

Barloworld group top risks (in alphabetical order)

Key risks	Category of risk and management response
<p>Acquisition underperformance</p> <p>The risk of future net cash flows from acquisitions failing to realise the projections upon which the initial purchase consideration was based may lead to value destruction for shareholders and a need to impair the related goodwill or assets.</p>	<p>Acquisition risk</p> <ul style="list-style-type: none"> • A business acquisition policy and procedure is in place that sets out a structured approach and framework to be used when acquisitions are being made. This includes a pre-acquisition phase that includes the requirement to conduct a comprehensive strategic analysis of intended targets, development of acquisition criteria, both strategic and financial, and quantification of risk adjusted value creation potential for the respective business unit and the group. • The CEOs and CFOs of each business unit are responsible for ensuring that the policy and procedures are adhered to. • Following acquisitions, planning and task teams are established to focus on the realisation and management of possible synergies.
<p>Competitor actions</p> <p>Competitor actions will erode our competitive position and have a significant impact on the value we create for shareholders.</p>	<p>Competitor risk</p> <ul style="list-style-type: none"> • Continually reduce costs by focusing on operational efficiencies and staff training. • Continually improve service and the provision of innovative solutions to customers. • Develop key customer plans which contain all the information and strategies to satisfy the customer.
<p>Currency volatility</p> <p>Movement of currencies against one another, mainly the movement of other currencies against the rand which creates risks relative to the translation of non-rand profits, the marking-to-market of financial instruments taken out to hedge currency exposures and the cost of imports into South Africa.</p>	<p>Financial risk</p> <ul style="list-style-type: none"> • The responsibility for monitoring and managing these risks is that of line management. A group treasury policy is in place which clearly sets out the philosophy of hedging, guideline parameters within which to operate and permissible financial instruments to be utilised. • Preventative measures are implemented around determination of pricing mechanisms and structuring of commercial contracts to negate the impact of any adverse currency fluctuations.
<p>Dependence on principals and suppliers</p> <p>Some of the businesses in the group are dependent on a small number of principals and/or suppliers.</p> <p>Our success is therefore linked to their ongoing financial stability, the competitiveness of their products and services and the availability of equipment to meet customers' needs.</p> <p>In order to ensure sustainable value creation, we depend on suppliers of infrastructure in the countries in which we operate. Most of our businesses are dependent, <i>inter alia</i>, on reliable power and water supply and appropriate transport networks.</p>	<p>Strategic risk</p> <ul style="list-style-type: none"> • Add value by giving constant feedback to our principals on market movements and product competitiveness. • Continually improve/build our relationships with our principals and major suppliers and attempt to ensure that we are the preferred dealer/customer. • Provide excellent customer service and lead in our markets. • Build smart partnerships with customers. • Build relationships with local authorities. • Align strategies and targets with those of our major principals as far as possible.
<p>Exposure to equipment and motor vehicle buy-backs and residual values</p> <p>Some of the group's businesses could be exposed to losses due to contractual obligations to buy back equipment or motor vehicles previously sold or rented out, at prices above market or replacement cost at the time of being compelled to repurchase. This risk could arise, <i>inter alia</i>, through inadequate valuation skills at the time of determining the buy-back amount, poor condition of equipment and motor vehicles repurchased or significant shifts in the economic environment adversely impacting used values.</p>	<p>Financial risk</p> <ul style="list-style-type: none"> • This is managed by ensuring adequate valuation competencies, managing inventory levels, optimally structuring contracts, modelling transactions to ensure adequate economic return, continually scanning market conditions, hedging currency risks and monitoring the use and condition of equipment and motor vehicles in respect of which obligations exist.

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<p>Exposure to political risks, terrorism and crime in the countries in which we operate</p> <p>The group's people and assets are spread through numerous countries around the world, while our activities are conducted in many more. The possibility exists that our people and assets, and the viability of the businesses, are exposed through acts of terrorism, political turmoil or crime in some of the regions in which the group operates, as well as in those that may be the subject of expansion. Business growth initiatives require that new markets and territories are the focus of our business expansion. These opportunities come with their own distinct risk exposures.</p>	<p>Operational risk</p> <ul style="list-style-type: none"> • Minimise exposure in high-risk countries through thorough and in-depth risk assessments, coupled with the application of preventative and corrective risk management activities. • Maintain flexible business models. • Maintain Business Continuity Plans that incorporate emergency response actions, crisis management and business recovery plans specific to the businesses and the respective territories in which the businesses operate.
<p>Exposure to significant customers and dependence on channels to market</p> <p>The risk that we are exposed to certain large customers and/or industries and that well-established distribution channels may change or consolidate.</p>	<p>Market risk</p> <ul style="list-style-type: none"> • Build smart partnerships with customers. • Develop customer solutions which differentiate and expand our offering from product-based businesses. • Diversify customer base. • Develop new channels.
<p>Global economic slowdown/credit crisis</p> <p>The effect of the slowdown on our businesses, customers, suppliers and funders and the risk that funding constraints within the supply chains will extend the recession or at least delay any recovery.</p>	<p>Financial risk</p> <ul style="list-style-type: none"> • Inflationary pressures to be carefully monitored and managed, as appropriate, in each business. • Reduce costs and improve operating efficiencies. • Monitor our customers' ability to spend. • Reduce working capital, limit capital expenditure and improve cash flow. • Secure adequate committed short-term borrowing facilities.
<p>Regulatory environment</p> <p>Many of the group's activities are governed by regulations. Due to the complexity and changing nature of these regulations across the industries and geographical spectrum of the group's activities, there are challenges in staying abreast of all developments and maintaining full compliance.</p>	<p>Regulatory risk</p> <ul style="list-style-type: none"> • Management is responsible for the ongoing monitoring of all pending and actual changes to the group's regulatory environment. Due to the large number of jurisdictions which govern the group's activities, this monitoring occurs in each relevant country of operation. • Where feasible, the group will comment on proposed changes to the regulatory environment that may adversely affect the group in a particular jurisdiction.
<p>Strategic employee skills</p> <p>Barloworld's key asset is the intellectual capacity and skills of its employees. This necessitates ongoing management of the challenges regarding recruitment, succession planning, skills retention and development.</p>	<p>Employee risk</p> <ul style="list-style-type: none"> • Barloworld has a comprehensive employee approach and related set of initiatives to align employees with the strategy of the organisation. • These identify and align all employee elements of a value-creating organisation to ensure sustainable intellectual capacity and value creation competence. • Through performance management systems, employees' purpose, role, function and accountabilities are defined, and using competency-based assessments, employees are regularly reviewed to ensure the appropriate skill sets are available to enable performance at optimum levels. Extensive training resources and facilities are in place to assist and encourage employees to enhance their levels of competence and performance. • An appropriate suite of reward and incentive schemes ensures recognition, value creation for employees and retention of high-performing employees. • Focused initiatives and arrangements have minimised the negative effects of difficult economic conditions on employees and the company's skill base. These also ensure the required skills are in place to optimise any opportunities presented by improved economic circumstances.