

Barloworld is not registered with the Securities and Exchange Commission in the United States and has un-sponsored Level 1 American Depository Receipts. Accordingly, the Sarbanes-Oxley Act of 2002 does not apply to it. The principles of that Act have, however, been taken into account in formulating the company's corporate and risk management practices.

The board of directors places strong emphasis on achieving the highest standards of financial management, accounting and reporting. The financial statements are prepared in accordance with International Financial Reporting Standards. Regarding non-financial aspects, the company has adopted the Global Reporting Initiative's (GRI) Sustainability Reporting guidelines on economic, environmental and social performance.

The company's corporate governance systems are continually evolving to meet the needs and expectations of stakeholders.

In the year under review:

- A formal board evaluation exercise was performed
- Another independent non-executive director was appointed
- Divisional senior management attended a directors' development programme facilitated by the Institute of Directors in Southern Africa

#### **AWARD WINNING REPORTING <sup>2.10</sup>**

**Our 2005 annual report was ranked winner: Industrial and Manufacturing in the SA Annual Reports Awards sponsored by the JSE Limited and the SA Institute of Chartered Secretaries and Administrators, fifth in the Ernst & Young Excellence in Corporate Reporting awards. We were also placed ninth in the inaugural Accountability Rating: South Africa.**

**THE BOARD.** The general powers of the directors are set out in the company's articles of association. They have further unspecified powers and authority in respect of matters which may be exercised and dealt with by the company, which are not expressly reserved to the members of the company in general meeting.

**The board charter.** The main responsibilities of the board as set out in the board charter are as follows:

- Approval of the strategic plan and the annual business plan, the setting of objectives and the review of key risks and performance areas
- Monitoring the implementation of board plans and strategies against a background of economic, environmental and social issues relevant to the company and international political and economic affairs, as well as the mitigation of risks by management
- Appointment of the chief executive officer and maintenance of a succession plan
- The appointment of directors, subject to election by the members in general meeting
- Determination of overall policies and processes to ensure the integrity of the company's management of risk and internal control.

The charter expresses the board's philosophy regarding customer satisfaction, quality and safety of products and services; optimising the use of assets and maximising employees' productivity; respect for human dignity and observance of fundamental human rights; national and international corporate citizenship, including sound relationships with regulatory authorities.

Whilst retaining overall accountability and subject to matters reserved to itself, the board has delegated to the chief executive officer and other executive directors authority to run the day-to-day affairs of the company.

**Composition of the board.** Considerable thought has been given to board balance and composition and collectively the board believes that the current mix of knowledge, skill and experience meet the present requirements to lead the company effectively. The selection and nomination of directors takes place according to well defined procedures to ensure professional qualification and business experience required to meet the company's objectives. The non-executive directors are considered to have the skill and experience to bring balanced and independent judgement to bear on company business.



## THE PARTNERSHIP JUST GOT SMARTER

Assmang Limited pins much of the future success of its new Khumani iron ore mine in the Northern Cape province on long-term partnerships that bring cost efficient, productive solutions to the venture.

They chose Barloworld to partner them in a contract worth around R90 million for mining equipment and further agreements for mining technology and Caterpillar oils. The selection, according to Freddie Human, Assmang's project manager for Khumani mine, was both a strategic and an engineering one.

Barloworld Equipment has supplied equipment to Assmang at Beeshoek for about 12 years. The success of this relationship has been a crucial factor in the Khumani decision. Human says there were also other elements to the decision. "At feasibility stage we needed input from potential suppliers and Barloworld Equipment was forthcoming with all the information we needed," he says. "This is an exceptionally harsh and abrasive mining environment, so it is crucial to use the most hardy

machines and to support them with excellent condition monitoring and training."

Other contributing factors were the availability of the Caterpillar machines required to meet start-up times and the fact that simulator training modules on Caterpillar machines was the most comprehensive available.

Barloworld's Operator Academy, the only facility of its kind to offer operator training that is accredited nationally by the Construction Education and Training Authority (CETA), will also play a role in getting operators at Khumani up to speed now and in the future.

The full Caterpillar MineStar suite of integrated mining information systems will be employed on Khumani's mining fleet in a first for a South African mine. The suite includes MineStar Fleet Commander, MineStar Machine Health, MineStar Infrastructure, MineStar Machine tracking, MineStar Office and MineStar Production.

The board at a glance	Year appointed	Age	Audit	Board committees			Risk and sustainability
				General purposes	Nomination	Re-muneration	
<b>Independent directors</b>							
WAM Clewlow (chairman)	1983	70		Chairman	Chairman	Chairman	
SAM Baqwa	2005	55					
MJ Levett	1985	67	Member	Member	Member	Member	
S Mkhabela	2006	50					
DB Ntsebeza	1999	56			Member		
SB Pfeiffer	2001	59		Member	Member	Member	
G Rodriguez de Castro	2004	64					
EP Theron	1995	65	Member	Member	Member	Member	
RC Tomkinson	2001	65	Chairman	Member	Member	Member	
<b>Executive directors</b>							
AJ Phillips (chief executive officer)	1995	60		Member			Member
PJ Blackbeard	2004	49					Member
MD Coward	1995	53					Member
LS Day	1998	59					Member
BP Diamond	2001	55					Member
JE Gomersall	1989	60					Member
AJ Lamprecht	1993	54					Member
M Laubscher	2005	46					Member
PM Surgey	1995	51					Chairman
CB Thomson	2003	40					Member
DG Wilson	2006	49					Member

4.1, 4.2, 4.9

**FOR MORE INFORMATION ON THE BOARD**

A full CV appears with a photograph of each of our directors throughout this report. There is also the board at a glance on page 11. Full CVs of the directors appear on pages 16, 23, 35, 46, 48, 103, 113, 121, 131, 137, 145, 149 and 152

For the greater portion of the year under review, the board was made up of ten executive and nine independent non-executive directors, including the chairman of the board. Mr DG Wilson was appointed to the board on 29 September 2006 as an executive director. The board is currently looking to appoint additional independent non-executive directors to provide diversity and complement existing non-executive strengths and experience.

**Appointments to the board.** 4.3, 4.7 Any new appointment of a director is considered by the board as a whole, on the recommendation of the nomination committee. The selection process involves consideration of the existing balance of skills and experience and a continuous process of assessing the needs of the company. Other significant personal and/or business attributes of potential candidates for appointment are considered by the nomination committee as part of the

selection process and are disclosed to the board. Non-executive directors are also required to advise the board of any subsequent changes to or additional commitments from time to time. These changes must have the chairman's approval if material.

**Ms S Mkhabela was appointed to the board as an independent non-executive director on 27 January 2006 and Mr DG Wilson, appointed on 29 September 2006 to the board, succeeds as finance director Mr CB Thomson who will assume other executive functions.**

The company secretary arranges an appropriate induction programme for new directors. This includes an explanation of their fiduciary duties and responsibilities and arranging visits to operations, where discussions with management facilitate an understanding of the company's affairs and operations.

During the year under review, among the more important site visits organised for members of the board, were the PPC cement factory at Dwaalboom and the Barloworld Truck Center and Barloworld Handling facilities in Little Rock in the USA. The directors gained first-hand knowledge of these operations, results and prospects as explained by their respective executive management.

In certain circumstances, it may become necessary for a non-executive or independent director to obtain independent professional advice in order to act in the best interests of the company. Such a director also has unrestricted access to the chairman, executive directors and the company secretary. Where a non-executive or independent director takes reasonable action and costs are incurred, these are borne by the company.

**The board considers all the non-executive directors to be independent.** <sup>4.1, 4.6</sup> Mr LS Day will retire at the end of November 2006 as CEO of Barloworld Equipment. Mr MD Coward will resign from the board to lead a management buyout of the steel tube business. Mr SB Pfeiffer is considered as independent

notwithstanding the fact that he is a partner of a law firm in the United States that provides advice to the company from time to time. After due consideration, the board has concluded that the extent of the services provided by Mr Pfeiffer to the company is not material. Mr Pfeiffer's law firm has confirmed that fees received from the company for services rendered are not material. Upon evaluation of all relevant factors, the board, therefore, considers that Mr Pfeiffer is independent. The nomination committee regularly reviews the independent status of all non-executive directors. Sound international principles of corporate governance including an appropriate definition of what constitutes an independent director are adopted with regard to what is considered to be best practice.

**Retirement of directors.** Executive directors, in accordance with the articles of association of the company, retire from the board at 63 years of age whilst non-executive directors by convention retire at the annual general meeting immediately following the director's 70th birthday.

Prof L Tager, a long-standing and dedicated member of the board stepped down on 26 January 2006.

In terms of the company's articles of association, at every annual general meeting, at least one-third of the directors retire from the board. According to the Companies Act, a director appointed by the board to fill a vacant seat must retire from that office at the next annual general meeting. Directors retiring in this manner may offer themselves for re-election, subject to recommendation by the nomination committee.

**Board meetings.** Board meetings are convened by formal notice incorporating a detailed agenda together with relevant written proposals and reports. Information is distributed in a timely manner prior to board meetings, to facilitate adequate preparation for thorough discussion at these meetings. A number of decisions were taken between board meetings by written resolution in accordance with the company's articles of association.



INTERNATIONALLY BASED INDEPENDENT DIRECTORS.  
LEFT TO RIGHT: RC TOMKINSON, MJ LEVETT, SB PFEIFFER, G RODRIGUEZ DE CASTRO

MA, FCA, FCT	<b>RC TOMKINSON</b> (BRITISH)	BCom, DEcon Sc (hc), FIA, FFA, FASSA	<b>MJ LEVETT</b>
<p>Robert (65) has been a non-executive director of Barloworld since 2001. He was group finance director of Electrocomponents plc, the major electronic and electrical distribution group, from 1986 until his retirement in 1997. Prior to that he was group finance director of Automotive Products plc. His earlier career was spent in the energy industries and merchant banking. Since 1997 he has been chairman or on the board of a number of companies. He is currently a non-executive director of UGC Limited (The Unipart Group of Companies).</p>		<p>Mike (67) is chairman of the Old Mutual South African Growth Assets Fund Limited and director of the Old Mutual South Africa Trust plc. He was appointed to the Barloworld board in 1985. He retired as chief executive of Old Mutual plc in 2001, and as chairman in 2005. He was Chairman of Mutual &amp; Federal Insurance Co. Limited, and director of SABMiller plc, of Sasol Limited and of Nedbank Limited. Mike is an actuary, and a fellow of the College of Medicine (hc). He is a trustee of the Nelson Mandela Children's Fund, The College of Medicine Foundation and the World Wide Fund for Nature (South Africa).</p>	
BA, MA (Oxon), JD (Yale)	<b>SB PFEIFFER</b> (AMERICAN)	<b>G RODRIGUEZ DE CASTRO</b> (SPANISH)	
<p>Steve (59) is partner of Fulbright and Jaworski LLP, a US-based international law firm he joined in 1976, and currently serves as the elected chair of the executive committee of that firm. He is a non-executive director of Iridium Holdings LLC, chairman emeritus of Wesleyan University in Middletown, Connecticut, USA, a trustee of The Africa-America Institute in New York and a director of Project HOPE in Washington, DC. He has had a number of articles published on a range of business-related and legal topics, is prominent in civic and professional organisations, and served in the US Navy, from where he retired as commander, US Naval Reserve.</p>		<p>Gonzalo (64) studied at the School of Industrial Engineering in Madrid. In 1989, he was appointed as CEO of the Madrid Stock Exchange and led the modernisation of the exchange over the next three years. He served as chairman of Euroquote in Brussels, the first attempt by the Federation of European Stock Exchanges to create a central European stock exchange. For the past decade he has worked as an IT consultant for clients in service industries. Gonzalo has been a non-executive director of Barloworld's Spanish equipment business since 1995.</p>	

Where directors are based in countries other than where a meeting is held and are not able to attend, video and tele-conferencing facilities allow them to participate in the debate and conclusions reached or resolutions taken.

Eighteen meetings of the executive directors and senior management were held during the period under review, in order to assist the chief executive officer to guide and control the overall direction of the business

of the company, monitor business performance and to act as a medium of communication and coordination between business units, group companies and the board.

**Board attendance.** The board schedules a minimum of six meetings a year. During the year under review, three meetings were held in South Africa, two in the United Kingdom and one in the United States of America. Attendance at these meetings is shown below.

Name of director	Date Venue	14/11/2005	26/01/2006	31/03/2006	11/05/2006	14/07/2006	29/09/2006
		SA	SA	USA	SA	UK	UK
SAM Baqwa		✓	✓	✓	✓	✓	✓
PJ Blackbeard		✓	✓	✓	✓	✓	✓
WAM Clewlow		✓	✓	✓	✓	✓	✓
LS Day		✓	✓	✓	✓	✓	✓
MD Coward		✓	✓	✓	✓	✓	✓
BP Diamond		✓	✓	✓	✓	✓	✓
JE Gomersall		✓	✓	✓	✓	✓	✓
M Laubscher		✓	✓	✓	✓	✓	✓
AJ Lamprecht		✓	✓	✓	✓	✓	✓
MJ Levett		✓	✓	✓	✓	✓	✓
S Mkhabela		N/A	#	✓	✓	✓	✓
DB Ntsebeza		✓	✓	✓	✓	✓	✓
SB Pfeiffer		✓	✓	✓	✓	✓	✓
AJ Phillips		✓	✓	✓	✓	✓	✓
G Rodriguez de Castro		✓	✓	✓	✓	✓	✓
PM Surgey		✓	✓	✓	✓	✓	✓
LA Tager		✓	✓	N/A	N/A	N/A	N/A
EP Theron		✓	✓	✓	✓	✓	✓
CB Thomson		✓	✓	✓	✓	✓	✓
RC Tomkinson		✓	✓	✓	✓	✓	✓
DG Wilson		N/A	N/A	N/A	N/A	N/A	#

# By invitation



**SOUTH AFRICAN-BASED INDEPENDENT DIRECTORS**  
 LEFT TO RIGHT: SAM BAQWA, DB NTSEBEZA, EP THERON, S MKHABELA

BJuris, LLB, MBA, DTech (hc)	<p align="center"><b>SAM BAQWA</b></p>	LLB, BProc, BA, LLM (International Law)	<p align="center"><b>DB NTSEBEZA</b></p>
<p>Selby (55) was admitted as an attorney of the Supreme Court of South Africa in 1976 and practiced as such until 1988 (commercial, civil and criminal practice). In 1988 he was called to the Bar and practiced as an advocate until 1995 when he was appointed as the Public Protector of the Republic of South Africa. He is group executive head: governance and compliance at Nedbank Group Limited and a member of the executive committee of Nedbank Limited.</p>		<p>Dumisa (55), completed his studies for a law degree while serving a long prison term for political activism in the mid-70s. He was admitted as an attorney in 1984. In 1995 he served as one of the commissioners on the Truth and Reconciliation Commission. While still an attorney, he was appointed acting judge of the High Court of South Africa. In March 2000, he entered the Bar and has worked in private practice in Cape Town as an advocate since July 2000. In 2004, he served as a commissioner on the UN International Commission of Inquiry which investigated violations of international human rights and humanitarian law in Darfur, Sudan. During 2005, Ntsebeza took silk, and on being appointed as Senior Counsel (SC) by the State President in November 2005, he became the first African advocate, in the entire history of the Cape Bar, to be conferred the status of silk.</p>	
BCom, LLB, FIBSA	<p align="center"><b>EP THERON</b></p>	Dip Business Management (Wits)	<p align="center"><b>S MKHABELA</b></p>
<p>Eddie (65) played a major role in banking in South Africa during his career. He was one of five executives involved in the formation of Standard Merchant Bank and retired as group chief executive of Standard Bank Investment Corporation Limited in 1995, following which he was appointed as a non-executive director. He was appointed to the Barloworld board in 1996 and also holds a non-executive directorship on the board of Pretoria Portland Cement Company Limited.</p>		<p>Bongi (50) was appointed to the Barloworld Limited board on 27 January 2006. In 1991 she graduated (Social Work, Honours) at the University of Zululand. She assisted the head of UNDP to establish a presence in South Africa and to develop its programmes and she served as director for Programmes and projects at the office of the then Deputy President Thabo Mbeki and on several international and national NGO boards and committees. She currently serves on Stanlib board and on Deloitte's Best Company to Work for programme.</p>	

**Chairman and chief executive officer.** <sup>4.2</sup> No individual has unfettered powers of decision-making. Responsibility for running the board and executive responsibility for conduct of the business are differentiated. Accordingly, the roles of the chairman of the board and of the chief executive officer are separate.

**Assessing the performance of board members.** <sup>4.8</sup>

Annually, the general purposes committee appraises the performance of the chairman of the board, the chief executive officer and the board as a whole. The chairman and the chief executive officer do not participate in discussions regarding their own performance.

**Evaluation of effectiveness of the board.** <sup>4.9</sup>

During the year under review, a formal self-evaluation of the board's performance and effectiveness was carried out. This exercise was conducted by means of individual questionnaires prepared separately by the chairman of the board and the company secretary and completed individually by each member of the board. All responses were treated confidentially. The company secretary collated the results of both questionnaires and reported the findings to the chairman. The chairman advised the board of the results. The chairman's own findings as to the board's performance and effectiveness were similar to the overall results produced by the individual responses submitted to the company secretary.

The exercise demonstrated a unity of purpose on the part of the members to ensure that the board remains effective and relevant to the business objectives of the company. Whilst recognising the progress made, the board will continue to strive to adopt measures which will enhance the effectiveness of its function.

**Company secretary.** The company secretary provides the board as a whole and directors individually with

guidance on the discharge of their responsibilities. He is also a central source of information and advice to the board and within the company on matters of ethics and good corporate governance. Appointment and removal of the company secretary are matters for the board as a whole. The company secretary maintains and regularly updates a corporate governance manual, copies of which are distributed to all newly-appointed directors and divisional senior managers.

The company secretary ensures that in accordance with the pertinent laws, the proceedings and affairs of the board and its members, the company itself and, where appropriate, the owners of securities in the company, are properly administered.

The company secretary ensures compliance with the rules and Listings Requirements of the JSE Limited and where appropriate other stock exchanges on which the company's securities are listed. The company secretary also assists in developing the annual board plan, administers the share option scheme and complies with the statutory requirements of the company and its subsidiaries in South Africa. All directors have access to the advice and services of the company secretary relative to the affairs of the company and their roles and responsibilities.

Together with the chairman, the company secretary is involved in ensuring good information flows within the board and its committees and between senior management and the non-executive directors.

Directors and officers of the company keep the company secretary advised of all their dealings in securities of the company according to well defined rules and procedures, and a report is tabled at the board meeting following any such dealings.



## SOCCKER TEAMS FOLLOW SUBSTITUTE FOR EMPLOYEE FORUMS

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The 2006 Barloworld Equipment inter-company soccer tournament is attracting a lot of interest, judging by the many spectators attending the games. There was a record entry of 12 teams this year. The difference this year is that the tournament has been linked to the divisions EVC programme, with soccer teams substituting for employee forums.

This creative way of stimulating employee communication has been a great success. This is just one example of how different divisions have embraced the Employee Value Creation programme and given it their own unique flavour.

The overall winners of the tournament were the CAT Rental Store soccer team, seen pictured above. But whatever the outcome, teamwork makes us all winners.

**BOARD COMMITTEES.** <sup>4.1</sup> The board has six subcommittees which have been established to assist the board in discharging its responsibilities. These committees listed hereunder play an important role in enhancing good corporate governance, improving internal controls and, thus, the performance of the company:

- Audit
- General purposes
- Nomination
- Empowerment and transformation
- Remuneration
- Risk and sustainability

Each board committee acts according to their written terms of reference approved by the board. They set out its purpose, membership requirements, duties and reporting procedures. Board committees may take independent professional advice at the company's expense. The committees are subject to regular evaluation by the board in regard to performance and effectiveness.

Chairmen of the board committees and the external audit partner of the auditors of the company are required to attend annual general meetings to answer any questions raised by shareholders.

**AUDIT COMMITTEE.** <sup>4.1</sup> The audit committee, which is required to have a minimum of three members, comprises Messrs RC Tomkinson (chairman), MJ Levett, and EP Theron, all of whom are independent directors. The quorum for a meeting is two members, personally present throughout the meeting. A member of the committee has one vote. The chairman has no casting vote. The chairman of the company is not a member of the committee.

The audit committee's terms of reference include *inter alia*:

- Considering the independence of the external auditors and making recommendations to the board on the appointment or dismissal of the external auditors

- Being responsible for recommending to the board the engagement of the external auditors and the determination of the terms, nature, objectives and scope of the audit
- Evaluating the independence, effectiveness and performance of the external auditors
- Considering and reviewing the reliability and accuracy of financial information and appropriateness of accounting policies and disclosure practices
- Examining and reviewing the interim report, final profit statement, annual financial statements, prospectus or any other documentation to be published by the company
- Reviewing compliance with applicable laws, best corporate governance practices, accounting standards and regulatory requirements
- Reviewing the effectiveness of the group risk assessment process, adequacy of accounting records and internal control systems
- Monitoring and supervising the functioning and performance of internal audit.

The board places strong emphasis on maintaining appropriate systems of internal control. An internal control scoreboard is tabled and reported to the audit committee for each business operation biannually. All significant deviations from laid out internal control policies and procedures are also reported. The audit

committee assists the board in its deliberations regarding the company's continuing viability as a going concern.

The chairman of the committee reports to the board on the activities and recommendations made by the committee.

The finance director, group general manager: finance, head of internal audit and the external audit partner attend all meetings. They have, *inter alia*, unrestricted access to the chairman and other members of the committee. The finance director and any other executives may, at the discretion of the chairman of the committee, be invited to attend and be heard. No attendee has voting rights.

Each year the committee makes an assessment of the qualifications, expertise, resources and independence of the company's auditors. This assessment is based upon reports produced by the auditors, the committee's own dealings with the auditors and feedback from the executive team.

The independence and objectivity of the auditors is regularly considered by the committee.

The terms of reference of the committee were reviewed during the year.

**The board has determined that the audit committee has fulfilled its responsibilities for the year under review in compliance with its terms of reference.**

<b>Attendance at meetings</b>	<b>Date Venue</b>	<b>13/11/2005 SA</b>	<b>25/01/2006 SA</b>	<b>30/03/2006 USA</b>	<b>10/05/2006 SA</b>	<b>13/07/2006 UK</b>	<b>28/09/2006 UK</b>
RC Tomkinson (chairman)		✓	✓	✓	✓	✓	✓
MJ Levett		✓	✓	✓	✓	✓	✓
EP Theron		✓	✓	✓	✓	✓	✓

**Fees for non-audit services and partner rotation.**

The audit committee has *inter alia* adopted the following policy in regard to the provision by the external auditors of any non-audit services:

- Non-audit services will not be obtained where the provision of such services could impair audit independence
- Total annual fees for non-audit services in any financial year shall not exceed the total audit fee for

that year unless any excess is justified and approved by the chairman of the audit committee in consultation with the members of the committee, if necessary.

In terms of the company's approval framework, certain threshold levels for fees payable in respect of consulting work to be performed by the external auditors, require advance approval by the audit committee.

**GENERAL PURPOSES COMMITTEE.** <sup>4.1</sup> The general purposes committee is required to have a minimum number of three members, the majority of whom must be independent. A quorum for a meeting is two members present in person throughout the meeting, one of whom must be independent. Each member has one vote and the chairman has no casting vote.

The chief executive officer is currently the only executive member of the committee, which comprises Messrs WAM Clewlow (chairman), MJ Levett, SB Pfeiffer, AJ Phillips, EP Theron, RC Tomkinson.

The external audit partner responsible for the audit of the annual financial statements was required to retire from the appointment after the conclusion of the 2005 financial year. The audit committee has taken cognisance of the South African Companies Act Amendment Bill which stipulates that an external audit partner of public interest companies may not be appointed for more than five consecutive years. The current external audit partner will be completing the first year of this term after a comprehensive hand over process conducted during the 2005 financial year.

Attendance at meetings	Date Venue	13/11/2005 SA	25/01/2006 SA	30/03/2006 USA	10/05/2006 SA	13/07/2006 UK	28/09/2006 UK
WAM Clewlow (chairman)		✓	✓	✓	✗	✓	✓
MJ Levett		✓	✓	✓	✓	✓	✓
SB Pfeiffer		✓	✓	✓	✓	✓	✓
AJ Phillips		✓	✓	✓	✓	✓	✓
EP Theron		✓	✓	✓	✓	✓	✓
RC Tomkinson		✓	✓	✓	✓	✓	✓

The committee's role is to consider issues of significance to the company. It advises the board on matters having local and international political, economic and social implications regarding the affairs and business of the company. Progress in regard to the strategic plan is reviewed and recommendations regarding any adjustments to it are submitted to the board for approval. The committee ensures that material matters such as acquisitions and disposals, which require

the attention of the board, are timeously submitted for consideration.

The terms of reference of the committee were reviewed during the year.

**The board has determined that the general purposes committee has satisfied its responsibilities for the year under review in compliance with its terms of reference.**

**NOMINATION COMMITTEE.** <sup>4.1</sup> The nomination committee, which must have a minimum of three members consists exclusively of independent directors and comprises Messrs WAM Clewlow (chairman), MJ Levett, DB Ntsebeza, SB Pfeiffer, EP Theron, RC Tomkinson. A quorum for a meeting is two members present in person throughout the meeting. Each member has one vote and the chairman has no casting vote. The chief executive officer is entitled to attend meetings, but has no voting powers.

The committee makes recommendations to the board on the composition of the board and the balance between executive, non-executive and independent directors. Skill, experience and diversity are taken into account in this process.

Regarding the chairman of the board, it was decided to depart from convention and Mr WAM Clewlow, who

was due to retire at the forthcoming annual general meeting, has been requested to remain as a non-executive director and chairman pending completion of a high level independent review of the group structure. Mr Clewlow has agreed to the board's request, but has advised that he will retire during 2007.

The committee is responsible for identifying and nominating candidates for the approval of the board as additional directors or to fill any board vacancies when they arise. It also advises the board on succession planning, particularly in respect of the chairman of the board and chief executive officer. Proposals for renewing the board's composition are proactively managed by the committee to ensure that timely changes take place.

In addition, the committee recommends directors, who retire in terms of the company's articles of association, for re-election.

Attendance at meetings	Date Venue	13/11/2005 SA	25/01/2006 SA	30/03/2006 USA	10/05/2006 SA	13/07/2006 UK	28/09/2006 UK
WAM Clewlow (chairman)		✓	✓	✓	X	✓	✓
MJ Levett		✓	✓	✓	✓	✓	✓
DB Ntsebeza		✓	X	✓	✓	✓	✓
SB Pfeiffer		✓	✓	✓	✓	✓	✓
EP Theron		✓	✓	✓	✓	✓	✓
RC Tomkinson		✓	✓	✓	✓	✓	✓

At its meeting in September 2006, the committee considered the candidates who are standing for election or re-election at the forthcoming annual general meeting (as referred to in ordinary resolutions 2 to 10 in the notice of annual general meeting on pages 278 to 281 of this document). In accordance with its findings, the committee recommends to shareholders the election of Ms S Mkhabela (independent non-executive) and Mr DG Wilson, and the re-election of Messrs PJ Blackbeard, WAM Clewlow, BP Diamond, JE Gomersall, SB Pfeiffer, G Rodriguez de Castro and RC Tomkinson.

The terms of reference of the committee were reviewed during the year.

**The board has determined that the nomination committee has satisfied its responsibilities for the year under review in compliance with its terms of reference.**

#### **EMPOWERMENT AND TRANSFORMATION COMMITTEE.**

Subsequent to the financial year-end but prior to publication of this annual report the board approved the constitution of a new board committee, the empowerment and transformation committee.

The committee comprises Mr AJ Phillips (chairman) and four independent non-executive directors, namely Messrs SAM Baqwa, MJ Levett, Ms S Mkhabela and Mr DB Ntsebeza.

The committee's main role at this stage is to consider an appropriate structure upon which to conclude a BEE equity transaction and to recommend it to the board for approval in due course. The committee's mandate is however not limited to recommending a BEE equity transaction, as it includes broader matters relating to the creation of a framework that will enable advancement of previously disadvantaged South Africans at the workplace and the formation of partnerships for the development of communities in which the company operates in South Africa.

In fulfilling their duties and responsibilities, the committee may consult, whenever appropriate with any other member of the board or expert on any subject-matter to be dealt with by the committee.

The committee held its inaugural meeting during November 2006.

**REMUNERATION COMMITTEE.** <sup>4.1</sup> The remuneration committee, which must have a minimum of three members, consists exclusively of independent directors and comprises Messrs WAM Clewlow (chairman), MJ Levett, SB Pfeiffer, EP Theron, RC Tomkinson. A quorum for a meeting is two members present in person throughout the meeting. Each member has one vote and the chairman has no casting vote. The chief executive may be invited to attend meetings of the

committee, but may not participate in discussion of his own remuneration.

The committee makes recommendations to the board on the structure and development of policy on executive and senior management remuneration, taking into account market conditions. It determines the criteria necessary to measure the performance of the executive directors in discharging their functions and responsibilities. It determines specific remuneration packages for the chief executive and executive directors of the company, including basic salary, benefits in kind, any annual bonuses, performance-based incentives, share-based incentives, pensions and other benefits.

It also makes recommendations to the board in respect of fees to be paid to each independent non-executive director for their services as a member of the board or on a board subcommittee. Once these fees have been adopted by the board, they are submitted to the shareholders in general meeting for approval prior to implementation and payment. Details of fees paid to independent non-executive directors are fully set out below.

Wherever appropriate, the committee consults with the chairman of the board, the chief executive or other executive or non-executive directors in fulfilling their duties under the committee's terms of reference.

The terms of reference of the committee were reviewed during the year.

**The board has determined that the remuneration committee has satisfied its responsibilities for the year under review in compliance with its terms of reference.**

Attendance at meetings	Date Venue	13/11/2005 SA	25/01/2006 SA	30/03/2006 USA	10/05/2006 SA	13/07/2006 UK	28/09/2006 UK
WAM Clewlow (chairman)		✓	✓	✓	✗	✓	✓
MJ Levett		✓	✓	✓	✓	✓	✓
SB Pfeiffer		✓	✓	✓	✓	✓	✓
EP Theron		✓	✓	✓	✓	✓	✓
RC Tomkinson		✓	✓	✓	✓	✓	✓

## REMUNERATION POLICY AND DIRECTORS'

**EMOLUMENTS COMMITTEE.** <sup>4.5</sup> The salient features of the company's remuneration principles and practices are highlighted below.

**Non-executive directors' emoluments.** Fees payable to non-executive directors are recommended to the board by the remuneration committee and fixed by the shareholders in general meeting.

At the annual general meeting held on 26 January 2006 shareholders resolved that in terms of article 61 of the company's articles of association, the fees payable to the chairman and non-executive directors for their services to the board, audit committee and the other board committees be fixed as follows:

Chairman of the board, inclusive of fees payable as chairman of board committees	R1 325 000
Non-executive directors (resident)	R116 000
Non-executive directors (non-resident)	£45 500
Chairman of the audit committee	£20 800
Members of the audit committee (resident)	R32 000
Members of the audit committee (non-resident)	£2 600
Members of each of the other board committees (resident) *	R26 500
Members of each of the other board committees (non-resident) *	£2 600

*\*Excluding the risk and sustainability committee*

Details of remuneration, fees and other benefits earned by non-executive directors in the past year are given on pages 251 to 254.

**Executive directors' remuneration.** The remuneration of executive directors is controlled through the remuneration committee. It takes into account both the value of their services as directors and of their work as executives.

The "Total Reward" philosophy is a key instrument in achieving the strategic objectives of the company.

It is aimed at attracting and retaining top talent for the group. This philosophy is aligned with the VBM philosophy and the achievement of the company's medium and long-term objectives. The principles of external equity and performance-based pay are the key components of the Total Reward philosophy.

A need was identified in 2005 for a more structured approach to the management of the company's human resources. This was due to the challenges faced by a global company regarding the consistency of approach in human resource practices, especially at the senior levels of management.

Among other factors, the challenges posed by corporate governance in respect of reasonable and defensible reward practices at senior level had to be addressed. The need arose for consistency of approach relative to the management of reward at executive and senior management levels, and of intellectual capital at senior levels within the company.

The Global Grading System recommended by Watson Wyatt (a global consulting firm focused on human capital and employee benefits), was adopted and implemented. The benefits to be derived from the implementation of the Global Grading System at executive and senior management level are the following:

- Internal equity
- Consistency across business units/countries
- Easier lateral and vertical movements within the group
- A consistent basis to benchmark roles against pay markets
- Ability to determine fair and consistent executive reward levels
- Clear hierarchy of roles to be used in the support of succession and development planning

In the year under review, the remuneration package of executive directors comprised the following elements:

- Base pay  
The executive directors' base salary is revised annually and is set to be competitive at the median level in the appropriate competitive labour market. Individual

and company performance and changes in responsibilities are also taken into account when determining revised base pay annually.

- Benefits
  - Retirement funding
  - Medical cover
  - Personal accident cover
  - Vehicle scheme
- Variable pay  
This consists of short-term and long-term incentives. Short-term incentives (bonuses) are provided to increase shareholder value through increasing CFROI/ $\Delta$ CVA and to achieve group, divisional and personal development objectives. Stretch objectives are set, linked to value drivers. A combination of financial, individual scorecard or personal objectives and other business unit specific strategic performance targets make up the components of the CFROI/ $\Delta$ CVA scheme.

Executive directors with company-wide responsibilities received bonuses based on:

- An agreed percentage of annual base salary for each complete percentage point increase in headline earnings per share of the company above 5% (approximating inflation); or
- An agreed percentage of annual base salary for half a percentage point increase in return on net assets (excluding leasing) of the company; or
- An agreed percentage of annual base salary for each determined percentage point increase in the company's CFROI (12.3% in 2006); or
- An agreed percentage of annual base salary for each determined percentage of the planned positive change in  $\Delta$ CVA; whichever is the greater; and
- An agreed percentage of annual base salary for the achievement of set personal objectives

Executive directors responsible for specific operations received the greater of:

- A determined percentage of annual basic salary per the targeted percentage point increase in the business unit's cash flow return on investment

achieved in the year ended September 2006 compared to the actual level at September 2005, or

- A defined percentage of annual basic salary for each determined percentage point increase in a positive change of the business unit's  $\Delta$ CVA, whichever is the greater; and
- A defined percentage of annual base salary for each complete percentage point increase in headline earnings per share of the company above 5% (approximating inflation) or for half a percentage point increase in return on net assets (excluding leasing) of the company or for each determined percentage point increase in the company's cash flow return on investment (12.3% in 2006), whichever of the above is the greater; and
- An agreed percentage of annual base salary for the achievement of set personal objectives.

The target percentages vary between individual business units and directors depending upon their different circumstances.

### Long-term incentive schemes

- **Share option scheme**

Executive directors and selected key executives participate in the Barloworld share option scheme. Allocations of share options are generally made (every two years), based on the market value of the company's shares. One-third of each allocation becomes exercisable by the employee after three years have elapsed from the date of allocation. A maximum of two-thirds of the original allocation are exercisable after four years, and the full allocation after five years. All options must be exercised in full by the employee or ceded by the employee to a family company or trust, or sold to an approved financial institution within ten years of grant or six years for options granted after 29 January 2004. An employee must be in the employ of, or have retired from, the Barloworld Group at the time of exercise or cessation of any share options.

It is the company's policy that neither the chairman nor any of the other non-executive directors participate in the share option scheme.



## DURBAN SOLID WASTE SELECTS CAT ON LIFE CYCLE COST

Durban Solid Waste (DSW), part of the eThekweni Municipality, has recently ordered several new Caterpillar machines from Barloworld Equipment KZN. "Our life cycle comparisons between different machines show Caterpillar to be the most cost efficient over time," says John Parkin, deputy head of plant and engineering at DSW. DSW serves an area of approximately 3 500 km<sup>2</sup> providing a weekly domestic waste removal service to some 650 000 households in addition to industry, commerce and government.

"DSW has shared a long relationship with Barloworld Equipment. Caterpillar comes out most cost efficient in a solid waste environment," says Parkin, adding that excellent backup service from Barloworld has been another factor in favour of Caterpillar machines. "We are very happy with the performance of the Caterpillar machines," he says. "But more importantly, we are impressed with the after sales backup we receive from Barloworld, the easy access to senior management and the company's willingness to address the minor issues that occasionally arise."



## CONCRETE FACTS ABOUT THE BERG RIVER DAM

Every week since October 2004, PPC Cement has been delivering approximately 600 tonnes of cement from its De Hoek factory to the Berg River Dam construction site near Franschoek in the Western Cape.

The Berg River Dam project is one of South Africa's largest civil engineering projects, costing R1.5 billion, and has been designed to last for a thousand years. The project is running according to schedule and is expected to be completed at the end of 2007.

The design of the dam combined with the reliability of the cement and the durability of the concrete was a key consideration for the project. Over 25 000 tonnes of cement have already been delivered to the site, for the 160 000 cubic metres of concrete that will be used in the construction of the dam.

Upon completion, the dam will hold a capacity of about 130 million cubic metres of water, reach a depth of 65 metres, and cover an area of 600 hectares when filled to capacity.



The company is in the process of reviewing the existing share option scheme and consequently during the year under review, no share options were granted to executive directors nor to any other executives.

- **Cash-settled plan**

In recognition of services rendered and as an incentive for current and prospective employees (including executive directors, senior managers and specialists) of the company and its subsidiaries, the Barloworld cash-settled Phantom Share Plan (the Plan) has been developed with the object and purpose of providing employees an opportunity to benefit from growth in the value of the ordinary shares of the company in the medium and long term. The Plan intends to:

- Complement the existing Share Option Scheme and address the growing market and shareholder concerns over the effectiveness of share options
- Incentivise and retain talented individuals in key leadership positions
- Focus participants' attention on sustained value growth for the company and its shareholders
- Create a closer alignment between the interests of employees and shareholders by rewarding superior shareholder and financial performance, and by encouraging executives to build up a personal stake in the company

According to the terms of the Plan, the board of directors may from time to time, in its discretion, call upon the company and its subsidiaries to make recommendations to the board as to which of their respective employees should be given the right to benefit from the growth in value of the ordinary shares of the company; and based on the recommendation received, to identify specific employees who will be given such right and determine their respective participation factors.

The determination of an employee's participation factor will be guided by employees' levels of seniority and the number of share options that may have been previously awarded to employees.

After a period of at least three years from the date of notification, the selected participant shall be entitled to receive remuneration calculated in accordance with a pre-determined formula, subject to:

- the terms and conditions of the Plan;
- the employee's participation factor;
- the closing price of the company's shares on the JSE Limited on the trading day on which the employee gave notice to the employer company of exercising his/her rights; and
- the closing price of the company's shares on the JSE Limited on the trading day immediately before the date on which the employer company gave notice to the employee that he/she had been selected as a participant in the Plan.

The executive directors' salaries, bonuses, share option costs, retirement and medical contributions and other benefits, as well as gains from share options exercised or ceded, are provided on pages 251 – 254. The details of the company's shares owned and unexercised share options held by each director can be found on page 255.

### Termination periods for executive directors

There are no contracts of service between any directors and the company or any of its subsidiaries that are terminable at periods of notice exceeding one year and requiring payment of compensation (apart from normal length-of-service related severance) to executives.

**Retirement and pensions** <sup>EC3</sup> The retirement age for executive directors is 63. All executive directors participate in a defined contribution retirement fund designed to enable them to make appropriate financial provision for their retirement. Company contributions to the fund are up to 14% of pensionable earnings and include the cost of premiums for insured death and disability benefits. Death in service cover is provided to a maximum of six times pensionable earnings, including fund credit for a fund member with dependents.

**RISK AND SUSTAINABILITY COMMITTEE.** <sup>4.1</sup> The management of risk and sustainability issues is inherently an operational function. Accordingly, this board committee comprises the chief executive officer, divisional chief executive officers and other executive directors of the company. The group risk services manager attends all meetings of the committee.

The chairman of the committee is an executive director and is required to report to the board on the recommendations made by the committee. Each member of the committee has one vote. Where the conclusions of the committee have not been reached unanimously, the matter at issue and the reasons for any dissent are reported to the board.

Members of the risk and sustainability committee and their attendance record at meetings are shown below.

The committee's duties include assisting the board in identifying all material risks and sustainability issues to which the group is exposed and ensuring that the requisite risk management culture, practices, policies, resources and systems are progressively implemented and functioning effectively.

These include, among others, occupational health and safety, environmental management, corporate social responsibility (human rights, labour, supply chain,

government and local community relations), corporate social investment and ethical commercial behaviour.

The functions of the committee, *inter alia*, include:

- Setting out a formal policy for the management of risks and sustainability issues
- Reviewing and assessing the integrity and effectiveness of the risk management and sustainability process each year
- Considering annually the consolidated risk assessment results and determining trends, common areas of concern, emerging risks, and the most significant risks for reporting to the board
- Monitoring and reviewing annually changes in stakeholder expectations, corporate governance codes and best practice guidelines relating to risk and sustainability issues
- Reviewing and approving the insurance renewal programme and the extent to which the group should retain risk
- Reviewing and approving the external risk control programme and considering the results thereof and the performance of management against key sustainability indicators
- Appointing external non-financial verification agents in respect of sustainability issues.

<b>Attendance at meetings</b>	<b>Date Venue</b>	<b>15/11/2005 SA</b>	<b>12/05/2006 SA</b>	<b>14/08/2006 SA</b>
PM Surgey (chairman)		✓	✓	✓
PJ Blackbeard		✓	✓	✓
MD Coward		✓	X	X
LS Day		✓	✓	✓
BP Diamond		✓	✓	✓
JE Gomersall		✓	✓	✓
AJ Lamprecht		✓	✓	✓
M Laubscher		✓	✓	X
AJ Phillips		✓	✓	✓
CB Thomson		✓	✓	✓
DG Wilson		N/A	N/A	#

# By invitation

**BARLOWORLD GROUP TOP RISKS – 2006** <sup>1,2</sup>

(in alphabetical order)

Key risks	Category of risk and management response
<p><b>Acquisition underperformance</b> The risk of future net cash flows from acquisitions failing to realise the projections upon which the initial purchase consideration was based may lead to value destruction for shareholders and a need to impair the related goodwill or assets.</p>	<p><b>Acquisition risk</b></p> <ul style="list-style-type: none"> <li>• A business acquisition policy and procedure is in place that sets out a structured approach and framework to be used when acquisitions are being made. This includes a pre-acquisition phase that includes the requirement to conduct a comprehensive strategic analysis of intended targets, development of acquisition criteria, both strategic and financial and quantification of risk adjusted value creation potential for the respective business unit and the group.</li> <li>• The group strategy department reviews all acquisitions and provides increasing involvement and contribution according to specified levels of materiality within a group context.</li> <li>• The CEOs and CFOs of each business unit are responsible for ensuring that the policy and procedures are adhered to.</li> <li>• Following acquisitions, planning and task teams are established to focus on the realisation of possible synergies.</li> </ul>
<p><b>Competitor actions</b> The risk that competitors will take individual actions, through pricing or other activities, that will erode our competitive position and have a significant impact on the value we create for shareholders.</p>	<p><b>Competitor risk</b></p> <ul style="list-style-type: none"> <li>• Continually reduce costs by focusing on operational efficiencies and staff training.</li> <li>• Collaborate with key suppliers to improve products, maintain cost competitiveness and improve service.</li> <li>• Continually improve service and the provision of innovative solutions to customers.</li> </ul>
<p><b>Currency volatility</b> Movement of the rand against other currencies creates risks relative to the translation of non-rand profits, the marking-to-market of financial instruments taken out to hedge currency exposures, the cost of imports into and the profitability of exports from South Africa.</p>	<p><b>Financial risk</b></p> <ul style="list-style-type: none"> <li>• The responsibility for monitoring and managing these risks is that of line management in conjunction with the central treasury. A group treasury policy is in place which clearly sets out the philosophy of hedging, guideline parameters within which to operate and permissible financial instruments.</li> <li>• Preventative measures are implemented around determination of pricing mechanisms and structuring of commercial contracts to swiftly negate the impact of any adverse currency fluctuations.</li> </ul>
<p><b>Defined benefit scheme exposure</b> The key risk for the UK's two defined benefit schemes is a downward movement in the yield on AA rated corporate bonds against which the liabilities are valued. In addition, market volatility and increased life expectancy of members may have an adverse impact on the schemes' funding positions requiring additional company contributions over and above the schemes' current normal contribution rates.</p> <p>The current combined deficits for the two defined benefit schemes in the UK amounts to £52.9 million.</p>	<p><b>Market risk</b></p> <ul style="list-style-type: none"> <li>• Suitably qualified representative boards of trustees exist which together with separate investment sub-committees, are responsible for regularly evaluating the effectiveness of investment decisions. They use professional investment advisors to assist them in the management of the investment portfolios with a view to conservatively preserving and enhancing fund valuations. Complex investment risk models are run by the investment managers and actuaries to assess optimum risk balance. The actuary also conducts regular valuations.</li> <li>• Funding shortfalls are planned to be made up within appropriate time frames via increased company and/or employee contributions, together with an adjustment to benefits where appropriate.</li> <li>• Existing defined benefit schemes in the UK have been closed to new members since 2002 to assist in managing future liabilities. All new employees in the UK are automatically enrolled in the UK's defined contribution scheme.</li> </ul>

Key risks	Category of risk and management response
<p><b>Dependence on principals and suppliers</b> Some of the businesses in the group are dependent on a small number of principals and/or suppliers. The success of our business is therefore linked to the success of the principals and major suppliers, their ongoing financial stability and the competitiveness of their products and services.</p> <p>In order to ensure sustainable value creation, we depend on suppliers of infrastructure in the countries in which we operate. Our businesses are dependent, <i>inter alia</i> on reliable power and water supply and appropriate road and rail networks.</p>	<p><b>Strategic risk</b></p> <ul style="list-style-type: none"> <li>• Add value to our principals by giving constant feedback on market movements and product competitiveness.</li> <li>• Continually improve/build our relationship with our principals and major suppliers and ensure that we are the best dealer/customer.</li> <li>• Provide excellent customer service and lead in our markets.</li> <li>• Build Smart Partnerships with customers.</li> <li>• Enter into longer term contracts with customers.</li> <li>• Build relationships with local authorities.</li> </ul>
<p><b>Exposure to equipment buy-backs and residual values</b> Some of the group's businesses could be exposed to losses due to contractual obligations to buy back equipment previously sold or rented out, at prices above market or replacement cost at the time of being compelled to repurchase. This risk could arise, <i>inter alia</i>, through market conditions at the time, currency appreciation related to imported equipment, inadequate valuation skills at the time of determining the buy-back amount, or poor condition of equipment repurchased.</p>	<p><b>Financial risk</b></p> <ul style="list-style-type: none"> <li>• This is managed by ensuring adequate valuation competencies, managing inventory levels, optimally structuring contracts, modelling transactions to ensure adequate economic return, continually scanning market conditions, hedging currency risks and monitoring the use and condition of equipment in respect of which obligations exist.</li> </ul>
<p><b>Exposure to political risks and terrorism in the countries in which we operate</b> The group's people and assets are spread through numerous countries around the world while our activities are conducted in many more. Business growth initiatives require that new markets and territories are the focus of our business expansion. These opportunities come with their own distinct risk exposures. The possibility exists that our people and assets, and the viability of the businesses are exposed through acts of terrorism or political turmoil in some of the regions in which the group operates as well as in those that may be the subject of expansion.</p>	<p><b>Political risk</b></p> <ul style="list-style-type: none"> <li>• Minimise exposure in high-risk countries through thorough and in-depth risk assessments coupled with the application of preventative and corrective risk management activities;</li> <li>• Maintain flexible business models; and</li> <li>• Maintain business continuity plans that incorporate emergency response actions, crisis management and business recovery plans specific to the business and the respective territories in which the businesses operate.</li> </ul>
<p><b>Exposure to significant customers and dependence on channels to market</b> The risk that we are exposed to certain large customers and that well established distribution channels may change or consolidate.</p>	<p><b>Market risk</b></p> <ul style="list-style-type: none"> <li>• Build Smart Partnerships with customers.</li> <li>• Establish long-term contracts with key customers.</li> <li>• Diversify customer base.</li> </ul>
<p><b>Regulatory environment</b> Many of the group's activities are governed, one way or another, by regulations. Due to the complexity and changing nature of these regulations across the industry and geographical spectrum of the group's activities, there are challenges in staying abreast of all developments and maintaining full compliance.</p>	<p><b>Regulatory risk</b></p> <ul style="list-style-type: none"> <li>• Management proactively monitors current regulatory developments and changes in policy direction which may be imminent.</li> <li>• Where feasible, the group will provide input to influence legislation, lobby governments, and find ways to limit negative impacts of legislation.</li> </ul>
<p><b>Strategic people skills</b> Barloworld's key asset in solution-based businesses is the intellectual capacity and skills of its people. This necessitates ongoing management of the challenges regarding succession planning and skills retention and development.</p>	<p><b>People risk</b></p> <ul style="list-style-type: none"> <li>• Employee Value Creation (EVC) is the technique that Barloworld has been rolling out globally to create value for its employees.</li> <li>• EVC identifies, aligns and integrates all employee elements of a value creating organisation including processes that ensure sustainable competence and intellectual capacity using intellectual capital reviews to identify and retain future leaders.</li> <li>• Through performance management systems, employees' purpose, role, function and accountabilities are defined.</li> <li>• Using competency-based assessments, employees are regularly reviewed to ensure the appropriate skill sets are available to enable performance at optimum levels.</li> <li>• Reward and incentives schemes have been implemented to ensure recognition and retention of high-performing employees.</li> </ul>

C



## MAKING DREAMS REALITY

"A burning desire" to work for herself has led a woman in Bizana, in the heart of the former Transkei, South Africa, to leave her long-term job in banking, learn the construction business and start investing in her own earthmoving equipment fleet. This process has taken Noma Phakathi 10 years, but the hard work has paid off and her company, L&N Phakathi Construction, is today making good inroads into infrastructure development in this remote and underdeveloped part of the modern day Eastern Cape province.

"In 2002 we realised we could afford to invest in our own earthmoving equipment. So we invested in a compactor, but it fell apart and the supplier took a long time to refund us. This taught us an expensive lesson."

Noma did some more homework and thus began their firm friendship with Juan Frauenstein of Barloworld Equipment's Mthatha facility. "Juan came to see us, listened to us and made suggestions. It felt

as if the obstacles were coming down at last and our dream was going to be realised."

"The relationship that has grown between L&N Phakathi Construction and Barloworld Equipment in Mthatha has helped our company to move up to the next level," says Noma.

This year L&N Phakathi Construction took delivery of a Caterpillar 315C hydraulic excavator, a Caterpillar 120H maintenance grader and a second hand Caterpillar 424D backhoe loader. The company today employs 20 permanent staff and sometimes has a labour force of more than 100 employed on its sites.

As to the future, Noma has more big plans. "This part of the country remains poor and lacks infrastructure and opportunity because money that is generated here ends up being spent in the bigger urban centres," she maintains. "To the women out there," she concludes, "Makhosikazi, let's stand up, if we can dream we can definitely make it a reality."

The audit committee carries out an independent review of the risk and sustainability management processes.

The terms of reference of the committee were reviewed during the year.

**The board has determined that the risk and sustainability committee has satisfied its responsibilities for the year under review in compliance with its terms of reference.**

**Risk management process.** In terms of a written risk management philosophy statement issued by the chief executive officer and endorsed by the board, the company is committed to managing its risks and opportunities in the interests of all stakeholders. Every employee has a responsibility to act in this manner.

An ongoing systematic, multitiered and enterprise-wide risk assessment process supports the group's risk management philosophy. This ensures that risks and opportunities are not only adequately identified, evaluated and managed at the appropriate level in each division, but also that their individual and joint impact on the group as a whole is taken into consideration.

Divisional boards and senior managers carry out an annual self-assessment of risk. This process identifies critical business, operational, financial and compliance exposures facing the group and the adequacy and effectiveness of control factors at all levels. The assessment methodology takes into account severity and probability of occurrence, and applies a variable based on the quality of control, thereby ranking risks and setting priorities. The top risks, elevated to group level, are addressed through action plans put in place with responsibilities assigned.

The group risk department oversees the process from the perspective of strategic direction, ongoing improvement in methodology and process, and technical assistance. The independent external auditors and internal auditors check for robustness and thoroughness, and comment thereon in their own assessment reports.

The risk tolerance levels are set in each division, and vary depending on the nature, scope and size of the business. The tolerance levels are based not only on financial impact, but also on the potential threat to the integrity of the business as a going concern, its reputation and the well-being of employees and other stakeholders.

As the group develops new business and expands into new markets and territories, it is faced with increasingly complex and changing environments. By integrating the risk management process with the group's strategic direction, which incorporates the principles of VBM, the risk-return trade-off is optimised. This enhances competitive advantage, growth and the employment of capital. In the case of joint ventures and associates, the company encourages adherence to the same risk management philosophy and policies.

The directors and officers of the company are not protected, in their personal capacities, against claims arising from environmental degradation caused by the business activities of the company. Such cover is excluded from the company's directors' and officers' insurance, and is not generally available in the insurance market. Consequently, the company has indemnified its directors and officers against such claims, provided that at all times such directors and officers were acting in good faith and in accordance with the law.

**INTERNAL AUDIT.** With its responsibilities clearly defined and approved by the audit committee, internal audit continued to function throughout the group during the past year.

Internal audit focused on the following main areas:

- Appraising and advising on systems, procedures and management controls
- Assessing the effectiveness of risk management processes
- Evaluating the reliability and integrity of management and financial information

- Assessing the control over assets and verifying their existence
- Reviewing compliance with policies and procedures
- Recommending improvements in procedures and systems to enhance efficiencies and prevent fraud.

Risk focused audit plans for the year under review, with input from divisional management, were approved in November 2005. Audit findings were formally reported to divisional audit committees in May and again at financial year-end. These divisional committees are chaired by officers who are non-executive to the respective divisions.

The head of internal audit coordinates the internal audit function worldwide and reports to the chairman of the audit committee regularly throughout the year, providing details of audit coverage and any significant findings.

**The internal audit process did not highlight any breakdowns in internal control that were known to have had a material impact on the reported financial information.**

Internal audit undertook a high level review of the risk management processes across the group and reported at the special risk focused meeting of the audit committee in November 2005, April 2006 and September 2006.

Although not reliant on external auditors for any resource support, the head of internal audit continues to liaise with them with a view to maximising efficiencies of audit coverage where possible. During the year, internal audit utilised the services of independent external firms to supplement its internal resources to enable the department to complete their planned audit coverage for the year.

**INSIDER TRADING.** <sup>SO2, SO3, SO4</sup> No employee, his/her nominee or members of their immediate family may deal either directly or indirectly, at any time, in the securities of the company on the basis of unpublished price-sensitive information regarding the company's business or affairs. No director or officer may deal in the securities of

the company during the embargo period determined by the board in terms of a formal policy implemented by the company secretary. Periods of embargo are from the end of the interim and annual reporting periods to 24 hours after the announcement of financial and operating results for the respective periods. A list of persons who are restricted for this purpose has been approved by the board and is revised from time to time. A register of directors and officers is available for inspection at the company's registered office in Sandton, South Africa.

The rules of the JSE Limited extend obligations regarding transactions in the securities of the company to include those of any major subsidiary. Those officers whose trading transactions have to be disclosed to the market within 48 hours specifically include the directors and the company secretary, but now also embrace any associate of the directors or company secretary or any independent entity or investment managers through which the directors or company secretary may derive a present or future beneficial or non-beneficial interest.

The directors or officers of the company's major subsidiaries, whether wholly or partially owned, are also included in the list of directors, company secretary and other officers.

Trading in the company's shares and any cessions of options over such shares is conducted on completion of an application form, in the case of securities subject to the Barloworld Share Option Scheme, or a letter in any other case. Authorisation for the transaction is given in writing by the chairman of the board, the chief executive officer or a divisional chief executive officer, as appropriate. The written authority is kept by the company secretary with the record of the particular transaction. In the event that the chairman wishes to trade, permission to do so is obtained from the board.

**ETHICAL STANDARDS.** <sup>SO2, SO3, SO4</sup> The company is committed to the highest ethical and legal standards and expects all its representatives to act in accordance with the highest levels of personal and professional

integrity in all aspects of their occupation and activity, and to comply with all applicable laws, regulations and policies of the company.

The company's commitment is stated in its Code of Ethics.

The company maintains an ethics hotline where employees and other stakeholders can report non-compliance with company policies and fraud. All incidents reported are investigated and where appropriate, action is taken.

**Relations with shareholders.** The company is a strong believer in transparency, best practice disclosure, consistency of communication and equal and timely dissemination of information to its shareholders. It encourages an active participation of shareholders at general meetings and maintains an investor relations programme which, *inter alia*, organises for corporate and divisional executives to attend regular meetings with shareholders and other interested parties.

In 2005 Barloworld implemented a disclosure policy to ensure consistency of communication and adherence to best practice. This policy is posted on [www.barloworld.com](http://www.barloworld.com)

The annual general meeting is normally attended by all the directors and shareholders are encouraged to be present and to ask questions during the meeting and they have the opportunity to meet with directors after the formal proceedings have ended.

The notice of the annual general meeting, detailing all proposed resolutions, is on pages 278 to 281 of this annual report.

**STAKEHOLDER ENGAGEMENT.** [4.14](#), [4.15](#), [4.16](#), [4.17](#)

Our business is defined by the interactions we have with our stakeholders. These are our customers, employees, principals and suppliers, shareholders, as well as communities and community-based organisations, various media and non-governmental organisations (NGOs). It is therefore imperative that we build relationships and engage with all stakeholders.



## LBC CHOOSES BARLOWORLD AND HYSTER

LBC is one of the largest tank terminals in the world for the liquid bulk storage of chemicals. With the delivery of 17 new Hyster LPG Fortens, an explosion-proof Hyster electrical forklift truck, and a Terberg yard traction unit, LBC tank storage has a modern, safe internal transport fleet for chemicals.

LBC looked not only at the best price but also safety, reliability, service, performance and training. Following an extremely detailed test module, Barloworld Internal Transport, Netherlands, was found to have the best credentials and to offer the right price. On top of this, LBC's drivers had a clear preference for Hyster due to its proven performance over the years. Safety was of primary importance to LBC and every one of LBC's 46 drivers in Belgium and the Netherlands will receive "in-house" training in addition to the delivery. Barloworld have also provided a permanent engineer who proactively cooperates in the production process.