



Dumisa Ntsebeza *Chairman*

Chairman's review

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Introduction

In the past year we finalised the strategic actions announced in January 2007, the last of which was the unbundling of the coatings division in December 2007. In June we also announced our innovative broad-based black economic empowerment transaction which was overwhelmingly supported by our shareholders on completion in September. To successfully achieve these objectives required teamwork and unyielding dedication. We are determined to deliver on growing the company according to our core competencies for all stakeholders in line with our refocused corporate profile.

The group now comprises four core businesses, namely Equipment, Automotive, Logistics and Handling. Barloworld is firmly focused as a distributor of leading international brands. Although we are a South African centred corporate, we have a well established international presence. Our operations provide

integrated solutions in 42 countries across our core business segments. This increases our resilience due to counter-cyclicality factors and strengthens our product and service offerings. Despite recent changes in the world's economic conditions, we have built a sound platform to take advantage of some exciting opportunities in high growth areas.

During the year I visited some of our key operations around the world, in Spain, Democratic Republic of Congo and Zambia. I also visited the Caterpillar headquarters in Illinois. From firsthand experience on-site, I saw what makes Barloworld a leader in our chosen segments. I saw the leadership, determination and innovation of our people and the deep understanding and strong relationships we work so hard at with our key principals and other stakeholders. Next year I will be visiting logistics operations in Dubai and Hong Kong, and further, our equipment operations in Russia.

Global and national economic environments

In the last few months we have witnessed markets lurch from one crisis to another. It has been a most challenging year in which to do business on a global scale. There were various economic shocks, such as the credit crisis, related to the sub-prime issue, oil and commodities price volatility and constrained liquidity.

International investor perceptions of emerging markets in general and perceptions of South Africa's investment case shifted in light of global issues. Locally, political changes and the national power crisis further tempered perceptions. Despite this, our offshore shareholding at 30 September 2008 was 25% of the share register.

South Africa's economic environment experienced some turbulence with rising interest rates, the impact of the National Credit Act, the unpredictability of the national power crisis, high inflation, volatile energy prices and general skills shortages coupled with high unemployment. However, mining, infrastructure and construction development drivers remained strong.

A buoyant view persisted around projects geared towards the Fifa World Cup in South Africa. Our perspective is that it will be a positive but short-term boost for the local economy. However, we plan and execute our strategies on a much longer-term basis and I am pleased to report that our vision and the fundamentals of our four business segments are robust beyond 2010.

Group performance

Every Barloworld employee across all functions and divisions has worked very hard this year. Despite challenging economic conditions the group performed strongly overall. The management and teams across the world have shown robust leadership and despite some margin pressure we are still leading in most of our chosen segments.

Revenue from continuing operations increased by 18% to R46.8 billion from R39.8 billion in 2007. Operating profit, excluding the IFRS2 charge of R337 million in respect of the BBEE transaction increased by 31% to R3.0 billion (2007: R2.3 billion). Normalised HEPS from continuing operations (excluding BEE charge, prior year PPC gains and STC on special dividend) was up 29% to 760 cents from last year's adjusted 589 cents.

Several challenges had a bearing on group performance. Iberia, one of our more active markets in Europe, slowed considerably due to declining public expenditure. In emerging economies in Africa, aspects such as the lack of strong legal and financial frameworks impacted on ventures in those regions.

Balance sheet, cash flow and dividends

We continued to see strong operational cash flows. We have robust capital management systems and our group gearing remained in line with last year.

The company focused on improving the maturity of the group's debt. The long-term loans raised in the BEE transaction aided in

reducing the ratio of short- to long-term debt to 43:57 (September 2007: 52:48). Subsequent to the end of September 2008, the company issued a R750 million seven year bond which will further improve the company's debt maturity profile.

Dividends totalling 250 cents per share were declared in respect of this year's earnings. Additional ordinary shares of 17.8 million issued in respect of the BEE transaction, qualify to receive the final dividend of 150 cents per share.

Divisional overview

Equipment, the largest division, has seen another strong performance fuelled by mining and construction in sub-Saharan Africa and Siberia. The southern Africa business is growing and we have made some gains. The southern Africa equipment division saw the energy crisis as an opportunity to provide alternative generation of electricity especially to the mining and manufacturing sectors. In Iberia, residential and public work projects slowed considerably and impacted by reducing demand for our offerings across the region. However, my sense from the operational site visits gave me insight into the quality and robustness of this division in Spain. I am also planning to visit our operations in Siberia.

The automotive industry in southern Africa experienced severe pressure. However, motor retail Australia and Avis Fleet Services performed strongly and we improved our position. In Scandinavia, seasonal market dynamics and other factors were considered and we have taken the decision to dispose of our rent a car business.

Overall the automotive business performed 'resiliently' under pressure and our integrated motor vehicle usage solutions together with our 'Fewer, Bigger, Better' strategy positioned us well to face these harsh conditions.

Materials handling in Europe and the USA remained under pressure. We performed according to expectations in Belgium and the Netherlands but the economic decline in the UK and USA impacted significantly on our businesses there. However, we have implemented a turnaround strategy. The management have taken some tough decisions and made noticeable improvements. In southern Africa, the handling business is increasing market share and the agriculture business achieved a solid performance.

Logistics' recent strategic acquisitions catapulted the operation into the global logistics arena. There is a large growth potential in this business and the southern African profitability is improving. A good example of integrated customer solutions across divisions can be seen in the UK where logistics and handling are working well together.

Transformation

Transformation in the broadest sense is a central and strategic priority at Barloworld. We remain committed to being leaders in empowerment and transformation across all divisions and at all levels.

Chairman's review *(continued)*

Broad-based black economic empowerment transaction

The reaction from the public, media and shareholders to our BBBEE deal was extremely favourable. The rationale, sustainability and truly broad-based characteristics of the deal, were clearly communicated and well supported by all stakeholders and especially our shareholders.

On reflection of the criticism initially levelled at us for taking so long to complete the transaction, it appears with the benefit of hind-sight that the time taken was justified in the end by the support it received and by the end result. The delay in completion fortuitously allowed time for the Department of Trade and Industry (DTI) codes to be defined and gazetted.

The transaction positions Barloworld among the top empowered companies on the JSE Limited and as a beacon on the transformation landscape of South Africa. We achieved the publicly stated target of a 'Level 5' by the end of September 2008. Our next target remains to become a 'Level 4' BEE contributor by the end of 2009.

Transformation includes gender, disability and employment considerations

Transformation refers not only to race considerations but also to gender and disability. We need to raise our consciousness about all these aspects and actively debate issues at board level and raise general awareness in this regard which would include adapting our building and facilities to become accessible to the disabled.

It is worth noting that in Khanyisile Kweyama, we have the first black Human resources and transformation group executive in the long history of Barloworld. My view is that the future challenges of transformation lie at the employment level and in facilitating consistent but gradual transformation across all the Barloworld divisions. Furthermore, I am encouraged to see that long-serving employees are embracing change and becoming facilitators of transformation.

It is also worth noting that our skills development and training programmes are making good progress. Construction of a world-class Centre of Learning facility will be completed in the first half of 2009 and existing buildings at Barlow Park will be converted into a Leadership Development Centre. These will ensure continuity and high quality future leaders and will greatly assist in meeting our future skills requirements.

Corporate and social investment

Acting on our concerns for society is a fundamental part of the way in which we have always done business at Barloworld, no matter where our operations might be. Barloworld is an

organisation that has operated ethically and with integrity for 106 years. We strive to conserve biodiversity and the environment, address education, reduce poverty, develop skills, support arts and culture, combat crime, regenerate communities, fight HIV and Aids, empower women, youth and the disabled and develop sports.

Enterprise development

In October 2007 we launched our enterprise development fund and a strategic and local business approach to transformation called *Siyakhula*, which means 'we are growing.' This programme has developed over the past year and will in future be maintained and adjusted according to the new corporate profile of the Barloworld Group.

The environment

We remain committed to acting responsibly with regard to the effects of our operations and products on air, soil and water, as well as the communities and ecosystems that depend on them.

Global warming and the physical, regulatory and reputational risks associated with climate change are making the measurement of carbon emissions, not only a global and strategic business imperative but a global responsibility. Barloworld has responded to this in a structured and strategic manner by integrating the environment and the sustainability thereof, as a key organisational programme, with objectives that need to be considered in all value creating decisions.

This focus was entrenched by recognising the 'Environment and Social Legitimacy' as one of the 10 Pillars of Sustainability and most recently has been integrated as a core element of the 'Profitable Growth' and 'Integrated Customer Solutions' Strategic Focus Areas of the group.

As part of our commitment to environmental responsibility initiatives and in an effort to comply more fully with the various environmental reporting requirements, it was decided that a project be commissioned to measure the carbon footprint of the group, starting with Logistics and Automotive who are leading this initiative. We will report on these projects in greater detail in next year's annual report.

Board and governance

While there have been several changes to the board, we have kept our eye on the ball with respect to our guiding principles and remained committed to the highest standards of governance and transparency.

Our intention was to strengthen the board's 'independence' and to build a balanced composition reflecting South African society,

as well as the geographic and business spread of Barloworld internationally. The board needs to be constituted appropriately and in relation to the size of the business. The structure of the company has changed and the overall size and number of board members will be refined to reflect this.

I would like to record some of the appointments and changes to the board.

I welcome Sango Ntsaluba who was appointed as an independent non-executive in July and who sits on the audit committee. Gordon Hamilton was appointed as chairman of the audit committee and as a member of the nomination and the remuneration committees.

Those who left the board in reverse chronological order were firstly: Peter Surgey who retired at the end of September 2008 after many years with the company. Robert Tomkinson retired following the annual general meeting in January 2008 after many years of valuable service as a non-executive director and chairman of the audit committee. Trevor Munday resigned in January after serving in various roles and committees as a non-executive director. Brandon Diamond retired from the board in December 2007 after many years as an executive director including heading up the Industrial Distribution division.

André Lamprecht retired from the board in December 2007 when Coatings was unbundled and listed separately on the JSE Limited. Mike Levett has indicated that he intends to retire at the annual general meeting in January 2009 after many years on the board.

I am truly grateful and wish to extend the board's sincere thanks to all of these gentlemen, once again, for their hugely valuable individual and group contributions to the board and to various committees on which they diligently served.

Outlook

Recent times have shown us that we are facing some serious global and systemic challenges. However, I am positive about Barloworld's future. Our re-focused businesses are well positioned in their respective sectors to take on and deal with challenging economic realities. We have the management, strategy and proven capabilities to realise our potential as a motivated, refocused and successful company.

Appreciation

In appreciation I have to extend my gratitude to shareholders for their firm support, interest and continued engagement with the company. To all board members I extend my thanks for your tireless service and guidance. I would also like to extend my genuine appreciation to Clive and his first class executive management team. Their collective experience, insights and knowledge across all operations should serve to reassure shareholders that their company is in great hands.

Dumisa Ntsebeza
Chairman