength and depth of our management team that all these appointments were internal.

**Managing currency risk**

Two key issues during the past year have been the dramatic impact on our reported profits of both the rapid appreciation in the strength of the rand and its volatility. Our approach to this challenge is embodied in the concept that we are not currency traders and we should minimise currency risk without engaging in currency speculation. During this past year of turbulence we have carefully re-evaluated our approach. Our overall conclusion has been that what we do is sound and, barring minor improvements, is appropriate for our business.

**The Barloworld brand grows in strength**

The Barloworld brand is primarily being built on the strength of the relationships we build with our stakeholders. However, in the past year we have augmented this grass roots approach with selected corporate initiatives. They include the Team Barloworld Cycling sponsorship (see inside back cover) and our support of projects such as the expansion of the Prince of Wales Business and the Environment Programme ([www.cpi.cam.ac.uk/bep](http://www.cpi.cam.ac.uk/bep)) into southern Africa and the African Leadership Initiative. The Prince of Wales programme seeks to create business leaders who are sensitised to, and willing to confront the challenges of environmental sustainability. The African Leadership Initiative seeks to create a network of leaders across the continent who will ensure the continent takes its rightful place on the world stage and lifts itself out of the malaise of limited wealth creation, despotic regimes, civil rights abuse and corruption that has dogged the first 50 years of the post-colonial era.

**Our relationship with Caterpillar is one of our greatest assets**

A major part of Barloworld's business is built on the foundation of our long-term relationships with our principals. Pre-eminent amongst these is Caterpillar, with whom we celebrate a 76-year relationship this year. The relationship is in excellent health and the absolute professionalism and market leading pre-eminence that Caterpillar embodies is something we value and appreciate deeply in our business. Our second most enduring relationship with a principal is with the NACCO Materials Handling Group and their Hyster brand. This "marriage" celebrates 75 years in 2004 and is also a vital ingredient in our success. In addition to these two companies who are of vital strategic importance to our organisation, I am pleased to report that we have excellent relationships with our automotive principals.

**Market leadership is one of our measures of success**

We have continued to maintain market leadership in most areas in which we operate worldwide – it is an important component of how we think about the attractiveness of those markets. In this context, our processes to create value for customers have always been highly effective. We continue to ensure that we systematically analyse key customer needs and establish objective measures and monitoring systems focused on better service.

**Smart Partnerships build lasting value**

Our strategy of building Smart Partnerships with key customers has been expanded during the past year. Examples of the success of this strategy include the continued growth in

## THE PLANTING OF 23 000 TREES MARK THE END OF OUR CENTENARY YEAR

To celebrate our centenary and express our long-term commitment to the environment and the communities in which we operate, over the past year we have planted some 23 000 trees around the world. Most of these were in communities where they were desperately needed in southern Africa, but we also planted a substantial number in Australia where bush fires wreaked havoc in the past year. Our goal in the project was to plant one tree for every Barloworld employee and it involved many members of the Barloworld team in visiting disadvantaged communities in southern Africa in 19 major centres to perform the tree planting ceremonies. In line with our philosophy of partnership in South Africa we worked with NGO Food and Trees for Africa to ensure that the communities not only received trees, but also education in why trees are important and how to look after them.

Maintenance and Repair Contracts (MARC) with our mining customers in the equipment business which we have now migrated into the construction sector. Our goal is to assume a greater degree of responsibility for the inputs in our customers businesses (and with that a greater degree of risk) in exchange for an ever-increasing reward. A decade ago we would typically sell a mining customer machines and hope that they return to us to purchase parts and for major services. Under the MARC agreements we enter into life-of-equipment arrangements where we assume full responsibility for all maintenance and repairs at an inflation-indexed cost which we guarantee to the customer. The customer benefits from an availability guarantee and costs that are both predictable and typically lower than if they manage their own workshops and repair and maintenance programmes. In turn we secure 100% of the parts and service requirements of the machine.

Smart Partnerships will remain a growth component of our business activities in the future. They take us well beyond, for example, the 'lowest unit price wins' scenario of equipment distribution into an arena where our combination of financial strength, skills, products and services creates a unique value-adding package for our customers, which our competitors struggle to match.

### Improving our strategic planning

During the past year, our central strategic planning team has made a significant contribution to improving the quality of strategic planning throughout the company. We now use a standardised best practice approach to planning in every business unit with the result that we have increased the

confidence levels we are able to place on our business units plans. They are all rooted in detailed environmental scanning and comprehensive consideration of strategic options. An illustration of the effectiveness of this new approach was that it led to our decision to make an offer for the balance of the shares in Avis Southern Africa Limited as the strategic plan identified the need to reposition ourselves within the motor industry value chain.

### Our approach to information technology is robust

Our system of managing our information technology skills in a series of competency centres providing services to our worldwide operations has stood us in good stead over the past year. Our SAP competency team has worked with our Caterpillar businesses in southern Africa and Europe to ensure that we did not experience a performance dip post a SAP implementation. This is an exceptional achievement which very few companies around the world have ever succeeded in doing.

### Implementing our ethics code

Barloworld has had a long history of highly ethical behaviour and doing "the right thing" is entrenched in the deep psyche of our organisation. During the past year we have introduced a toll free Ethics help line to assist stakeholders through a call centre which ensures anonymity for anyone wishing to raise issues of unethical behaviour within the company. The interface with the company is through the internal auditors who report to the chairman of the audit committee of the board who is an independent director. The project is being piloted in South Africa and it is our intention to roll it out worldwide in 2004.

### Protecting the environment

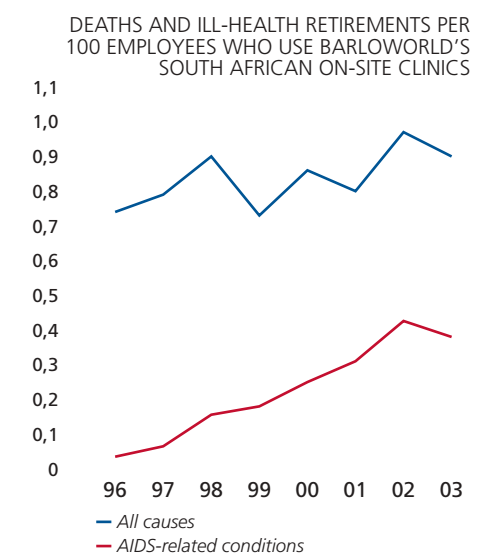
Reviewing our performance in the environmental arena I am pleased to see the steady progress we are making in raising environmental awareness amongst our people and conforming to our environmental code of conduct. In this report you will also find extensive evidence in our sustainability reporting of our proactive approach to the environment.

## SOUTHERN AFRICAN ISSUES

### HIV/Aids: formal guidelines introduced while our prevalence rates remain low

During the year we introduced a formal, company-wide guidelines on HIV/Aids. Our emphasis is threefold:

- individuals knowing their HIV status through voluntary counselling and testing;
- HIV positive individuals accessing appropriate care and treatment either via their medical aid schemes or the company-sponsored programme;
- the prevention of new infections.



This formalises what we believe has been many years of successful initiatives within our southern African operations. Evidence of that success can be found in the fact that the turnover of staff due to death and ill health retirement from Aids in southern Africa has been 0,4% per annum during the past three years and our prevalence rates remain well below the national average. A more detailed report on this issue can be found on page 40.

### **Employment equity and black economic empowerment**

In South Africa, we remain on track with the employment equity plans required of all business units in terms of the Employment Equity Act. While this is a legal compliance issue, we believe that the development of previously disadvantaged people within South African business units makes good business sense as well as being morally correct.

As a global company with a global stakeholder base, the issue of Black Economic Empowerment (BEE) in South Africa is similarly being addressed at appropriate business unit levels. In this sense Barloworld is no different from any major multinational that has operations in a country undergoing necessary transition from an inequitable historical situation.

In May 2003 we took a significant step forward in the motor industry by creating the largest BEE business in the sector. We entered into a 50:50 joint venture to distribute DaimlerChrysler products in the greater Durban metropolitan area. With our partner Yunus Akoo (previously owner of Durban South Motors) we are creating a business with R300 million of assets and annual sales of some R2 billion which is being led and managed by previously disadvantaged individuals. We have also commenced the sale of Afripack, PPC's paper sack manufacturing business, to a BEE investment consortium and the Afripack management.

These high profile BEE equity deals join our established BEE structures which include Sizwe Paints (70% BEE/30% Barloworld-owned architectural paint manufacturer based in Cape Town) and Shosholoza Steel Supplies (Pty) Limited.

These equity structures are in my view much less important than the profound work we are doing to develop our people, purchase

from previously disadvantaged individuals/ companies and ensure that South African industry is capable of taking its rightful place on the world stage.

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### **GROWING BARLOWORLD**

**Our growth strategy is centred on expanding the geographic territory of our existing products and services and adding complementary offerings into sectors we know and understand well.**

We now have operations on the ground in 32 countries, having added China in the past year as a result of the early success of our coatings business there.

### **"Pacman" acquisitions are an integral part of our expansion strategy**

An investment analyst recently described our acquisition strategy of continually adding incrementally to our business as a "pacman" approach. The past year has been no exception to this rule as we either have added or are in the process of adding a number of new businesses through this route. These included the Northwest Arkansas and Texarkana Freightliner truck dealerships as well as the Unilift materials handling operation in the UK.

At the time of writing this report, we have made an offer to acquire the balance (65,3%) of shares in Avis Southern Africa Limited that we do not currently own. If successful this transaction alone will see us invest approximately R1,4 billion through a mixture of cash and Barloworld shares.

### **Expanding within our existing activities**

We are engaged in a constant process of internal re-invention as we capitalise on opportunities that confront us as well as those that we create. In this regard, our developing Caterpillar rental businesses in Spain and southern Africa illustrate the way in which we can move quickly in response to changing customer needs.

### **Developing grassroots opportunities within our core competencies**

The grassroots development of our logistics businesses in Spain and in South Africa has progressed well in the past year. They are both profitable and have significant potential for further growth but have yet to mature into fully fledged stand-alone business segment for reporting purposes.

### **Sustainable growth may involve disposing of businesses**

VBM demands firm action on businesses that either do not have the potential to create sustainable value within the organisation, or cannot be expanded to grow the contribution they make. In the past year we disposed of six motor dealerships and we are in the process of disposing of Henry Cooke, the last component of our speciality paper business which we made the strategic decision to exit in 1998.

### **Restructuring to create value continues**

The ongoing restructuring of our businesses continued in 2003. There will be further progress in this never-ending journey in 2004.

I am pleased to report that the strength of our approach to creating value for our people was recently recognised when our South African Cement & Lime business, PPC, won the Industrial category in the 2003 survey by Deloitte & Touche of the best companies to work for and came sixth in the overall competition (for details see page 73).

### **An exciting year ahead**

At Barloworld our philosophy of value creation revolves around doing more of the things we do well and implementing our plans with a steady determination and sense of inner strength that sees us through difficult times. As in the past few years, we will be focusing on improving the quality of earnings we generate out of our existing businesses, setting our company on a path to significantly increase the value we create for all our stakeholders and growing the size of our company within our areas of competency.

We will achieve our goals through the commitment, passion, hard work and loyalty of the people who work for Barloworld. They are the true foundation on which we have built 101 years of success.



**AJ Phillips**  
Chief Executive Officer