Operating review

The operating environment for the period under review has been challenging, particularly for our international operations. Severe recessions are forecast in the United States and Europe and the global economy is expected to contract in 2009 for the first time in the post war period. The South African economy has not been immune with GDP contracting by 1,8% in the last quarter of 2008 and every sign points to contraction in the first quarter of 2009. This means that the SA economy will now also be technically in recession.

Revenue to March from continuing operations increased by 6% to R22.5 billion while operating profit decreased by 20% to R1 045 million. Excluding the restructuring costs of R114 million which have been incurred as part of our expense reduction plans, operating profits are 12% lower.

Equipment southern Africa performed well with revenue 20% up on the prior year and operating profits increased by 37% to R731 million. Despite the deferral of certain projects, the southern African operations experienced strong deliveries to the mining sector, mainly driven by coal and iron ore. Construction demand relating to infrastructure projects has also held up well. Angola continues to generate a significant contribution to equipment operating profit due to increased activity mainly in the construction segment as well as benefiting from a weaker rand.

In Iberia the Spanish economy has continued to deteriorate. The fall-off in the construction market in Spain has been precipitous with the equipment industry unit sales down by approximately 65% in 2008. This negative trend has continued into 2009. Significant cost reduction plans have been implemented in both Spain and Portugal. Redundancy costs of R95 million (€7.3 million) were incurred in the first half for the negotiated staff reduction programme to realign the expense base to current activity levels. On the positive side the business gained significant market share and generated R578 million (€51 million) in cash for the period.

In Siberia revenue for the first half was 9% down on the prior year following lower trading levels mainly in the construction sector. Operating profits were marginally down.

The automotive division delivered a good result considering the difficult trading conditions with operating profits up 3%. Avis Rent a Car southern Africa generated revenue in line with the prior year notwithstanding that rental days were 8% down. The reduction of the fleet size by close to 10% has resulted in improved fleet utilisation and improved margins compared to the second half of 2008. The Scandinavian car rental business which is disclosed under discontinued operations was cash positive despite continued poor market conditions in all three countries in which we operate. Avis Fleet Services continued to grow both revenue as well as profits.

The motor retail business in southern Africa performed well in a declining market. Profit for the first half was 40% up on the prior year and benefitted from the consolidation of our NMI-DSM operations for the full period. The Australian motor retail business produced a result down on the prior year following the decline in the local motor industry.

In the handling division, the agriculture business continued to perform well but the lift truck market in South Africa has declined from last year. While the USA and UK handling businesses remained under pressure with both economies still depressed, we grew market share in the USA and maintained share in the UK. Markets in Belgium and the Netherlands are significantly down on last year.

The logistics division has generated significantly higher revenue following the acquisition of the Dubai based Swift group and the Flynt operations in Hong Kong. The southern African business produced a satisfactory result despite difficult market conditions. The international operations in Iberia and UK incurred losses in the period under review while reduced volumes for Dubai and Hong Kong resulted in a lower than expected profit from the newly acquired businesses.

Headline earnings per share from continuing operations decreased by 46% to 199.6 cents. The reduction in earnings can mainly be attributed to the decline in operating performance in equipment Iberia, losses on financial instruments and higher net finance costs.

The board considered it prudent to reduce the interim dividend given the uncertainty prevailing in the current economic climate and credit markets. An interim dividend of 40 cents per share was declared.

Corporate activity

We, together with our appointed advisors, are continuing with the disposal process of our Scandinavian car rental operations. A confidential information memorandum has been distributed to interested parties after signing non-disclosure agreements. The process is progressing according to plan.

BEE and transformation

During the period, 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.

Our South African businesses have all been formally rated by an accredited agency and have achieved Level 4 or better BBBEE ratings, which 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.

Directorate

Mike Levett retired from the Board on 29 January 2009 after serving for more than 23 years. His valuable contribution to the board and the various board committees on which he served is greatly appreciated.

Outlook

It remains unclear how long the large western economies will remain in recession. Government intervention in the form of fiscal stimulus packages and monetary easing would appear to be having some impact in slowing down the sharp declines experienced. Economists believe that the US economy may bottom out in the latter part of 2009 but are unable to predict the timing of any upturn. The confidence levels of the highly indebted US consumer remain low in the wake of rising unemployment, falling home prices and tighter credit requirements.

Despite some expected slowdown in activity and a stronger rand in the second half, equipment southern Africa should hold up well due to our geographic diversity, our resilient business model and the range of commodities mined in our territories. Infrastructure spend is set to continue and the power business is well positioned to capitalise on opportunities.

In Iberia the Spanish government fiscal stimulus plans should arrest the decline in economic activity in the latter half of the year with funding for some infrastructure projects coming on stream. Decisive management action taken to reduce the cost base will also yield benefits in the second half.

Whilst the gold mining and forestry segments remain relatively strong in Russia, the slowdown in other commodities and construction will result in lower revenues and profitability in the second half.

In the automotive division, rental day volumes for the Avis Rent a Car operation in southern Africa will remain under pressure, but should be countered by improved fleet utilisation. The motor retail business in southern Africa is anticipated to hold its own in a market where we expect new vehicle sales to remain under pressure for 2009, but the used vehicle profit contribution is forecast to improve. The weaker Australian retail market is likely to persist. Avis Fleet Services should continue to do well.

In the handling division, trading in the agriculture business should remain strong but the lift truck market in South Africa will be down as the economy slows. Trading conditions will continue to be difficult in the USA and Europe and the focus will be on improving efficiency and reducing costs further through management initiatives being implemented.

Our logistics business in South Africa is expected to perform satisfactorily, however, the international operations will continue to be adversely impacted by the drop in trade volumes as a result of the global economic downturn.

The overall trading environment in the second half is expected to remain difficult. In these circumstances we will retain our focus on cash flow generation through operational efficiencies and expense reduction, working capital improvement, streamlining capital expenditure and optimisation of rental and leasing fleets. These initiatives will result in strong cash flow for the full year which will reduce debt and strengthen the group balance sheet. Furthermore, we expect to entrench our positions of market leadership through product and service excellence. This will ensure that we are well placed to weather the economic downturn and position ourselves for long term success as the external environment improves.

DB Ntsebeza
Chairman

CB Thomson
Chief Executive Officer