

Operational review

Automotive



Operational profile

Barloworld Automotive provides a range of integrated motor vehicle usage solutions through the successful operation of complementary business units including car rental, fleet services and motor retail.



Martin Laubscher (48)
 Chief executive officer:
 Automotive
 BAcc, BCompt (Hons) CTA, MCom
 (Business Management)
 21 years' service

Areas of operation

Motor retail	Importation and distribution	Car rental	Fleet services
Southern Africa Australia	Southern Africa	Southern Africa Scandinavia	Southern Africa

Operational review *(continued)*

Automotive

Barloworld Automotive provides a range of integrated motor vehicle usage solutions through the successful operation of complementary business units.

Motor retail operates leading motor vehicle franchise dealerships in South Africa representing passenger, light, medium and heavy commercial brands. Also included are coachwork repair centres, motor vehicle finance, insurance and related products and services. In Botswana and Australia passenger and light commercial brands are represented and motor vehicle finance, insurance and related products and services are provided. We are the sole importer and distributor of Subaru vehicles in southern Africa.

Car rental operates Avis short-term car rental throughout southern Africa.

Fleet services provides long-term rental and value-added services to operators of passenger and commercial vehicles in South Africa, Botswana, Lesotho Mozambique, Namibia and Swaziland under the Avis brand.

Leadership team

Martin Laubscher (48)
Chief executive officer
*BAcc, BCompt (Hons), CTA,
MCom (Business Management)*
21

Allan Carter (55)
Chief executive: Motor Retail Australia
28

Dag André Johansen (43)
Chief executive: Car Rental Scandinavia
BA (Norwegian School of Management)
Scandinavia
21

Litha Nkombisa (41)
Chief executive: Motor Retail
Southern Africa
BCom, MDP
1

Keith Rankin (38)
Chief executive: Car Rental
BCom (Hons)
10

Andy Richardson (47)
Chief financial officer
CA(SA)
3

Laurence Savage (44)
Chief executive: Avis Fleet Services
Reg Eng T, MBA
9

Ciko Thomas (39)
Executive: Marketing
BSc, MBA
1

Ian Walters* (59)
Chief information officer
BCom, MBA
27

Christopher Whitaker (51)
Executive: Human resources,
organisational performance, strategy
BCom, LLB
20

* Resigned 30 September 2008

*Note: The figure after each name (in brackets) is their age at date of publication of this report.
Second figure is the number of years service that they have with Barloworld or businesses we have acquired.*

Operating performance

R million	Revenue		Operating profit		Net operating assets	
	Year ended 30 Sept		Year ended 30 Sept		30 Sept	
	2008	2007	2008	2007	2008	2007
Car rental Southern Africa	1 586	1 209	250	325	2 849	2 820
– Southern Africa	11 622	9 948	143	184	1 850	1 363
– Australia	2 849	2 448	62	48	983	743
Trading	14 471	12 396	205	232	2 833	2 106
Leasing Southern Africa*	948	701	85	76	366	346
	17 005	14 306	540	633	6 048	5 272
Share of associate income			6	17		

* Net operating assets after deducting interest-bearing borrowings.

Overview

Aligned with the group's focus areas, the division continued to create stakeholder value through *five strategic themes*.

Providing customers with a range of *integrated motor vehicle usage solutions* to fulfil their specific requirements remains the cornerstone of the division's offering. Such solutions include the products and services of our individual business units, namely motor retail, car rental and fleet services, as well as the unique combination of these products and services for customers who require aspects from our various business units in a seamless combination, effectively and efficiently provided by a single supplier.

An ongoing commitment and focus on *employees* through the implementation of employee value creation initiatives continues to enhance value creation across all business units in the division. Specific focus areas cover talent attraction and retention, and include an extensive commitment to training, development and attractive employment conditions.

Complementing the group's commitment to *empowerment and transformation*, the division aggressively pursued various initiatives during the year. In South Africa these were in the context of the DTI's Broad Based Black Economic Empowerment scorecard and underscore the division's commitment to ensuring its operations reflect the societies in which they operate. In line with the group objectives, our South African car rental, fleet service and motor retail business units achieved a Level 5 or better rating and are well positioned to achieve Level 4 next year.

Financial returns remained the core focus during the year. As usual, optimising business unit performance included maximising both inter- and intra-business unit synergies, as well as the implementation of tight performance targets and

objectives. By working closely together our South African business units optimise the opportunities for internal value creation through sourcing, service, repair and maintenance as well as maximising the commercial benefits arising from the significant number of quality used vehicles that are a consequence of the automotive division's activities. Synergies for the Australian and Scandinavian operations are achieved through skills and business practice transfer between the car rental and motor retail operations respectively.

Quality of earnings and growth are addressed under the theme of *profitable growth*. Significantly, a decision was taken to dispose of our Scandinavian car rental operations which is expected to substantially improve the division's quality of earnings. Also relevant under this theme is the decision to sell 50% of Subaru Southern Africa to Toyota Tsusho Corporation, in order to secure growth for the brand with Principal support. Various other opportunities to grow the division's offering within southern Africa are currently under consideration.

The above *strategic themes* are cascaded into all business units and their collective efforts in this regard aggregate to the overall success of the division.

Comprehensive structures exist throughout the division and its business units in terms of which business risks are regularly reviewed and appropriate measures adopted to address or mitigate such risks. These risks are comprehensively covered and addressed in the division's strategic initiatives.

All aspects of broad-based black economic empowerment continue to receive attention and, as an integral part of the ongoing focus on training and development in the division, Motor Retail South Africa opened a technical training centre and Avis Rent a Car South Africa established a comprehensive management development programme.

Operational review *(continued)*

Automotive

Tough trading conditions led to declining profitability for the overall division. Revenue and operating profit reached R17.0 billion and R540 million respectively. Operating profit margin was 3.2%.

The South African motor retail operations increased their market share, similarly Avis Rent a Car improved its southern African market share in terms of rental days, and our fleet services operations increased their total fleet under management.

In our continuing operations we achieved new and used vehicle retail sales of 85 934 units, against the previous year's figure of 87 711 units. Corporate operations grew car rental days in southern Africa to a total of 5.3 million compared with the previous year's 4.8 million. At year end a total of 122 419 vehicles were under finance and maintenance contracts compared to 101 910 units last year.

The motor retail businesses in southern Africa have performed relatively well in difficult market conditions that saw a year-on-year decrease in the NAAMSA new vehicle market of some 16% during our financial year. A continued focus on used vehicles and after-market opportunities supported the result.

Our Avis car rental operation in southern Africa increased revenue and rental days although higher interest rates, lower utilisation and a reduced used vehicle profit contribution negatively affected the result.

Avis Fleet Services did well in securing new business opportunities and in growing its fleets, assisted by a higher interest rate environment. A subdued used car segment continued to impact profitability.

The Subaru importation and distribution business performance was negatively affected by a weaker rand.

Motor retail

Motor Retail Southern Africa

Motor Retail Southern Africa operates 41 leading motor vehicle franchise dealerships in South Africa and Botswana. The South African operations represent passenger, light, medium and heavy commercial brands and include eight coachwork repair centres, motor vehicle finance, insurance and related products and services. In Botswana passenger and light commercial brands are represented and motor vehicle finance, insurance and related products and services are provided.

New vehicle sales declined during the year as a consequence of rising interest rates and increasing consumer price inflation which placed consumer spending under pressure. In addition, stricter lending criteria due to the National Credit Act also had a

negative impact on sales. Tough decisions and tight controls ensured that the business has weathered these conditions and managed to improve its market share. A total of 57 531 new and used retail units were sold in 2008.

During our financial year the NAAMSA southern Africa new vehicle market was 529 874 units of which 83.3% were dealer sales. Botswana had a significantly improved performance, despite the continued influx of cheap 'grey imports'.

In accordance with our dealership strategy of "Fewer, Bigger, Better" we continued to make investments in well located, world-class facilities. Major new facilities were completed for John Williams Motors (Mercedes-Benz) Bloemfontein and Toyota/Lexus Centurion. Other significant new and renovated facilities include Audi Centre Cape Town, Audi Centre Bruma, Premium Brands showroom of Barloworld City Bruma (General Motors), Automark showrooms of Toyota Pretoria East and Toyota Tygervalley, and the pre-owned showroom of Club Motors Randburg (BMW). Barloworld Subaru Culemborg was relocated. Building operations were commenced for Barloworld City Johannesburg (General Motors) and Barloworld City Truck Centre (General Motors) in City Deep Gauteng, Toyota Middelburg, Barons Commercial Western Cape (Volkswagen) in Blackheath, John Williams Commercial (Mercedes-Benz) Bloemfontein, and for John Williams Motors (Mercedes-Benz) Ficksburg which is relocating to Ladybrand.

In partnership with the Maponya Group, Barloworld was awarded the Toyota franchise for the greater Soweto area. Trading is expected to commence in the last quarter of 2009.

Focus areas in the year ahead include improving asset turn, reducing working capital, controlling interest costs, containing expenses and exceeding customer expectations. Transformation and empowerment will continue to be addressed and employee value creation initiatives, particularly skills development and retention, will be emphasised.

A total of eight dealerships fall into our NMI-DSM and Garden City Motors joint venture which principally covers the Mercedes-Benz, Chrysler and Mitsubishi brands, and also includes the Subaru brand. During the year we increased our effective interest to 51.2% in these operations which are now consolidated in this year's results.

Australia

Motor Retail Australia operates in Melbourne and Sydney retailing new and used vehicles in the passenger and light commercial segments, supplying parts and servicing vehicles, as well as providing motor vehicle finance, insurance and related products and services. Brands represented are Holden, Mercedes-Benz, Skoda, Suzuki and Volkswagen.

In accordance with our dealership strategy of “Fewer, Bigger, Better” we continued to make investments in well located, world-class facilities.



The Australian new vehicle market slowed in the latter part of the financial year resulting in a marginal increase over the prior year. Despite slowing growth, the Australian operations delivered a significantly improved performance. The Mercedes-Benz and Volkswagen operations continued to deliver strong contributions while our Holden operations remained static as smaller, more fuel efficient vehicles dominated sales. During the year the Australian operations added Volkswagen affiliate Skoda to the franchise portfolio.

For the year, our dealership network sold 9 407 new and used retail vehicles against last year's figure of 9 544.

Material events during the year under review include:

- A significant improvement in the trading performance for Barloworld Mercedes-Benz and a continuing strong contribution from the Volkswagen dealerships in Melbourne and Sydney.
- A new Volkswagen passenger showroom at Five Dock, Sydney was completed.
- A strong focus on providing retail finance and insurance services.

In October 2008, two newly built dealerships in Melbourne representing the Mercedes-Benz and Volkswagen franchises commenced trading. Barloworld is the largest Volkswagen dealer and one of the largest Mercedes-Benz dealers in Australia.

Importation and distribution

Subaru Southern Africa, which holds the licence for the importation and distribution of Subaru vehicles and related products in southern Africa, delivered 1 679 vehicles to its dealers during the year. Currency volatility undermined its contribution. Investment into improving the dealer management

system and overall efficiency of the operation continued during the year. The Subaru brand has maintained its high profile and loyal customer base. A transaction has been concluded to sell a 50% stake in this business to Toyota Tsusho Corporation, effective from 1 November 2008.

Car rental Southern Africa

Avis Rent a Car Southern Africa operates short-term car rental from over 110 customer service centres throughout southern Africa, and is focused on the tourism, corporate, local and replacement market segments. A peak fleet of some 21 340 vehicles is operated. The operations in South Africa, Botswana, Lesotho, Mozambique, Namibia and Swaziland are owned, while the balance of the operations are sub-licensed. Avis Point-to-Point is a chauffeur-driven inner-city transfer service. Avis Van Rental operates a sub- licensee network in South Africa. Avis Coach Charter was introduced during the year and operates a sub- licensee network in South Africa.

Zeda Car Sales disposes of ex-rental vehicles into the trade and to retail customers.

Avis Rent a Car Southern Africa has improved revenue through firmer rates and increased rental days. Rental volumes grew by 9.6% to 5.3 million rental days. Productivity was supported by a 7% growth in rental transactions. The average fleet grew by 14.2%. Market share of rental days in the region was increased. Higher vehicle holding and damage costs, increased interest payments, reduced utilisation and lower used vehicle profits, impacted on profitability.

The Point-to-Point business continues to grow.

Operational review *(continued)*

Automotive

Consistent with the division, focus areas in the year ahead include improving asset turn, reducing working capital, optimising vehicle fleets and utilisation, controlling interest costs, containing expenses and exceeding customer expectations. Empowerment and transformation will continue to be addressed and employee value creation initiatives, particularly skills development and retention, will be emphasised.

Scandinavia (Shown as discontinued)

Following a strategic review a decision was taken to dispose of our Avis Scandinavia operations. Advisors have been engaged and the transaction is targeted to be completed by the end of 2009. Avis Europe plc., which is the licensor of the Avis and Budget brands in Scandinavia, has been advised of the intended transaction.

The business operates Avis and Budget short-term car rental from more than 350 customer service centres in Denmark, Norway and Sweden. The peak regional fleet of some 17 195 vehicles includes 7 120 vehicles owned by sub-licensees. The majority of our vehicles are purchased with guaranteed buy-backs and we only operate used vehicle sales outlets in Denmark.

Scandinavian operations grew total rental days by 11.4% to nearly 3.6 million rental days off an increase of 12.3% in rental transactions. Several corporate stations have been converted to licensees to optimise the opportunities in the marketplace. Profitability in the region was disappointing with the Avis operations under-performing in all three countries due to lower than expected rental day growth, negative rate per day growth and lower fleet utilisation.

The Budget network across all three countries continued to grow their revenue per rental day while maintaining rental day volumes.

Fleet services

Avis Fleet Services provides long-term rental and value added services to operators of passenger and commercial vehicles. Products and services include the administration of vehicle licensing, maintenance and fuel costs, the acceptance of maintenance and residual value risks, and vehicle sourcing and disposal services. Operations are in all major metro centres in South Africa and regional operations in Botswana, Lesotho, Mozambique, Namibia and Swaziland. In South Africa, a tender for the outsourcing of fleet under the South African National Parks umbrella was secured, and the contract was implemented in a black economic empowerment joint venture. This contract also incorporates the value-added services of accident, fuel and driver management. Through a tender process the company successfully secured the fleet management for the Lesotho government under a five year contract term.

Car Mall disposes of ex-fleet vehicles into the trade and to retail customers.

Avis Fleet Services grew its fleet under finance and maintenance contracts to a total of 122 419 vehicles. Profitability was up on last year's level, attributable to interest rate margin growth, but a depressed used vehicle segment limited profit growth. With interest rates having increased and a tightening of the consumer environment, the demand for the business's products and services grew. In a slowing economy, companies are seeking



Avis Rent a Car Southern Africa has improved revenue through firmer rates and increased rental days.

improvements in fleet efficiency and cost control is starting to regain focus. Consistent with a subdued used car segment for the business unit, the used car contribution was below the 2007 level. The focus in this entity is on the continued growth of value drivers and specific attention to offering customers total fleet solutions, while progressing transformation and employee value creation initiatives, particularly skills development and retention. Expense management will feature prominently.

Stakeholder value creation

The creation of value for all stakeholders remains central to our business units' activities. The emphasis is on sustained improvement in value created, driven by all employees through an integrated set of programmes and initiatives, continually monitored and assessed against implemented standards and measures. The division performed well in difficult economic circumstances.

We continue to create value for our principals and suppliers through investment in infrastructure and business systems, addressing brand exposure, as well as market shares and improving business performance. Their confidence in our ability continues to be reflected in new opportunities offered to represent their brands and their ongoing commitment to our operations.

Customer value remains central to the division's success. This is evidenced by our continued revenue growth, increasing market shares and independent monitoring. We continue to monitor and focus on customer satisfaction ratings, as we believe it is through exceeding customer expectations at every interface that we will achieve a sustainable competitive advantage and create superior value for our customers and other stakeholders.

Employee value creation recognises the important role of every employee and institutionalises initiatives and structures aimed at developing, harnessing and directing collective employee wisdom towards our value creation objectives. It also ensures that employees benefit from the value created. The Avis Brand Ambassador programme continues to empower employees and leaders, emphasising the crucial role of personal behaviour in our customers' perception of the organisation and improving its value creation performance.

Our value creation for the communities in which we operate is a combination of indirect benefits from employment opportunities, rates and taxes paid, and development as well as direct benefits arising from the corporate social investment initiatives of the business units which include contributions of skills, resources and finance.

Black economic empowerment in South Africa

In addition to the two strategic black partners which participate and contribute to the division under the umbrella of the Barloworld Limited broad-based black economic empowerment transaction, the division benefited directly from the appointment of black executives to its board and the appointment of a black chief executive to its Motor Retail Southern Africa operations. In addition, we have a number of significant black economic empowerment joint ventures.

These include our joint venture principally for the Mercedes-Benz operations in the greater Durban and Pietermaritzburg metropolitan areas in KwaZulu-Natal. Our NMI-DSM and Garden

Avis Fleet Services grew its fleet under finance and maintenance contracts to a total of 122 419 vehicles.



Operational review *(continued)*

Automotive

City Motors operation remains one of the leading empowerment initiatives in the industry. Avis Fleet Services has two joint ventures in South Africa, each of which specialises in specific markets. The most significant of these is PhakisaWorld Fleet Solutions which manages the fleets within the South African National Department of Transport stable. Avis car rental has a 49% stake in Sizwe car rental.

We continue to be committed to a broad-based empowerment approach and fully support the group's intent to be a leader in empowerment and transformation. Our rating objective mirrors that of the group.

Awards and recognition

External recognition for the value we create for our stakeholders includes:

Avis Rent a Car Southern Africa

- Sunday Times Brands and Branding independent survey: Best Car Rental Brand in South Africa for four consecutive years

Avis Rent a Car Norway

- Grand Travel Award for 13 consecutive years

Avis Rent a Car Sweden

- Grand Travel Award for 16 consecutive years

NMI-DSM (Black Economic Empowerment Joint Venture)

- Brand Centre Award: Mercedes-Benz Cars, for the fourth consecutive year
- Brand Centre Award: Mitsubishi Motors, for the fourth consecutive year

- Chairman's Award: Mitsubishi Motors

Subaru Southern Africa

- NADA Dealer Satisfaction Index Award (Silver)

Motor Retail South Africa

- Barloworld Fleet Marketing: Toyota SA Status Club – Platinum Award
- BMW Pretoria Paint and Panel: Premier Manager Award for Approved Repair Centre
- BMW Cape Town: Premier Manager Award for BMW Premium Selection
- Audi Centre Cape Town: Best Audi Pre-Owned Department Nationally
- Ford Pietermaritzburg: Runner-up Dealer of the Year and winner of Best Service Manager in category – Ford Motor Company
- Ford Pinetown: Best Service Manager in category – Ford Motor Company
- Subaru Bruma: Top Service and Parts Department – Subaru Southern Africa Managing Director's Awards
- Barons Volkswagen Group: Dealer Group of The Year
- VW Tokai: Club of Excellence Award
- VW Woodmead: Club of Excellence Award
- VW Bellville: Club of Excellence Award
- VW N1 City: Club of Excellence Award

Motor Retail Botswana

- Volvo Dealer of The Year

Avis Fleet Services

- Professional Management Review (PMR): Diamond Arrow Award
- Toyota SA Status Club : Platinum Award



Consistent with the division, focus areas in the year ahead include improving asset turn, reducing working capital, optimising vehicle fleets and utilisation, controlling interest costs, containing expenses and exceeding customer expectations.

Outlook

It is expected that the prevailing tough industry conditions will continue into 2009. Whilst maintaining emphasis on the group's five strategic focus areas, particular attention will be directed at improving quality of earnings. In this regard the disposal of the Scandinavian car rental operations will enhance overall returns. All our business units will address expense management, controlling interest costs and exceeding our customers' expectations. The South African car rental operations will pursue rate increases, improvements in fleet utilisation and the optimisation of their asset base. Our southern African motor retail operations are well positioned and continue with their "Fewer, Bigger, Better" strategy coupled with pursuing efficiencies through the centralisation and coordination of common functions, improving asset turn and reducing working capital. The Australian motor retail operations will settle into their new facilities and remain a well run, focused business unit. Our fleet services business is expected to benefit from recently awarded contracts and continue growing the fleets under finance and management.

Continued improvement in value creation for all our stakeholders remains our core philosophy underscored by a focus on talent attraction and retention.

Overall, 2009 is expected to be a year of consolidation with the view to adding value for stakeholders through prudent business practices and conservative growth by accessing identified unique opportunities. Optimising the inherent synergies and benefits of our South African integrated motor vehicle usage solutions offering is central to our strategy for 2009.

In October 2008, two newly built dealerships in Melbourne representing the Mercedes-Benz and Volkswagen franchises commenced trading. Barloworld is the largest Volkswagen dealer and one of the largest Mercedes-Benz dealers in Australia.

