

Chairman and Chief Executive's Report

The group performance for the year, particularly our operations outside southern Africa, was significantly impacted by the global economic downturn. However an intense focus on cash flow and working capital management resulted in positive cash generation, reduced debt levels and a strong balance sheet.

The group operating profit was 25% lower than in 2008 while headline earnings per share from continuing operations declined 43% due to higher finance costs and adverse financial instrument adjustments resulting from the stronger rand.

The board declared a final dividend of 70 cents per share giving a total of 110 cents for the year.

Decisive action was taken to realign our cost base to reflect lower activity levels and this resulted in restructuring charges of R139 million, principally in Iberia. We maintained or improved our market leadership position in many of our operations through the downturn, which will ensure we are well placed to take advantage of the upturn when it comes.

While we have tried to minimise the impact of the downturn on our people, there have regrettably been some reductions in the past year. Our geographic and market diversity allowed us to redeploy a significant number of people who might otherwise have been retrenched.

The equipment division has achieved a solid result in southern Africa in a slowing market. The diversity of this division's market offering and geographic presence in 11 southern African countries, together with its integrated solutions model, has proved resilient in the difficult environment.

Stringent cost reductions and restructuring enabled us to generate a small profit in Iberia despite steep declines in the construction industry. Revenue and profitability declined in our Siberian joint venture, although mining activity held up better than other segments.

The automotive division performed exceptionally well under difficult industry conditions. The southern African and Australian motor retail operations increased their market share, Avis Rent a Car improved its margin in a competitive environment and our fleet services operations increased their total fleet under management and improved overall profitability.

Continued declines in the lift truck market in the UK, the USA and the Netherlands resulted in operating losses in our handling division. South Africa produced a profit despite a shrinking market in the past year. We increased market share in most territories and there are some signs of stabilisation in the UK and the USA.

The logistics division increased revenue, mainly due to the Swift acquisition in the previous year, and the southern African operations continued to perform satisfactorily in a declining market. Losses were incurred in Europe, the Middle East and Asia, but the rate of loss slowed in the last quarter following restructuring initiatives.

Corporate activity

Discussions are continuing with interested parties on the disposal of our Scandinavian car rental operations.

During the period under review, we sold 50% of Subaru Southern Africa to Toyota Tsusho Corporation.

BEE and transformation

During the year, the value of the Barloworld shares held by the banks as security for funding our Black Economic Empowerment partners declined below specified levels. In the interests of the sustainability of the transaction our board resolved that the company place R125 million in an interest bearing deposit account to underpin the security held by the banks. Subsequently our share price improved and in September 2009 R31 million of the deposit was returned.

Each of our South African business units has achieved Level 4 or better on the Department of Trade and Industry's Broad Based Black Economic Empowerment (BBBEE) scorecard. This means that companies purchasing from the group will receive 100% credit for their procurement spend with our subsidiaries for the purpose of their own BEE scorecards. Comprehensive plans are in place to ensure continued improvement.

Directorate

Two new members were appointed to the board.

Johnson Njeke was appointed as an independent non-executive director and a member of the audit committee with effect from 16 September 2009 and Peter Bulterman, CEO of Barloworld Equipment southern Africa, joined the board as an executive director on 1 October 2009.

Mike Levett retired in January 2009 after 23 years of committed service to the board and various board committees. His valuable contribution is greatly appreciated.

Outlook

Just over 12 months after the demise of Lehman Brothers, economists are now forecasting a recovery in the global real economy. It would appear that the emerging market economies have shown greater resilience and have been quicker to rebound from the global downturn. The expectation is that the major European economies will have emerged from the recession by year end while June may have been the last month of the US recession. The general expectation is that the developing economies will grow at a faster rate than the developed economies in the coming year.

The South African economy has seen 3 consecutive quarters of contraction and the expectation is that GDP will shrink by 2% in 2009. The South African Reserve Bank has cut interest rates by 500 bps since December 2008 and rates are currently back to levels last seen in June 2006. The South African consumer however remains relatively indebted and the decline in rates has yet to translate into increased consumer demand.

The recovery in world economic growth should result in an increase in the demand for commodities, while the prevailing low interest rate environment should favourably impact new mining projects. Nevertheless our mining order book going into 2010 is considerably lower than a year ago.

The South African economy will remain under pressure into the new year with the strong rand hampering the recovery. While public infrastructure projects will underpin demand, we nonetheless expect the construction market in South Africa to remain slow.

In Iberia the construction sector will continue to be under pressure as the oversupply situation prevails in the residential market. The current expectation that the Spanish budget deficit will worsen to close to 12% of GDP in 2010 means that the government is unlikely to be able to fund increased spending on major public work projects.

The recession in Spain has been particularly harsh and current unemployment levels are approaching 19%. Spain is only forecast to exit the recession in late 2010 and we are therefore forecasting limited recovery in the coming year.

Our automotive business remains well positioned to benefit from the improvement in consumer confidence that we expect in 2010. The decline in new vehicle sales would appear to have bottomed and will further improve as consumer confidence returns and banks soften their credit extension policies.

The car rental business is likely to be difficult in the first half but should see a strong improvement in the second half with the build up to the World Cup tournament. The fleet services business will benefit from increased demand as fleet operators continue to outsource both financing and management of their fleets.

The handling operations in the USA and Europe should show some improvement in trading as the economic recovery gains traction. Handling in South Africa was impacted later in the cycle and we therefore expect the recovery to be later in 2010.

Our logistics business should benefit as new supply chain projects come to fruition in the new year. We anticipate organic growth in our African operations while the Middle East and Asian operations should benefit from the forecast improvement in world trade.

The focus on cash flow and working capital has resulted in reduced debt levels while cost reduction initiatives undertaken will ensure that any upturn in economic activity will translate into improved profitability.

While we anticipate that 2010 will be another challenging year, sentiment has improved, and we believe that the company is well placed to capitalise on the expected upturn when it occurs.



DB Ntsebeza
Chairman



CB Thomson
Chief Executive Officer