

# Operational review

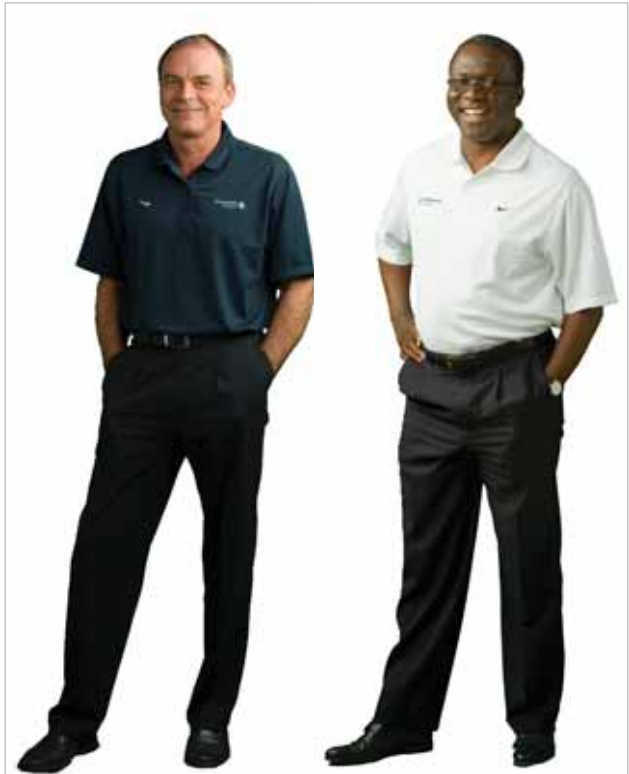


# Logistics

## Operational profile

Our strategy is to grow a significant, international logistics business for Barloworld. We combine the more 'intellectual' aspects of logistics that is strategy, planning, management and integration with excellent operational execution.

This is achieved by developing and acquiring skills and sharing knowledge spanning the full spectrum of supply chain management, across multiple geographies.



**Paul Stuver (51)**  
 Chief executive officer:  
 Logistics  
 BSc Eng  
 25 years' service

**Isaac Shongwe (46)**  
 Chief executive officer:  
 Africa  
 BA (Hons), MPhil (Oxon)  
 3 years' service

### Areas of operation

Supply chain management	Freight forwarding	Warehousing and distribution	Consulting and software	Dedicated transport services
Africa	Africa	Africa	Africa	Africa
Middle East	Middle East	Middle East	Middle East	
Asia	Asia	Asia	Asia	
Europe	Europe	Europe	Europe North America	

## Operational review *(continued)*

# Logistics

### Operating units and geography

Barloworld Logistics is structured into four geographic business units:

- Africa
- Middle East & Asia
- Iberia
- UK & USA

Depending on the geographic area we offer the following logistics services:

- Dedicated Transport Services (DTS)
- Freight Forwarding and Customs clearing (FF)
- Warehousing and Distribution (W&D)
- Supply Chain Management (SCM)
- Consulting and Software Solutions

Countries where we have significant operations and/or offices include South Africa, Namibia, Botswana, Zambia, Kenya, Uganda, Nigeria, Tanzania, Democratic Republic of the Congo, Burundi, the UAE, Hong Kong, China, Spain, Portugal, Germany, the UK and the USA.

### Leadership team

**Paul Stuver (51)**  
Chief executive officer:  
Barloworld Logistics  
*BSc Eng*  
25

**Isaac Shongwe (46)**  
Chief executive officer:  
Barloworld Logistics Africa  
*BA (Hons), MPhil (Oxon)*  
3

**Warren Erfmann (39)**  
Chief executive officer: Barloworld  
Logistics Middle East and Asia  
14

**Frank Courtney (43)**  
Chief executive officer:  
Barloworld Logistics Iberia  
*BTech*  
13

**Richard Forrest (46)**  
Chief executive officer:  
Barloworld UK and USA  
*BComm*  
18

**Rob Lumb (38)**  
Financial director  
*BCom, CA(SA)*  
8

**Mark Tarlton (49)**  
Director: Knowledge and information  
technology  
*BSc Eng, MBL*  
21

**John van Wyk (40)**  
Head of marketing and sales  
5

*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
Southern Africa	1 970	1 088	105	76	430	400
Europe, Middle East & Asia	1 238	371	30	19	855	67
	3 208	1 459	135	95	1 285	467

\* Excludes inter group revenue of R400 million (2007: R747 million).

### Overview

Building on our success in Africa during previous years, we stepped onto the global logistics stage during 2008 with the acquisitions of Flynt International based in Hong Kong, Swift Freight based in the United Arab Emirates and Sea Air Transport (SAT) based in Germany.

These acquisitions position us in a freight network stretching from Asia to the Middle East, Africa and Europe.

The acquired businesses are active in all aspects of freight forwarding, including inter-modal sea-air freight services, as well as warehousing and distribution services.

Following the acquisitions, Barloworld Logistics will generate annual revenues in excess of R6 billion through offices and operations in more than 16 countries, staffed by 2 500 employees.

### Integrated logistics solutions

Integrated logistics is an iterative process of conceptualising, designing, implementing, operating, measuring and improving activities in a supply chain.

We offer integrated logistics solutions by combining the more 'intellectual' aspects of logistics with operational excellence, to create competitive advantages for our clients. Our involvement typically results in a reorganisation of clients' supply chain activities to ensure that their supply chain will support their overall business strategy.

By managing supply chains holistically and by optimising inter-dependent activities we typically achieve improved service levels at lower cost.

Our focus on supply chain strategy, proprietary software and considerable experience in supply chain consulting enable us to engage with clients at a senior executive level. Once a new strategy or business model has been agreed we are able to implement and execute the required changes and to manage the subsequent, day-to-day operations.

### Logistics industry

It is estimated that logistics activity accounts for approximately 15% of all global economic activity. Driven by globalisation and international trade, global logistics remains a dynamic and fast-growing industry. Key indicators of logistics activity such as international trade indicate growth rates that are significantly higher than the growth in underlying economies.

### Trading environment

The most pertinent issue currently facing the industry is the problem of rising or fluctuating fuel costs. This impacts directly on the area of most significant logistics spend, i.e. air, land and sea transportation. It has been estimated that a one dollar rise in oil prices will result in a 1% increase in overall transportation costs.

Instead of simply absorbing the cost increases resulting from higher fuel prices, clients are looking to mitigate the increased costs by investigating ways to re-engineer their supply chains, raw materials sourcing, transportation modes, infrastructure and inventory patterns.

This is resulting in increased demand for the more 'intellectual' logistics products such as demand planning, network modelling, inventory management and general consulting services. These products will in turn lead to new opportunities in the implementation of traditional services such as transportation and freight forwarding.

### People

Integrated logistics is a knowledge based business that relies heavily on skills and experience across all aspects of supply chain management. To maintain our historic growth and our operational excellence we need to continuously build the organisation's capacity to deploy the requisite skills and experience in all geographies.

In order to achieve this we have launched a number of strategic initiatives to improve our global management of people-talent and the transfer of knowledge and experience between geographic regions.

# Operational review *(continued)*

## Logistics

### Business review: Africa

Our business model has come of age in our South African operations and continues to generate opportunities for further organic growth. Opportunities to expand into other areas in Africa exist mainly through existing clients' expansion plans into Africa and by building on the geographic footprint of the acquired Swift business.

### Supply chain management

The Supply Chain Management unit continued to grow its base of blue chip clients during 2008. The unit significantly expanded its business with Unilever, concluded an agreement with Nike to construct and manage their warehousing and distribution network in southern Africa during the next five years and expanded its management of integrated warehousing and distribution activities in the automotive, retail, manufacturing and fast-moving consumer goods industries.

A first significant step with regard to following existing clients into other parts of Africa occurred when we were awarded the management of warehousing and distribution activities for Zambia Sugar, a subsidiary of Illovo Sugar in South Africa.

### Freight forwarding and customs clearing

Despite higher costs of fuel coupled with higher interest rates impacting many of our clients, our freight forwarding division performed well and increased gross revenue by 25%. This can be mainly attributed to increased activity from Barloworld subsidiaries such as Barloworld Equipment, and by strong performances from newly acquired clientele.

During 2008, significant focus was placed on operational improvement through the implementation of new information systems, a decision to implement ISO 9001 and introduction of a

new sales model, which focused more on integrated logistics solutions.

### Dedicated transport services

Our dedicated transport services division has a strong presence in Gauteng, North West, KwaZulu-Natal, Eastern Cape, southern Cape and in the Western Cape and we operate/manage over 260 large vehicles in South Africa.

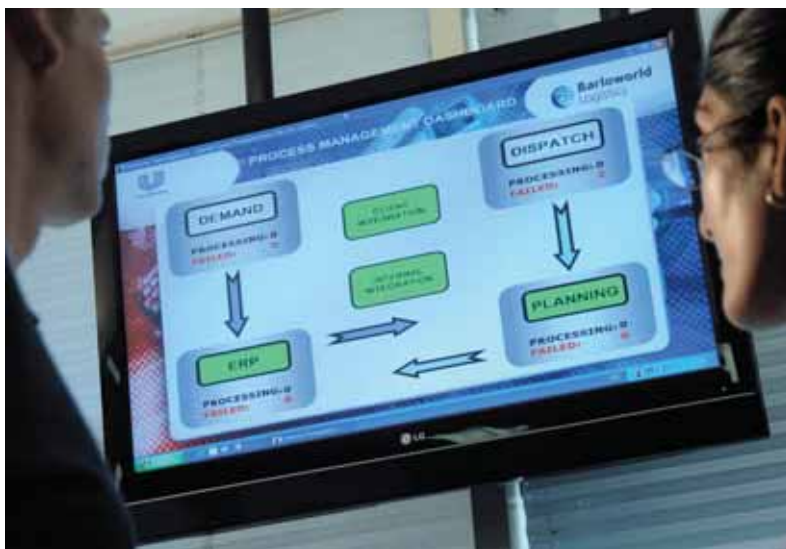
One of our successful business models developed during recent years includes owner-drivers managing and owning vehicles which are outsourced but work in tandem with our own fleet. During 2008 our owner-driver complement increased to over 100 individuals, who have become small business owners.

### Consulting and software solutions

During 2008 we consolidated our supply chain software, supply chain engineering and supply chain strategy departments into a supply chain consulting and software offering. This laid the foundation to deliver complex supply chain solutions through a highly talented team, world-class technologies and inspiring leadership.

We successfully completed large projects in the mining, automotive, consumer goods, information technology, communications and parastatal sectors that covered aspects such as:

- Revenue management
- Demand management
- Sales and operations planning
- Throughput optimisation
- Carbon footprint calculation and network optimisation
- Strategic sourcing
- Combined inventory and network optimisation



The Supply Chain Management unit continued to grow its base of blue chip clients during 2008.

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## Case Study

### During 2007 Illovo Sugar and Barloworld Logistics were awarded a Platinum Award at the South African Logistics Achiever Awards

Illovo Sugar in South Africa produces more than a million tons of sugar annually from seven sugar mills. Approximately half is exported whilst the remainder is distributed locally through 18 distribution points to over 2 500 retail and industrial customers in southern Africa.

During 2004 Barloworld Logistics was awarded a 10 year contract to re-engineer and manage all of Illovo's outbound supply chain activities.

In support of the Illovo group's goals and strategy, the Barloworld Logistics team delivers an integrated logistics solution that:

- Mobilises and aligns more than 180 employees, 30 service providers, multimodal transportation activities and seven different management teams to achieve common supply chain objectives;
- Collaborates with other service providers to achieve mutually-beneficial improvements and operational efficiencies;
- Integrates seven information systems across three companies using latest technology and support;
- Provides visibility of key information for Illovo's management, marketing and strategy departments;
- Returns a superior service level with on-time delivery now at more than 96% from a starting point of 82% during 2004; and
- Has achieved significant cost savings and efficiency improvements.

Significant additional savings have been identified through further re-engineering and optimisation of the Illovo distribution network.

The increased efficiency and capacity created through Barloworld Logistics' involvement has enabled Illovo Sugar to achieve sales volume growth of more than 20% since 2004 whilst simultaneously improving service and reducing supply chain costs.

## Operational review *(continued)*

### Logistics

#### Business unit review: Middle East & Asia

Our primary focus during 2008 was the successful restructuring and integration of the Flynt, Swift and SAT acquisitions, ensuring that they delivered their expected financial returns and starting to develop some of the envisaged growth opportunities.

Since 1989, Swift and SAT have jointly developed a multi-modal freight forwarding operation, shipping sea containers from ports all over south east Asia into Dubai, consolidating and transshipping cargo from sea to air-freight terminals in Dubai and air freighting cargo into western Europe.

The combined sea-air service delivers approximately 35 000 tons of cargo annually from south east Asia into western Europe with average transit time of 16 days, at approximately half the cost of direct air cargo from south east Asia.

During 2007 and 2008 the sea-air model was extended from south east Asia via Dubai into Africa and has been extremely well received.

Growth has been strong due to congestion of air-freight in south east Asia whilst regional airlines in the Middle East are aggressively adding air freight capacity. The sea-air inter-modal transportation model is ideally positioned as a cost-effective and efficient alternative to the more traditional sea and air freight models.

#### Business unit review: Europe

Our warehousing and distribution operations in Iberia struggled during 2008 whilst we fixed inadequate processes and systems that were making it impossible to grow the business or even maintain its historical performance. During 2009 we will be

looking to consolidate the significantly better results which started to manifest themselves during the latter part of 2008.

Our software business in the UK has built up strong expertise in providing solutions and tools for supply chain planning. Our expert industry knowledge, teamed with specialist staff and our understanding of the underlying technologies makes us the ideal partner to solve complicated supply chain challenges.

During 2008 we launched a new, innovative software product which combines strategic inventory management and network modelling. Going forward we plan to entrench CINO (Combined Inventory and Network Optimiser) software in the UK market and increase our sales focus in the USA market.

#### Transformation: Africa

Barloworld Logistics Africa is currently at BBEE Level 5 and is targeting to achieve a Level 4 rating during 2009.

Our aim is to maintain a position as the leader of transformation in the South African logistics industry.

Our current status and future plans are as follows:

- Ownership: 25% BEE shareholding by Letsema Holdings.
- Management: The board of directors of Barloworld Logistics Africa has been significantly restructured.
- Employment equity: Targets met as per Department of Labour five year plan. More work still required at senior management level.
- Skills development contribution to the BEE rating continues to improve.
- Preferential procurement continues to improve, with most suppliers getting accredited and furnishing their accreditation



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In our African business we will be looking to maintain our organic growth momentum in southern Africa and to accelerate our growth into other parts of Africa.



credentials as part of the tender process. This will also be enhanced by our owner-driver procurement services.

- Enterprise development significantly enhanced by owner-driver scheme. This trend should continue as we have plans to increase the current owner-driver fleet.
- Corporate social investment. We facilitate a voluntary programme where all employees are encouraged to spend at least one working day per annum on community projects. This is estimated as a R1.25 million contribution based on payroll cost per employee per day.

Our main challenges and focus with regard to BEE transformation are employment and gender profiles at senior management level.

## Outlook

Globalisation, changing economic landscapes, consumer patterns, environmental norms and fuel costs are shaping the future of global logistics. As a result, the industry will continue to change and offer many new opportunities.

In our African business we will be looking to maintain our organic growth momentum in southern Africa and to accelerate our growth into other parts of Africa. Due to its organic growth it is expected that the African business will remain our largest profit contributor for some time into the future.

One specific initiative in our quest to grow into other parts of Africa is associated with the Swift network. Current Swift services into Africa include the sea air model (SAM), which was introduced from Dubai into Africa during 2007 and is showing considerable promise. SAM is the first combined sea-air transport solution into several destination points in Africa with scheduled services from origin points in the Far East and India, via transit points in Dubai.

Other niche African services include Swift Perishable Logistics operating from the Dubai Flower Centre, offering African farmers and traders opportunities to export perishables around the world via Swift's African network.

In Europe we see opportunities to duplicate our success with the integrated logistics business model in southern Africa, by making a number of small but significant investments to grow our business in the UK. A significant first step in this regard has been a contract to manage Barloworld Handling's transportation needs in the UK.

A longer-term objective for Barloworld Logistics will be to migrate all our businesses in different geographies to the same integrated logistics business model that achieved so much success in southern Africa.