



Clive Thomson *Chief executive officer*

Chief executive's report

The company's success is founded on deep and long-standing partnerships with our key principals and customers. Barloworld now comprises four core divisions – Equipment, Automotive, Handling and Logistics.

Overview

The strategic repositioning of the group embarked upon in 2007 was completed in the first quarter of this financial year following the listing and unbundling of the coatings division and the disposal of the laboratory business.

Barloworld now has a strategic profile as a distributor of leading industrial and motor vehicle brands providing integrated rental, fleet management, product support and logistics solutions. The company's success is founded on deep and long-standing partnerships with our key principals and customers. In the case of Caterpillar, our relationship extends back over more than 80 years.

Barloworld comprises the following core divisions:

- Equipment (earthmoving and power systems)
- Automotive (car rental, fleet services and motor trading)
- Handling (forklift truck distribution and fleet management)
- Logistics (logistics and supply chain management)

The company delivered a strong trading performance this year, driven by the equipment division. Operating profit before the BEE transaction charge was up 31% on 2007.

We successfully completed a broad-based black economic empowerment (BEE) transaction during the year which positions the company well for sustainable growth into the future. In terms of IFRS, this transaction resulted in a non-cash charge to income of R337 million.

Growth in headline earnings per share (HEPS) from continuing operations was affected by the current year BEE charge as well as the prior year impacts of fair value gains on PPC shares and secondary tax on companies (STC) arising on the special dividend paid in April 2007. As a consequence, reported HEPS from continuing operations declined by 8%. However, if one adjusts for the abovementioned items, normalised HEPS from continuing operations grew by 29% which is more representative of the like-for-like performance year on year.

The global financial crisis reduced liquidity and widened interest rate spreads on corporate debt. In these circumstances, it is pleasing that we were able to reduce our dependence on short-term funding and at 30 September 2008 57% of our debt was of a long-term nature. This was further enhanced when we successfully issued a seven year R750 million corporate bond on 2 October 2008. Operating cash flows were good and the group's balance sheet remains strong.

We invested in and achieved significant organic growth in our Caterpillar equipment businesses in southern Africa and Siberia. Furthermore, progress was made in developing our logistics business internationally with the acquisition of the Swift sea and airfreight operations in the Middle East, together with smaller acquisitions in Hong Kong and Germany. We took the decision to dispose of our Avis Rent-a-Car business in Scandinavia and this has been disclosed as discontinued in the current year.

Operational review

Equipment

High commodity prices for much of the year boosted demand for our Caterpillar equipment in the mining territories of southern Africa and Siberia. In the construction segment, increased spending on infrastructural development underpinned demand in southern Africa. In Iberia, however, a slowdown in residential construction and delays in public works spending led to a drop in demand for our products, particularly in the second half of the financial year.

Constraints in electric power capacity for the medium term in southern Africa have created opportunities to meet supply shortfalls and we have restructured our southern African power systems business to leverage our capacity and expertise in this segment. Our scope of business was further enhanced this year following the company's appointment as the sole southern African dealer for MAK diesel engines, a subsidiary of Caterpillar Inc.

Skills development remains a key focus area and significant investment is being undertaken in the construction of a leading edge Centre of Learning in Isando. The Centre will provide technical training for employees across southern Africa and is expected to be completed by April 2009.

Next year our focus in southern Africa will continue to be on satisfying demand for our products in the mining and construction segments, growing our power systems business, training and developing our people and expanding our facilities.

In Iberia, focus will be on reducing costs and tightly managing the business and working capital in a period of declining industry sales. We will also continue the drive to improve market share through excellent service and support to our customers.

The Siberian business has grown substantially since we acquired the initial dealership territory in 1998. Today the dealership covers a vast geography, spanning six time zones across eastern Russia. The region has many exciting growth opportunities in

mining, construction and forestry segments and we are well positioned, together with Caterpillar, to take advantage of growth opportunities in these areas. Annual revenue earned by the business is approaching US\$300 million and operating margins and profits have been rising steadily. This represents a significant long-term growth opportunity for the group.

Automotive

The division experienced difficult trading conditions in most markets and a number of steps have been taken that will release capital from those businesses earning sub-optimal returns.

The Avis car rental business in southern Africa improved revenue this year, but profits declined due to a reduction in rental growth, lower fleet utilisation and a decreased used vehicle profit contribution.

Car rental operations in Scandinavia produced disappointing results from lower fleet utilisation and a declining rental rate per day in a very competitive and slowing market. We believe that the group's capital can be more effectively deployed in higher returning opportunities and the board has therefore approved a plan to dispose of the business. We are targeting to complete the sale before the end of September 2009 and the business has been disclosed as part of discontinued operations in the current year.

The Avis fleet services business performed well as it continued to profitably grow its fleet under finance and maintenance contracts.

The motor retail business in southern Africa performed satisfactorily in the context of a market which saw new vehicle sales declining by 16% year on year. The continued strategic realignment of the dealership network led to a reduction in the number of brands represented and in the number of dealerships. The consolidation of the NMI-DSM business, our Daimler operation in KwaZulu-Natal, from 1 March 2008 positively contributed to the result. We have reached agreement to dispose of 50% of our shareholding in Subaru to Toyota Tsusho Corporation with effect from 1 November 2008.

In Australia the motor retail business performed well and the major dealership building and refurbishment programme was completed.

In 2009 the focus will remain on optimally managing our fleets and working capital and continuing to extract the benefits from our integrated motor vehicle usage solutions offering in South Africa.

Handling

Trading conditions were good throughout the year in South Africa where the materials handling and agriculture businesses both performed very well.

Chief executive's report *(continued)*

In Europe, we performed well in Belgium and the Netherlands. However this was offset by weak conditions and reduced profitability in the UK. The UK business has been restructured into geographic regions in order to improve customer service and expedite decision making.

The economic environment in the USA was difficult, with industry sales well down year on year. As in the UK, our USA business has also been restructured into four geographic regions.

The focus next year will be on implementing a project to improve and standardise business processes and systems to drive efficiencies throughout the division. We will also continue to develop our integrated solutions offering to customers and intensify the focus on asset management.

Logistics

The division reported a good increase in profits with most lines of business showing strong organic growth.

The development of the business was further enhanced by the acquisition of three sea and airfreight businesses during the year. These businesses, which together provide multi-modal freight forwarding from south-east Asia to Europe and Africa via a hub in Dubai, represent a significant opportunity to extend our logistics service offering internationally.

The focus next year will be on completing the integration of the businesses acquired this year, accelerating our growth into other parts of Africa and improving efficiencies in our European business. We will continue to develop our value added solutions-based logistics services to differentiate our customer offering.

Black Economic Empowerment (BEE) and transformation

The group's BEE transaction was completed in September 2008. The transaction is broad based and includes six strategic partners, three community service groups, black managers in the group and our South African employees.

The transaction provides for the issue of a maximum of 22.7 million new Barloworld ordinary shares representing approximately 10% of the issued share capital of the company. Importantly, post the transaction the effective black ownership of the South African businesses, calculated in terms of the BEE Codes, amounts to approximately 29%.

We continued to make good progress in meeting our empowerment and transformation objectives. It is notable that several of our key South African businesses are run by black executives: Dominic Sewela (equipment), Litha Nkombisa (motor retail) and Isaac Shongwe (logistics). We are also pleased that all

our SA businesses were able to achieve an indicative Level 5 BEE rating or better in terms of the Codes of Good Practice on broad-based black economic empowerment. Our target remains for each of these businesses to be at Level 4 by end 2009.

Executive leadership

We have an experienced and committed executive team with an effective leadership development and succession planning process in place. A Leadership Development Centre is being built at our offices in Barlow Park as part of an expanded initiative to grow and develop our leadership talent. A global leaders meeting for around 120 of our senior executives worldwide was held in Johannesburg in February 2008 at which we communicated, developed and refined a common vision, strategic profile and strategic focus areas for the group going forward. We also developed and shared ideas around our integrated customer solutions strategy as a source of competitive advantage for the future.

Khanyisile Kweyama was appointed to the executive committee in February 2008 with responsibility for global human resources and transformation.

Isaac Shongwe will take over as CEO of the logistics division from Paul Stuver with effect from 1 January 2009.


Brandon Diamond and André Lamprecht retired from the executive committee in December 2007 and Peter Surgey in September 2008. I would like to thank them for their dedicated service and significant contribution to the group in various capacities over many years.

I wish to thank our executive team, senior management and employees for their hard work and dedication in what has been a challenging local and international economic environment for a number of our businesses this year.

Outlook

Government intervention in many of the developed economies following the global financial crisis should bring a measure of stability to global credit markets in the medium term. However, the effect on the real economy is still likely to be felt for some time to come. Commodity prices have weakened, admittedly from very high levels, and some of the larger developed economies will not be able to ward off a recession next year. Our businesses in the USA, UK, Europe and Australia will be adversely affected under this scenario, with some likely knock-on effects for our operations in emerging markets.

Despite the deferral of some projects, ongoing demand in the mining and construction sectors in southern Africa coupled with



increased power systems opportunities should contribute to another good year in the equipment business.

In Iberia, the construction sector is under significant pressure led by a decline in the residential market. Funding constraints and delays in public works spending are also leading to declines in the heavy construction market. This trend became more pronounced in the second half of our financial year and is expected to continue into 2009.

In Siberia, a slowdown in spending in mining and infrastructure projects will impact on growth in revenue and profitability.

Sales of new and used motor vehicles in southern Africa are expected to remain under pressure next year. The car rental business should be stable with anticipated increasing activity in the second half of 2009. The fleet services business is set to benefit from recently awarded contracts while demand from fleet operators continues in response to the higher holding and operating costs of vehicles.

The South African handling business is expected to show satisfactory growth in 2009. Trading conditions will be difficult in the USA and Europe but focus will be on improving efficiency through management initiatives being implemented.

The benefits of the acquisitions made this year and growth in the African business will contribute to improved results from the logistics division.

Our strategies and products are fundamentally sound, our balance sheet is strong and the company is well positioned to take advantage of growth opportunities as they arise. The global growth outlook has deteriorated following the financial crisis and its impact on the real economy. We are likely to face more difficult trading environments in most of our major markets and geographies in the year ahead.

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