Don Wilson *Finance director*

Finance director's review

- Normalised headline earnings per share from continuing operations, increased by 29% to 760 cents (2007: 589 cents).
- Debt maturity profile significantly improved.

Group operating performance

Revenue from continuing operations increased by 18% to R46 830 million. Equipment southern Africa continued to benefit from increased spending on infrastructure and mining, growing revenue by 39%. The acquisition of the Swift and Flynt group of companies by the Logistics division in April 2008 and the consolidation of the NMI-DSM motor dealerships from March 2008 collectively boosted revenue by R2 703 million.

Operating profit, before the IFRS2 charge in respect of the black economic empowerment (BEE) transaction, rose by 31% to R2 988 million.

The current year non cash BEE charge of R337 million comprises R192 million representing the market price of the shares donated to the general staff trust, R33 000 relating to the black managers, education and non-executive directors' trusts and R145 million arising from the transactions with the strategic black partners and the community service groups.

Fair value adjustments on financial instruments include a loss of R115 million (2007: R312 million gain) arising from the marking to market of Pretoria Portland Cement Limited (PPC) shares. The shares are held as a hedge against the company's liability to share option holders arising from the unbundling of PPC in 2007. Included in operating profit is a gain of R85 million (2007: R20 million) resulting from the reduction in the company's liability to share option holders.

Finance costs increased by R258 million to R889 million. This was largely due to higher global interest rates and increased borrowings to support growth in working capital, mainly in the equipment division.

Taxation rose by 11% to R608 million (2007: R549 million). Secondary taxation on companies (STC) declined to R67 million (2007: R148 million). The 2007 charge included R125 million relating to STC paid on the special R5 per share dividend. The effective taxation rate (excluding the BEE charge, exceptional items, STC and prior year taxation) was 29.6% (2007: 28.5%).

Income from associates and joint ventures of R72 million is above last year (2007: R53 million) despite the conversion of the NMI-DSM associate to a subsidiary and is due to improved results from the European equipment joint ventures, mainly Equipment Siberia.

Exceptional losses of R17 million include profits of R30 million from the disposal of properties, investments and subsidiaries and impairments of plant and equipment, goodwill and investments of R47 million.

Headline earnings per share (HEPS) from continuing operations, excluding the BEE charge, increased by 13% to 760 cents (2007: 672 cents). Excluding abnormal and non recurring items in 2007 of R294 million (after tax gain on the initial marking to market of the PPC shares) and R125 million (STC charge on the special dividend), the current year's normalised HEPS of 760 cents reflects growth of 29% over last year's adjusted 589 cents.

HEPS from continuing operations, including the BEE charge, declined to 616 cents (2007: 672 cents).

Discontinued operations

Discontinued operations for 2008 comprise the results of:

- The coatings division for the two months until the unbundling in December 2007;
- The laboratory business for the two months until disposal in November 2007; and
- The Scandinavian car rental business for the twelve months pending its disposal which is expected in 2009.

The contribution from these operations for the current year total a net loss of R11 million and comprise the following:

R million	**2008**	2007
Headline earnings	**(3)**	1 032
Exceptional charges, after tax	**(8)**	140
Net (loss)/earnings	**(11)**	1 172

Exceptional items include an impairment of R333 million to the goodwill attributable to the Scandinavian car rental business and an after tax gain of R326 million arising from the disposal of the laboratory business.

Headline earnings from discontinued operations for 2008 total 2 cents per share (loss) (2007: 509 cents profit).

Black economic empowerment (BEE) transaction

The financial implications of the transaction are summarised as follows:

- ### Strategic black partners

  12 331 337 Barloworld ordinary shares were issued to six partners at par. These shares enjoy full shareholder rights including voting and dividends. The partners contributed R40 million in equity to a special purpose vehicle (SPV) and borrowed R994 million from two financial institutions. These funds were on-lent to Barloworld. The Barloworld loans carry a fixed interest rate of 11.78% per annum and are repayable on 22 September 2015. The loans from the financial institutions to the SPVs comprise a fixed rate loan of R726 million, repayable in fixed semi-annual instalments over seven years, and a subordinated floating rate loan of R268 million. The loans are repaid using the interest received on the loans to Barloworld and dividends received on the Barloworld shares.

  At the end of the seven year period (22 September 2015) the six partners are obliged to sell the 12 331 337 Barloworld ordinary shares to Barloworld at par and to subscribe for 12 331 337 Barloworld ordinary shares at a subscription price of R179.69 per share. The subscription price of R2 216 million payable by the six partners will be funded from the proceeds of the loans repaid by Barloworld and by securing additional funds from lenders. The six partners may not sell or otherwise dispose of their shares during the seven year "lock in" period.

  The shares held by the six partners are not included in issued shares for purposes of calculating basic earnings per share. Dividends paid to these shareholders during the financial year are deducted from earnings attributable to ordinary shareholders and therefore impacts the earnings per share calculation. The SPVs which hold the Barloworld shares and the loans are not considered to be subsidiaries and are not consolidated into the Barloworld Limited group results.

- ### Community service groups (CSGs)

  2 153 676 Barloworld ordinary shares were issued to three CSGs at par. These shares enjoy full shareholder rights including voting and dividends. As in the case of the strategic black partners, the CSGs contributed equity (R4.5 million) to SPVs and borrowed R176 million from the financial institutions. Funds totalling R179 million were on-lent to Barloworld. The loans from the financial institutions comprised a fixed rate portion of R127 million and a floating rate portion of R49 million. The terms and conditions of these loans and the loans to Barloworld are the same as those applying to the strategic black partners.

  At the end of the seven year "lock in" period, the CSGs are obliged to sell these shares to Barloworld at par and to subscribe for 2 153 676 Barloworld ordinary shares at a subscription price of R179.69 per share. The subscription price of R387 million will be funded from the proceeds of the loans repaid by Barloworld and by securing additional funds from lenders.

  The accounting treatment in respect of the shares held by the CSGs will be the same as that applied to the strategic black partners.

- ### Education Trust (ET) and Black Managers Trust (BMT)

  1 054 058 Barloworld ordinary shares were issued to the ET and 3 060 166 ordinary shares to the BMT at par. The shares

issued to the BMT vest in the beneficiaries over five years from the date of the award. No dividends are paid on the shares held by the BMT and the ET will only be entitled to receive 25% of dividends declared up to 30 September 2009 and 50% of dividends declared after 30 September 2009.

The ET and BMT may not sell or otherwise dispose of the shares during the seven year "lock in" period. At the end of the "lock in" period the number of "free" shares are computed based on an agreed formula. These "free" shares will be transferred to the black managers who will then be free to deal with their shares as they deem fit. The balance of the shares will be returned to Barloworld at par.

For accounting purposes, the ET and the BMT are considered to be subsidiaries of Barloworld and will be consolidated into the group results. The Barloworld shares held by the trusts will be treated as treasury shares. The treasury shares will not be included in issued share capital for purposes of calculating earnings per share. An IFRS2 charge will accrue on the shares awarded by the BMT over the vesting period. This charge is estimated at R3 to R5 million per year. The charge in respect of the shares issued to the ET will arise as the ET distributes any proceeds it receives to its beneficiaries.

- **Black non-executive directors trust**

  108 030 Barloworld ordinary shares were issued to the trust at R83.31 per share to be held for the benefit of three non-executive directors. The shares vest in the beneficiaries over five years. The trust, and the beneficiaries, will be entitled to receive all dividends declared by Barloworld but will not be entitled to sell or otherwise dispose of the shares for seven years.

  The trust will be consolidated into the Barloworld group results and the shares will be treated as treasury shares. An IFRS2 charge of approximately R2 million will accrue each year over the vesting period.

- **General staff trust (GST)**

  2 980 829 Barloworld ordinary shares were issued to the GST at par. These shares were allocated to qualifying employees on 30 September 2008. The trust and the beneficiaries are entitled to receive all dividends declared by Barloworld but may not sell or otherwise dispose of the shares for five years from the allocation date.

  The shares vested in the beneficiaries on the allocation date. The shares held by the trust will be included in issued shares for purposes of calculating earnings per share.

The loans advanced by the strategic partners and the community service groups to Barloworld, totalling R1 207 million, are subject to certain covenants. These covenants, which are formally measured on 31 March and 30 September each year, include interest cover targets, earnings to net debt ratios and cash flow to interest and other debt service obligations.

These covenants are replicated in the special purpose funding entities within the lenders' structures. In addition the lenders are subject to a further covenant which requires the market value of their Barloworld shares to exceed the balance outstanding on the subordinated floating rate loan by a specified cover ratio. Should this ratio be breached, the banks which have advanced the loans have the option to sell the underlying Barloworld shares to recover their loans. In this scenario Barloworld has the option to advance an interest free loan to the lenders which restores the ratio. This option is available as a mechanism to preserve the BEE structure. In addition Barloworld is entitled to buy back any shares at the market value. Based on the shares held and the outstanding loan balances at 30 September 2008, the cover ratio will be breached when the volume weighted average Barloworld share price falls below R38 over a three day period.

In order to protect the participants against a significant increase in interest rates while the loans are outstanding, an interest rate hedge in respect of the floating rate loans was concluded with a financial institution on 18 September 2008. (Further information is provided in the sustainability report on pages 102, 103 and in the annual financial statements on page 231.)

Cash flow

The consolidated cash flow statement for 2008 includes the cash flows of all divisions and businesses while they were subsidiaries of the Barloworld group.

Operating cash flows from continuing operations, before movements in working capital, increased by 24% to R4 914 million (2007: R3 970 million).

Cash flow from operations decreased to R1 981 million (2007: R3 888 million). The cash flow in 2007 is not comparable as it includes cash flows from PPC, coatings and scientific prior to their unbundling or disposal.

Working capital increased by R1 547 million due to higher levels of trading activity particularly in the equipment division where working capital increased by R1 676 million.

Net cash used in investing activities amounted to R2 606 million (2007: R880 million) and is made up as follows:

R million	2008	2007
Net (disposals) of subsidiaries and investments	**(102)**	(1 083)
Net additions to property, plant and equipment	**804**	1 364
Net investment in fleet leasing and rental assets	**1 904**	2 283
Proceeds on disposal of leasing assets		(1 684)
	2 606	880

Net cash outflow before financing activities amounted to R1 247 million (2007: R379 million inflow).

In addition to the above outflow, an amount of £55 million (R759 million) was paid into the merged UK defined benefit pension funds to fund the actuarial deficit.

Balance sheet

Total assets increased by 11% to R33 957 million. The unbundling of coatings and the disposal of the laboratory business in the first quarter of this year reduced total assets by R2 309 million.

The currency effect on translation of offshore assets resulted in an increase of R721 million following the depreciation of the rand at 30 September 2008 compared with 30 September 2007.

Assets classified as held for sale amounted to R3 156 million (2007: R1 447 million).

R million	2008	2007
Scandinavian car rental assets	**2 681**	
Subaru Southern Africa	**185**	
Laboratory assets		972
Vehicles and equipment rental fleets and other assets	**290**	475
	3 156	1 447

Liabilities directly associated with these assets amounted to R1 996 million (2007: R210 million) including interest bearing borrowings of R1 356 million (2007: nil).

Borrowings

Total interest bearing borrowings were R10 644 million (2007: R9 066 million) and includes R300 million attributable to NMI-DSM which was consolidated into group results for the first time this year, R76 million in respect of Subaru and R1 280 million attributable to the Scandinavia car rental business.

Borrowings in the three segments utilised in the group for gearing purposes are as follows:

Total debt to equity %	Trading	Leasing	Car rental	Total group
Target range	30 – 50	600 – 800	200 – 300	
Ratio at 30 September 2008	**51**	**552**	**165**	**82**
Ratio at 30 September 2007	38	646	216	81

At the end of the 2007 financial year the maturity profile of the group's borrowings was weighted in favour of the short-term component (52:48). The proceeds of R1 207 million received in long-term funding from the BEE transaction were used to settle short-term borrowings. The long-term maturity profile at 30 September 2008 has improved to 57% (2007: 48%).

Borrowings profile R million	Borrowings September 2008	Redemption 2009	2010	2011	2012 onwards
South Africa	**7 658**	3 624	541	1 676	1 817
Offshore	**2 986**	948	729	112	1 197
Total	**10 644**	4 572	1 270	1 788	3 014

Finance director's review *(continued)*

Subsequent to 30 September 2008, the company issued a seven year bond which will further improve the maturity profile of the group's borrowings. The bond (Baw2) raised R750 million at a fixed interest rate of 11.67% per annum. The proceeds, which were received on 2 October 2008, were utilised to repay short-term debt.

Cash and cash equivalents totalled R1 238 million (2007: R1 201 million). Reserving requirements in the company's captive insurance operations restrict the use of cash balances of R292 million (2007: R235 million).

Financial ratios

		Target	2008	2007
CFROI (%)		>8	**10.3**	12.2
Operating margin (%)	– continuing operations	>6	**6.4**	5.7
Return on net assets	– Group (%)	>18	**15.1**	20.2
	– Trading – continuing operations (%)	>20	**21.0**	17.8
Return on equity (excluding exceptional items and BEE charge) – continuing operations (%)		>20	**13.7**	11.7
Interest cover	– Group (times)	>3	**2.9**	3.4
	– Trading (times)	>4	**4.4**	5.3
	– Leasing times)	>1	**1.3**	1.4
	– Car rental (times)	>1.25	**1.0**	1.8
Dividend cover (times)		2 – 3	**2.9**	3.1
Net debt/EBITDA (times)		<2.5	**1.8**	1.3
Working capital days		<35	**40**	24

The cash flow return on investment (CFROI) continues to be our key measure of real financial returns earned by the group. It is supplemented by cash value added which measures the financial value created by a business unit in excess of the group's cost of capital or selected hurdle rate. CFROI and CVA are calculated at segment level and down to individual business units within each segment.

Interest cover in the car rental business fell below target this year due to difficult trading conditions in South Africa and Scandinavia and the inability to pass on higher interest costs to customers. This adversely impacted the group cover ratio.

Accounting policies

The company's practice is to adopt accounting changes early, wherever possible. The next set of material amendments to international accounting standards are only due for adoption by the company in 2010. These amendments will be considered next year and will be adopted early, wherever possible.

New accounting standards adopted this year include IFRS7 Financial Instruments: Disclosures, IAS1 Presentation of Financial Statements (Revised), IFRIC13 Customer Loyalty Programmes and IFRIC16 Hedges of a Net Investment in a Foreign Operation.

None of these changes have a material effect on current or prior results of the company.

The disclosures required in terms of IFRS7 are dealt with in the notes to the financial statements.

Acquisitions and disposals

The company disposed of its 65% shareholding in Garden City Motors (Proprietary) Limited to its 50% held joint venture company, NMI-DSM in return for additional shares in NMI-DSM. This transaction resulted in the company's shareholding in NMI-DSM increasing to 51.2% and NMI-DSM was consolidated into the Barloworld group results with effect from 1 March 2008.

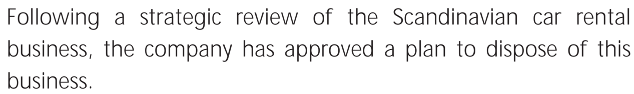
The company acquired the Swift, SAT and Flynt sea and air freight businesses in April and May 2008 for a combined purchase price of US$88 million (R711 million). The acquisition was funded from offshore cash resources.

These acquisitions contributed revenue of R836 million and operating profits of R18 million since their acquisition.

The more significant disposals during the year included:

- The laboratory business for R1 077 million;
- The Iberian lift truck assets for €30 million; and
- The South African handling rental book for R436 million.

Following shareholder approval on 23 November 2007, the coatings division was listed separately on 3 December 2007 and unbundled to shareholders on 10 December 2007.



Following a strategic review of the Scandinavian car rental business, the company has approved a plan to dispose of this business.

Subsequent to the year end we have reached agreement to dispose of 50% of our shareholding in Subaru Southern Africa to Toyota Tsusho Corporation, a company owned by the Subaru vehicle manufacturer, Fuji Heavy Industries.

Shareholder information

In addition to the 21 688 096 ordinary shares issued in terms of the BEE transaction, a further 1 347 125 ordinary shares were issued to satisfy the requirements of the company's share option scheme. An equivalent of 17 837 387 shares issued in respect of the BEE transaction will qualify for this year's final dividend.

Dividends

Dividends totalling 250 cents per share were declared in respect of this year's earnings (2007: 375 cents).

The year ahead

The company's balance sheet is strong and operating cash flows are good. The current financial crisis has introduced considerable uncertainty in many markets around the globe. The focus in the year ahead will be on improving cash flows by critically evaluating capital expenditure and reducing working capital. Interest-bearing debt will be further reduced upon completion of the disposal of the Scandinavian car rental business.

Don Wilson
Finance director