

**Barloworld**  
*Leading brands*

.....  
Integrated Report 2013

Excellence makes a world of difference



Our 2013 report focuses on...






# Our strategic framework

Six Strategic Focus Areas are constituent through the operations and align group activity, inform risks and provide a framework to identify opportunities. Top imperatives are determined for each Strategic Focus Area to facilitate prioritisation and resource allocation.

This approach is replicated in all divisions and functions, resulting in a structured, coordinated and integrated long-term value creation strategy for all stakeholders. Barloworld follows a systematic, structured and integrated planning process throughout the group, culminating in the group strategy.

*The report structure is aligned to these Strategic Focus Areas to form the context in which material issues are highlighted and reported on.*


*We have used icons for these key areas of strategic focus and provided page references to aid in navigation throughout the report.*


Strategic Focus Areas	Page reference
 Profitable growth	Page 40
 People	Page 44
 Integrated customer solutions	Page 50
 Sustainable development	Page 74
 Empowerment and transformation	Page 90
 Financial returns	Page 98





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<http://www.youtube.com/barloworldLimited>

Navigation aid

 Web links [www.barloworld.com](http://www.barloworld.com)

 Global Reporting Initiative – Sustainability Reporting Guidelines G3.1 (GRI G3.1) links to <http://www.barloworld-reports.co.za/integrated-reports/ir-2013/gri-index/index.php>

 Global Reporting Initiative (GRI G3.1) Content Index and Barloworld responses. Our response to GRI G3.1 is aligned with Application Level A+. This is with reference to the

 information disclosed in this integrated report as well as the information provided on our website.

**We value your feedback**

To ensure that we report on issues that matter to our stakeholders please provide any feedback and questions to: [Invest@barloworld.com](mailto:Invest@barloworld.com) or visit [www.barloworld.com](http://www.barloworld.com) to download the feedback form.

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[www.barloworld.com](http://www.barloworld.com)



Online integrated report  
For quick access on your mobile to the Barloworld website scan this QR code.

## About the report

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This is Barloworld

What is material to us

Strategic performance

Corporate governance

Assurances



## Report scope and boundary

The integrated report covers the financial period of 1 October 2012 to 30 September 2013 highlighting all the 26 geographical territories of the Barloworld group, including all subsidiaries. Associates and joint ventures are equity accounted. The consolidated data incorporates the company and all entities controlled by Barloworld as if they are a single economic entity. There are no other entities over which the group has significant influence that it believes should be included in the report. Both financial and non-financial data is aligned to the same financial reporting period allowing for comparison of performance data.

Barloworld has embraced the framework of integrated reporting giving perspective to broad stakeholder interests; and the report is guided by various codes and standards, including King III on the material matters affecting the various stakeholder groups.

The report provides a perspective of past and current performance, while giving sight of future prospects; and addressing the short, medium and long-term account of the various resources employed in the value creation activities. Any limitations will be disclosed in the relevant section.



Barloworld has been on an evolving journey of integrated reporting in line with various guidelines which include giving our stakeholders a view into the workings of the organisation. The intent is to continue following this framework, and as part of that evolution this year we have included an integrated business model that gives colour into the central tenet of our Value Based Management approach.

## Significant changes during the reporting period

Significant changes since 2012 include: The acquisition of Bucyrus Russia mining equipment sales and support business effective 3 December 2012; Barloworld Logistics Africa (Pty) Limited entered into a transaction which resulted in a merger of its Dedicated Transport Services unit with the Manline group forming Barloworld Transport Solutions, a 50.1% subsidiary effective from 30 January 2013; the acquisition of TCS Logistics (Pty) Limited, a business specialising in moving abnormal loads, was effective 5 June 2013; and the Belgian Handling business was sold on 8 May 2013.

## Disclosure

Barloworld endeavours to achieve the highest standards of disclosure with the provision of meaningful, accurate and balanced information to stakeholders.

## Governance

The board recognises it is the central point for and custodian of corporate governance. As such, the board always strives to ensure that the group aligns itself with local and international codes of good corporate governance, seeks to apply best practice and follows relevant trends of good corporate governance.

## Assurance

The financial information in this report has been prepared according to IFRS and independently assured by Deloitte who has also assured selected material non-financial indicators and the group's GRI Application Level.

## Supplementary documents

### PRINTED DOCUMENTS

- Annual General Meeting (AGM) Booklet 2013

### ONLINE DOCUMENTS

- A full Remuneration report 2013



- A full Corporate governance report 2013



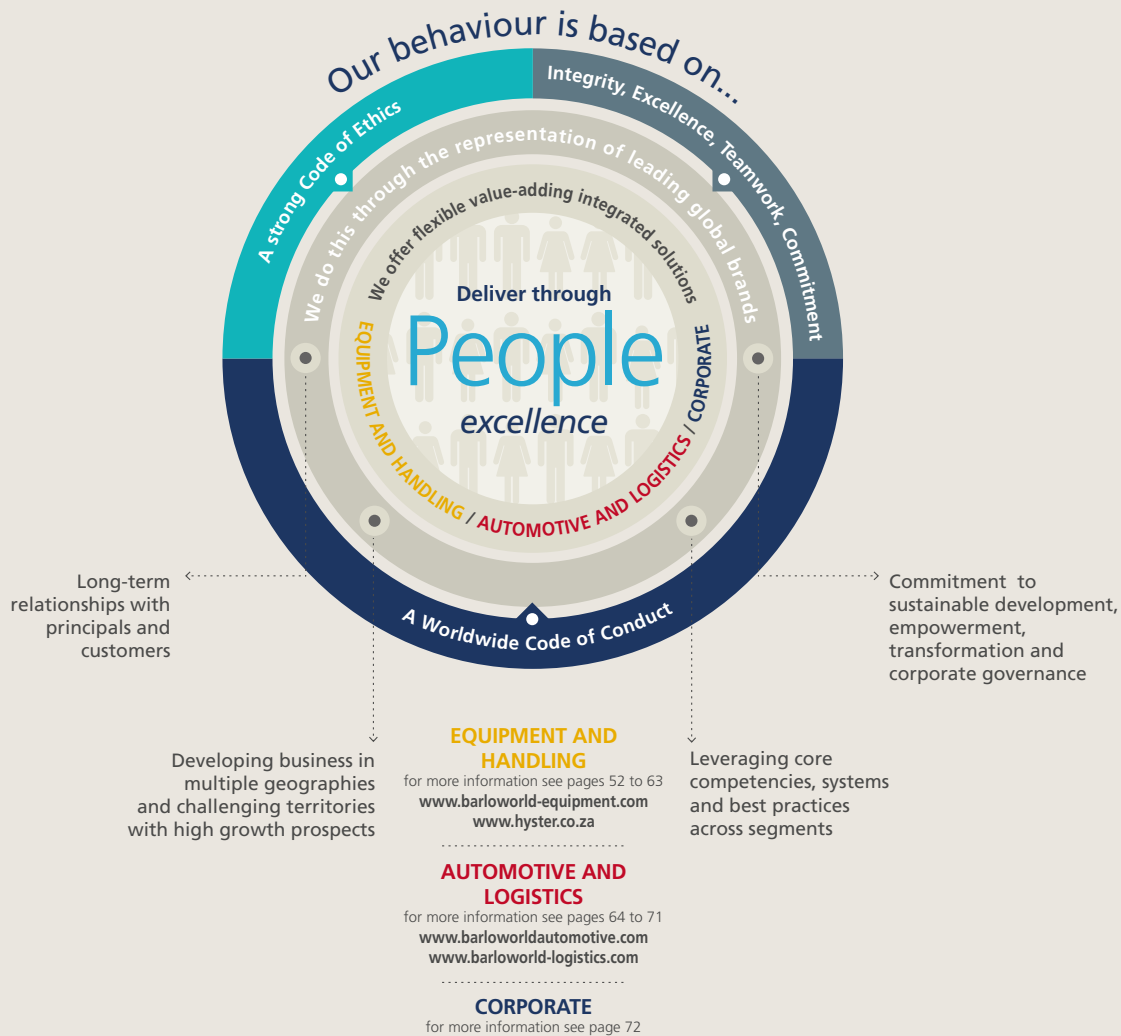
- GRI G3.1 Content Index and a set of responses to the GRI Sustainability Reporting Guideline G3.1



- Consolidated annual financial statements 2013



# Our people are the difference



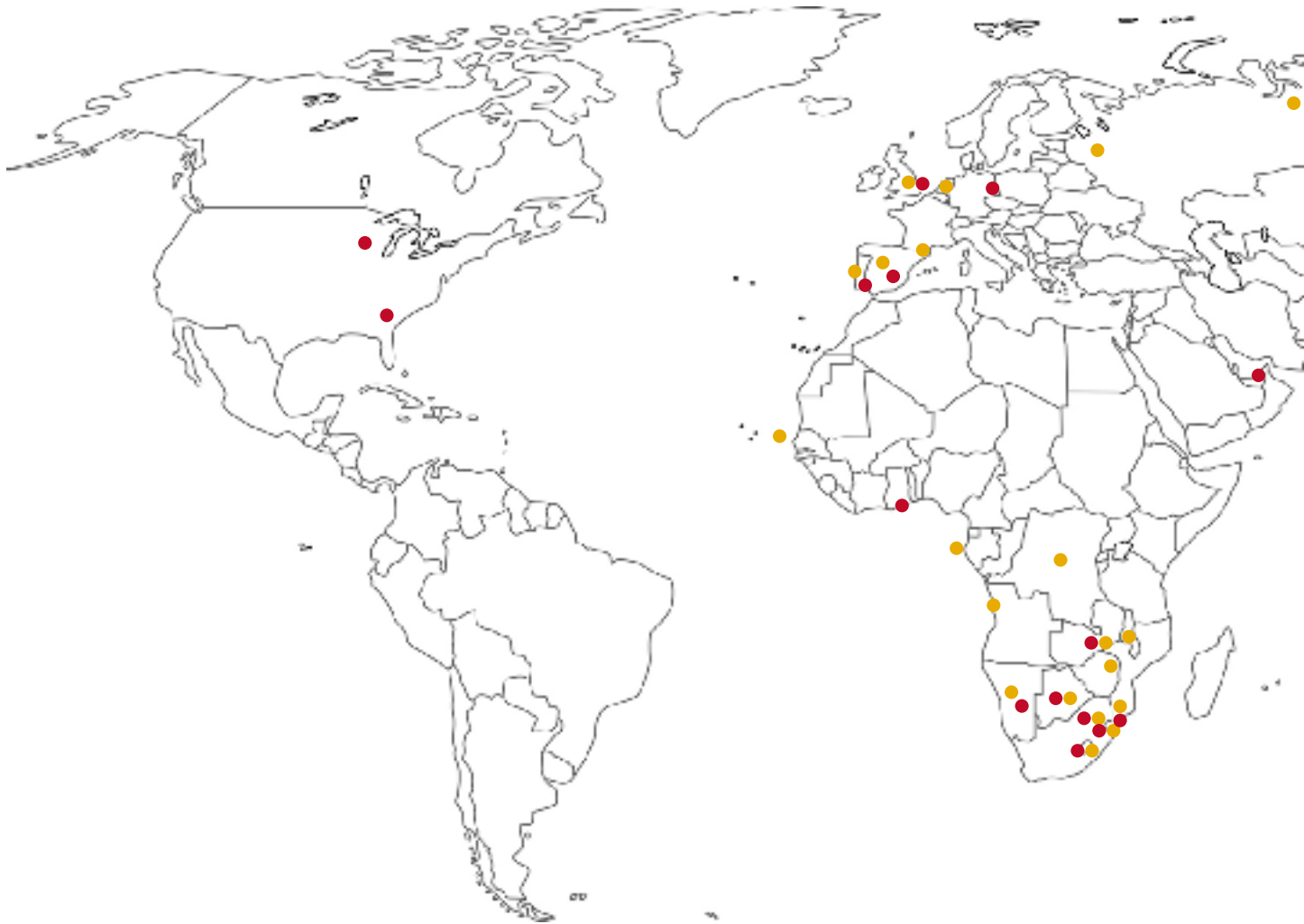
*"Barloworld is a resilient organisation with a rich heritage, its people work together to make the ordinary extraordinary, for them it is part of creating something special. They become professional pioneers, it is what inspires them."*

Barloworld CE, Clive Thomson

**Barloworld is proud of the excellence that has continued to drive sustainable stakeholder value-creation, growing the organisation into a focused multinational industrial corporation with annual revenue exceeding R65 billion.**

## Where we operate

19 692 people in 26 countries



## What makes up the group

### ■ Automotive and Logistics

The Automotive and Logistics division comprises the group's vehicle usage business, Barloworld Automotive, and the group's logistics services and supply chain management business, Barloworld Logistics. Automotive and Logistics has representation in southern Africa, Australia, Middle East, Europe, and the United States of America.

For more information see pages 64 – 71.



[www.barloworldautomotive.com](http://www.barloworldautomotive.com)  
[www.barloworld-logistics.com](http://www.barloworld-logistics.com)



**Barloworld**  
Automotive and Logistics

#### Key brands and products

- Short-term vehicle rental under the **Avis** brand
- Franchised motor vehicle retailing, representing leading brands, including: **Audi, BMW, Ford, General Motors, Mazda, Mercedes-Benz, Toyota** and **Volkswagen**
- Vehicle leasing and other fleet management products under the **Avis** brand
- Integrated supply chain solutions, including: **warehousing and distribution, dedicated transport services, transportation management services, freight forwarding** and **supply chain software**.

#### Value proposition

- Barloworld Automotive provides customers with a range of integrated vehicle usage solutions to meet their specific requirements.
- Barloworld Logistics provides smart supply chain solutions through strategic partnerships with leading clients and key suppliers.

We are committed to recruiting in countries in which we operate and developing local skills.



#### Key brands and products

- **Cat:** earthmoving equipment, surface and underground mining equipment and drills, construction equipment, engines and power systems
- **MaK:** marine propulsion and auxiliary diesel engines up to 16 000kW
- **Perkins:** diesel and gas engines in the 4-2 000kW market
- **MWM:** gas engines
- **Metso:** mobile crushing and screening plants for construction and mining
- **Sitech:** Trimble global positioning satellite (GPS) products.

#### Value proposition

Barloworld Equipment provides customers with customised, integrated earthmoving and power systems solutions comprising new, used and rental options. Our comprehensive equipment management capability is supported by world-class technical skills and facilities designed to provide customers with the lowest owning and operating cost over the life of their machines.



#### Key brands and products

- **Hyster and Utelev:** lift trucks and warehousing equipment
- **Massey Ferguson and Challenger:** tractors, combine harvesters, balers, planters and self-propelled sprayers
- **SEM:** wheel loaders (CAT subsidiary).

#### Value proposition

- Barloworld Handling leverages the strengths of both the Barloworld and Hyster brands by providing customised materials handling and warehousing solutions in the manufacturing and distribution industries.
- The Agriculture business offers solutions for all farmers, from cost-effective tractors to leading technology equipment, aimed at improving productivity and yields at lower operating costs.
- The SEM dealership fills a gap in the market for cost-effective wheel loaders that are easy to operate and maintain, backed by Barloworld's world-class support structure.

## ■ Equipment and Handling

**Barloworld Equipment** has partnered with Caterpillar for 86 years and is currently the Cat dealer in 11 southern African countries, Iberia (Spain and Portugal) and Russia (Eastern and Western Siberia, Yakutia and the Russian Far East). Following the acquisition of the Bucyrus equipment distribution business in southern Africa and Russia from Caterpillar Global Mining, Barloworld Equipment now sells and supports the broadest opencast and underground mining equipment product line in these territories. The Equipment division also represents MaK and Perkins engines and Metso mobile crushing and screening equipment for mining and construction.

**Barloworld Handling** is the dealer for Hyster and Utelev lift trucks and warehouse/handling equipment in southern Africa and The Netherlands. Barloworld Handling also represents Massey Ferguson and Challenger (AGCO) agricultural products in southern Africa and Russia, as well as SEM in southern Africa and Russia.

For more information see pages 52 – 63.

@ [www.barloworlddequipment.com](http://www.barloworlddequipment.com)  
[www.hyster.co.za](http://www.hyster.co.za)

## Our performance

### Salient features

Revenue up 11% to

**R65.1 billion**

HEPS up 26% to

**860 cents**

Return on net operating assets

**18.6%**

Operating profit up 18% to

**R3 527 million**

Dividend per share up 27% to

**291 cents**

Net debt to equity

**46.8%**

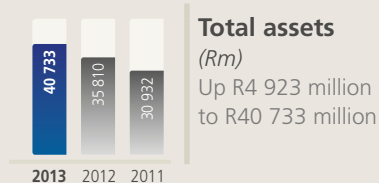
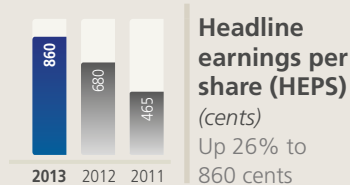
### Financial highlights

	2013 Rand	2012 Rand	2013 US\$	2012 US\$
Revenue (million)	<b>65 102</b>	58 554	<b>7 012</b>	7 300
Earnings before interest, taxation, depreciation and amortisation (EBITDA) (million)	<b>5 623</b>	4 905	<b>606</b>	612
Operating profit (million)	<b>3 527</b>	2 988	<b>380</b>	373
Net cash inflow/(outflow) before financing activities (million)	<b>653</b>	(2 917)	<b>71</b>	(364)
Net debt (million)	<b>7 417</b>	7 464	<b>737</b>	905
HEPS (cents)	<b>860</b>	680	<b>93</b>	85
Ordinary dividends per share declared in respect of current year's earnings (cents)	<b>291</b>	230	<b>31</b>	29
Total assets (million)	<b>40 733</b>	35 810	<b>4 049</b>	4 339
Net asset value per share (cents)	<b>7 233</b>	6 062	<b>719</b>	735

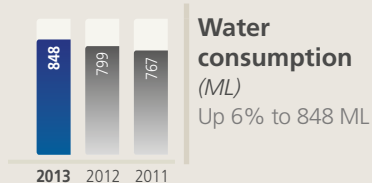
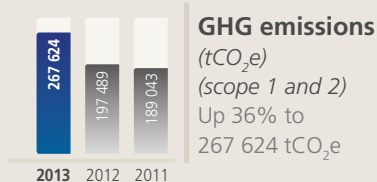
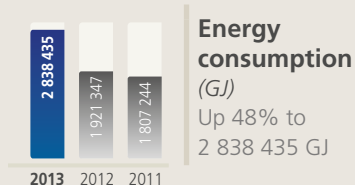
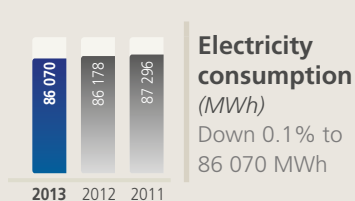
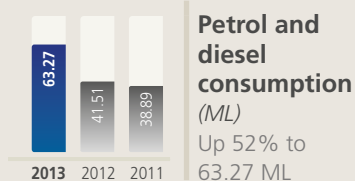


## Financial and non-financial indicators

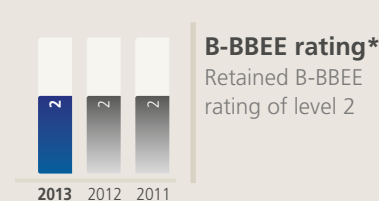
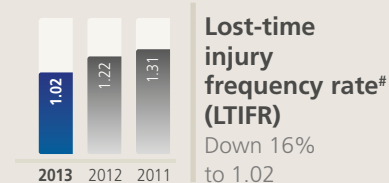
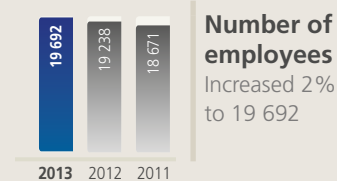
### Economic



### Environmental



### Social



<sup>#</sup> LTIFR = Lost-time injuries x 200 000 divided by total hours worked.  
\* Barloworld South Africa.

# Why invest in Barloworld

## Attractive investment case

### Clear vision

- To deliver significant incremental value for our stakeholders by being a recognised global market leader in providing integrated solutions in distribution, rental, fleet management, product support and logistics to customers in our chosen business segments.



### Strategic focus

- Group alignment in the implementation of strategy driven by the key Strategic Focus Areas that are cascaded to our two core divisions
  - Equipment and Handling
  - Automotive and Logistics



### Leading international brands

- Caterpillar, Hyster, Avis, Massey Ferguson, Challenger and leading automotive and agricultural brands.



### Profitable growth opportunities

- Exposure to mining, infrastructure, power, agriculture, automotive and logistics sectors with above-average, long-term growth potential particularly in southern Africa, Russia and other emerging markets.

Equipment  
and Handling

Automotive  
and Logistics

### Business and geographic diversity

- Operations in 26 countries, as well as business diversity and exposure to mix of commodities, brands and sector opportunities, underpin and enhance resilience through the business cycle.



### Strong financial position

- Limited reliance on short-term funding facilities
- Gearing within target ranges, reducing net debt levels, strong operational cash flows and significant unutilised borrowing facilities
- Fitch credit rating at strong investment grade AA-



### Experienced management team

- Proven ability to execute strategies with effective cash flow, capex, working capital and expense management focus
- Capable and adaptable Barloworld people at all levels.



### Responsible corporate citizenship

- Broad stakeholder-based approach to governance and sustainable development
- Significant investment in skills development and training programmes
- Supported by our values, the Barloworld Worldwide Code of Conduct and Code of Ethics.

## Chairman's letter

### Dear stakeholders

**The world continues to be an uncertain place in which to do business, and yet, remarkably, Barloworld not only weathers the storm but increases revenue levels and widens profit margins from year to year. This year has seen our growth trend continue and, despite a challenging operating environment in South Africa, all our divisions have improved and completed the year ahead of plan.**

Barloworld has seen much change in its 111 years of existence, but we have always been a bold company with well-articulated values, a clear vision for the future and a pioneering spirit. It is these things, together with committed employees and strong leadership, that have enabled us to build sustainable relationships and trust with stakeholders in our strategic growth segments of mining, infrastructure, power, agriculture, automotive and logistics.

In the global context, fears of a "double dip recession" seem to be fading, a collapse has been averted in the Eurozone, banks have tightened controls and the financial services sector is exhibiting greater stability. In the United States of America underlying growth is evident and jobs are being created.

South Africa, where the majority of our business is located, continues its downward rating as an investment destination. On top of the global slowdown in mining activity due to lower commodity prices, it is unfortunate that we do not seem able to achieve a settled industrial relations framework in our mining sector. This is exacerbated by the tensions surrounding the tragic Marikana events in 2012.

Generally, on the employment and business front, the mining strikes, together with a protracted automotive industry strike and the industrial action by transport workers, have had some impact on our operations. Yet our businesses in the South African mining and automotive sectors have improved and exceeded targets, testimony to the robust partnerships we share with our customers, and the commitment and spirit of Barloworld people.

# Striving to do the right things and doing them right.

Despite these concerns, South Africa is still the most powerful economy on the continent and investors should be cognisant of our world-class infrastructure and skills.

One of the key elements that will attract investor confidence is demonstrable evidence that we are a country in which the rule of law prevails, and one in which the security of investments and of property is guaranteed by law.

Corruption, in particular, should not be tolerated in both the private and public sectors. We must take note that corruption is not one-sided; there are always two parties engaged in that kind of conduct. The solution is by way of a correct and consistent implementation of the laws we have in place.

This should assure the investment community that, despite the apparent turmoil in this country, our democracy has effective institutional instruments that augur well for business to thrive.

### Dumisa Ntsebeza

Chairman

Age: 63

Qualifications: BA, BProc, LLB, LLM (International Law)

Nationality: South African



**Barloworld has a track record of doing successful and ethical business and we have significant resources at our disposal.**



In my last letter I mentioned our responsibility as a corporate citizen to interact with the public sector to ensure delivery of projects to the benefit of all parties. I reiterate this now, as it is my firm belief that we need to engage with government, to build understanding, and to create partnerships, and cultivate an environment conducive to investment in our country and our business.

One encouraging example of how we have leveraged one of our strategic growth segments to assist government in achieving its mandate, is the fleet management contract entered into by the City of Johannesburg following lengthy negotiations with our Automotive and Logistics division.

Our Electro-Motive Diesel (EMD) Africa joint venture – formed last year together with Caterpillar subsidiaries Progress Rail Services and EMD – is one of many competitors bidding to supply locomotives to Transnet as part of the projected R300 billion rail projects over the next seven years.

Barloworld has a track record of well over 100 years of doing successful and ethical business and we have significant resources at our disposal. It is up to us to convince the public sector that we, a

South African company, are doing the right things, and doing them right.

We must be innovative in revisiting our existing markets and look actively for new markets that are always emerging as the world evolves. This is how we grow our business, by combining the tremendous value we have to offer with new ways of engaging in the marketplace.

We continue to look closely at increasing our group presence on the African continent in territories where we already conduct business and that established footprint provides us with the advantage of expanding into other growth segments with relative ease. We have the advantage of knowing the environment, the politics and the market conditions.

One way to grow business is through acquisitions that are a strategic fit. Barloworld has changed dramatically since the days when it was a conglomerate with multiple business interests. Today we are showing that it is possible to grow a business with only two divisions and even then we are not afraid of reducing the size of those divisions if components do not fit with our strategy or financial returns' expectations.

In mining, our African territories all come with different challenges, but the fact that they are different means there will always be somewhere that provides exceptional opportunities. We have partnered with Caterpillar for 86 years in providing customer solutions to southern African mines. We have customer relationships that have endured for many years and are not going to be broken by the cyclical nature of industry. This is another reason for our sustainability.

We have done well in our associate businesses, particularly in our Equipment joint ventures. With a solid foundation and the right model, one can do business successfully in spite of the challenges. That is the message our investors need to receive.

Barloworld's ability to succeed in all its businesses in the face of a tough external environment brings to mind our home-grown logistics business. I believe that Logistics is a business which has the potential to grow significantly by 2020, and increase its profit contribution to the group.

### Key highlights

- Barloworld Equipment recognised as the Caterpillar Circle of Excellence dealer
- Bucyrus acquisitions successfully integrated
- Automotive and Logistics division delivers strong performance
- Leading in the general industrial sector in empowerment and transformation

The board is continuing to ensure that Barloworld provides attractive returns for our shareholders. In order to do this in a sustainable manner we need appropriate skills. We understand the value that resides in having a skilled workforce. That is the reason that experienced engineers and technicians in our Iberian business have increasingly made themselves available to work in other Barloworld territories such as Angola and Mozambique. This kind of innovative thinking ensures we use our valuable and scarce skills to their full potential and, importantly, that we do not lose them.

In South Africa we need to accelerate transformation with regard to the placement of black people and women in executive and management positions in particular, which will include recruiting skills when they are not available within the group as we have done successfully on a few occasions.

Transformation should not be an “us versus them” culture, it should be organic in the sense that it creates opportunities. The whole purpose should be to say “let us look and look harder”, “let us be innovative and courageous in giving people the chance to succeed”.

I encourage employees who have been loyal to Barloworld for many years and are heading towards retirement to become mentors. Identify individuals who have the talent and need encouragement and knowledge, pass on your expertise and help them to succeed. This way we can all make a difference in both a person's life and in that of the company. We can make transformation sustainable.


I believe that climate change is a global issue that needs to be addressed and I am encouraged by the environmental stewardship initiatives of our principals and our own internal efforts in minimising the environmental impact of our operations.

It remains for me to comment on the board composition. We wish Gonzalo Rodriguez de Castro Garcia de los Rios well on his retirement from the board and thank him for his valuable contribution representing the international arm of our board for the past nine years.

Following extensive consultation, we have appointed Alexander Landia as a non-executive director on the Barloworld Limited board, effective 1 October 2013. Alexander serves as a non-executive director of OJSC SUEK, the largest coal company in Russia, and as a director of Lambert Energy Advisory in London, a leading oil and gas advisory house.

I wish to thank our board members for their contribution and commitment to Barloworld's success and sustainability and all our stakeholders for their continued faith in the group.

My particular appreciation goes to our CE, Clive Thomson, who leads this special and talented executive team with integrity, courage, insight and a great deal of energy. I look forward to more ambitious targets and great achievements under the watch of Clive and his fellow executive directors.



**Dumisa Ntsebeza**  
Chairman




## Q&A with the chief executive

The group has delivered very pleasing results in the face of challenging trading conditions, particularly in the mining sector.

### Key highlights

- Revenue up by 11% to R65 102 million
- Operating profit up by 18% to R3 527 million
- Profit before exceptional items up 20% to R2 538 million
- HEPS up by 26% to 860 cents
- Cash generated from operations of R4 263 million (2012: R43 million utilised)
- Return on net operating assets of 18.6% (2012: 18.8%)
- Total dividend per share up 27%


We have remained focused on delivering on our strategy as expressed in our core strategic themes, namely: integrated customer solutions, people, sustainable development, empowerment and transformation, financial returns and profitable growth. We continue to make progress in each of these areas.

 **Barloworld has recovered well from the global financial crisis to deliver excellent results in 2011 and 2012. Has this performance been impacted by the more muted economic conditions, in South Africa in particular, in 2013?**

I am pleased to report that the group has continued its positive momentum, notwithstanding a challenging global mining environment and a slowing South African economy, to produce another year of strong double digit growth in revenues and earnings.

All our key businesses contributed to this performance, indicating that good progress is being made in each of our strategic growth segments – mining, infrastructure, power, agriculture, automotive and logistics.

We also successfully integrated the recent acquisitions of the legacy Bucyrus distribution businesses and executed on a number of other important strategic transactions which will position the group well for the future.

 **The group has made good progress to date on its five-year Vision 2015<sup>3</sup>. With only two more years left in this period, are you starting to think about your goals beyond 2015?**

Barloworld's Vision 2015<sup>3</sup> aims to deliver significant incremental value for all stakeholders through 2015 and we are currently on track to achieve the specific targets we have set.

Our Global Leaders Conference in March 2013, attended by 180 Barloworld leaders from across the group, provided a critical forum to assess the impact of changing external environments and emerging megatrends and to map out a strategic framework for our future success.

While our senior management teams recommitted their focus on our existing strategic growth segments, we also recognised the need to challenge our businesses to deliver innovation and continuous improvement that meets the evolving needs of our customers in order to retain their loyalty and grow our market leadership position.

It is our people who engineer our success on a day-to-day basis and we launched a new people management framework at the conference, an Integrated Employee Value Model (IEVM). This balances our existing High Performing Organisation methodology, which identifies the business processes that must be in place to enable our employees to excel in their jobs, with a new Employee Value Proposition (EVP) that aims to attract, engage and retain top calibre employees. The approach is currently being rolled out in all our divisions and is essentially about creating a win-win situation for employees and the company.

Our people focus is being complemented by a new financial model which is designed to help our leaders identify the most important value drivers in their businesses. It assists management teams in developing meaningful financial and operational targets, measures progress in improving financial returns and models future value creation over the strategic plan period. This model will assist us to deliver maximum sustainable value creation for all stakeholders in support of our 2015<sup>3</sup> vision.

**Q The Bucyrus Russia equipment distribution and support business was acquired for R420 million and followed the acquisition of the Bucyrus southern Africa business last year. Have these delivered to expectation and how have they impacted the Equipment division result?**

The Bucyrus acquisition in southern Africa, now referred to as Extended Mining Product Range (EMPR), has performed well notwithstanding the general slowdown in mining capital expenditure. It contributed R2.7 billion to overall Equipment revenues at a higher than expected margin on the back of strong aftermarket sales.

As a result, EMPR southern Africa has been earnings accretive to the group in its first full year of operation. We were also awarded two significant tenders for EMPR equipment from Swakop Uranium in Namibia and First Quantum Minerals in Zambia that will underpin revenues into our 2014 financial year.

The EMPR business in Russia has performed in line with expectations to date. There is a significant long-term opportunity in underground longwall applications in the coal mining sector.

# It is our people who engineer our success.

The integration of significant numbers of new Bucyrus people, an unfamiliar product line-up using different technologies as well as new systems and processes, has been well handled by the Equipment division.

We are well placed to achieve significant further growth over the coming years particularly once Caterpillar componentry has been fully integrated into the product range.

**Q Infrastructure and Power are two of your growth segments that look particularly promising in your fast developing sub-Saharan African territories. What progress is being made in these areas?**

Despite the continued slow implementation of the planned infrastructure development in South Africa, our construction business improved in 2013 from a low base. Our other African territories, Angola in particular, contributed to this

**Clive Thomson**  
Chief executive

**Age:** 47

**Qualifications:** BCom (Hons), MPhil (Cantab), CA(SA)

**Nationality:** South African



## Q&A with the chief executive continued

performance. The rental business also showed pleasing growth as customers continue to seek innovative funding solutions for their equipment needs.

Barloworld Power made good progress notwithstanding reduced demand from the mining sector. We continue to invest in skills and build capacity that will enable us to capitalise on the long-term growth opportunities in southern Africa in the various power segments including electric power generation, marine, petroleum and rail.

### **The Equipment business has endured a number of tough years in Spain. Has this trend continued and do you see any improvement on the horizon?**

The economic environment remains challenging in Spain, but there are early signs that we are through the worst and the Spanish economy may start growing slowly into 2014. Despite the tough external environment, the management team has made excellent progress during the year with a turnaround from an operating loss of €13.3 million in 2012 to a small loss of €1.3 million in the current period.

This improvement has been achieved through firm cost control, the benefits of restructuring undertaken in prior years, together with a continued good performance in power systems.

The business generated positive cash flows of €28 million, as asset efficiency and tight working capital management remained a key focus.

The downsizing over the past few years means that the business is well positioned to return to solid levels of profitability as economic conditions improve and the equipment industry recovers to more normalised levels.

### **How has the slowdown in the global mining sector, particularly coal mining, impacted your Russian business in the current year?**

While there has certainly been an impact, the slowdown in the coal segment has been compensated to some extent by growth in deliveries to gold, diamond and nickel customers. The EMPR business also made a solid contribution to another good result for our Russian Equipment business.

This young company has shown the increasing maturity of its business model as lower mining machine sales have been compensated by growth in aftermarket parts and service revenues. The construction and power segments also held up well.

We are continuing to invest in new and expanded facilities as well as skills development across Siberia and the Russian Far East to position the business to capitalise on the long-term growth we expect in these markets.

### **Following the sale of most of its international businesses, the Handling division is now largely an Africa-focused business. What are the reasons for this shift in strategy?**

We have followed the disposals of our materials handling operation in the United States of America and UK in 2012 with the sale of our Belgian operation this year and are pursuing the sale of The Netherlands business. This continues our strategy of allocating capital to those geographies and businesses where we are likely to earn the best long-term financial returns.

The business is now well positioned to focus on its growth strategy for sales and support of its materials handling and agricultural brands in southern Africa. We see significant potential for growth particularly in the markets of Mozambique, Angola and Zambia.

### **All business units within the Automotive and Logistics division performed well notwithstanding the pressure on the South African consumer. To what do you attribute this strong showing and what synergies exist between the various businesses?**

The division produced another record result this year with revenues up 17% to R34.4 billion and operating profits of R1.5 billion, some 28% ahead of last year. Importantly, all of the business units contributed well to this overall performance.

Each operation has a clear strategy and a focused, independent management team responsible for all aspects of their respective business. However, synergies are also achieved by optimising inter-business unit revenues, use of common technologies such as online used vehicle disposal platforms and shared functional resources to improve efficiencies and drive cost savings.

The Motor Retail business delivered a very pleasing result with good new and used vehicle sales as well as improved aftermarket activity. The business continues to benefit from the "Fewer, Bigger, Better" approach towards retail dealership sites which has maximised value creation from a limited number of well-located leading retail operations.

Car Rental delivered a significant year-on-year improvement, with car rental volumes up and a small increase in rate per day.

Fleet Services demonstrated very strong growth and bedded down the fleet management contract award by the City of Johannesburg early in the year.

Logistics continued its strong turnaround to improve operating profit by 38% assisted by a number of niche acquisitions during the year.

The division as a whole improved overall margins and financial returns and is well placed to continue this momentum in the year ahead.

### **There appears to have been considerable corporate activity in your logistics business. What have been the key initiatives in the current year and what does the future hold?**

A number of acquisitions were made in the current financial year. We finalised the acquisition of the 25% minority in Logistics Africa, while the Logistics dedicated transport business concluded a merger with Manline Logistics to form Barloworld Transport Solutions (BWTS). BWTS in turn acquired an abnormal load transport business which has synergies with our Equipment operations. This provides exciting short and medium-term growth potential for our road transport business across southern Africa. Barloworld Logistics has also acquired a 25% stake in re-, one of South Africa's leading environmental waste management businesses.

Logistics continues to focus its efforts on the African continent and has successfully renewed a number of long-term contracts expiring in the current financial year.

New clients and further work from existing clients has been secured through the refocused business development team and a broadened range of services on offer.

A decision was taken to exit the loss making airfreight business in the Far East and the transaction was concluded effective 1 November 2013.

All the above initiatives position the business well for future growth and enhanced financial returns.

### **What other strategic developments have taken place during the year?**

While we have built a very credible motor retail business in Australia we are continually evaluating optimal capital allocation opportunities and took a decision to dispose of the Ferntree Gully motor dealership in Melbourne effective 31 October 2013.

This will facilitate the ongoing redeployment of capital into higher returning business opportunities.

### **How are you evolving your leadership structures to effectively deliver your strategy over the next 10 years?**

Our organisational and management reporting structures need to continuously evolve in order to support the implementation of our strategies and the achievement of our vision to 2015 and beyond.

We announced some key leadership changes during the year to develop management and leadership; allocate resources to future growth segments and ensure appropriate management succession in our businesses.

On 1 October 2013 Peter Bulterman relinquished his position as CEO of Equipment southern Africa to take responsibility for the greater Equipment division including southern Africa, Iberia and Russia. Dominic Sewela has been promoted from chief operating officer to CEO of Equipment southern Africa.

John Blackbeard takes up the reins as CEO of the Global Power business across Iberia, Russia and southern Africa in addition to his current duties as CEO of the Handling division. This appointment will give us the impetus to build our focus on growing the Power business across all territories in the key segments of electric power, petroleum, marine and industrial.

### **After 111 years in business, the Barloworld group has proved it knows something about sustainability. But what does sustainability mean to the group today?**

Our commitment is to provide sustainable value for all our stakeholders, including shareholders, customers, employees, principals, suppliers and the communities in which we operate.

Providing a safe and healthy work environment is central to our approach. While we continue our focus on safety, tragically, there were three work-related deaths all involving drivers who died in motor vehicle accidents during the year and a subsequent fatality in Equipment South Africa. We extend our condolences to their families and continue to implement measures to prevent such accidents in future.

Transformation and diversity remains a top priority in all our South African businesses, which have retained their industry leading positions at Level 2 or 3 in terms of the Department of Trade and Industry's Broad-Based Black Economic Empowerment (B-BBEE) scorecard.

Our spend on training and skills development amounted to R120 million during the year to align with our focus on people excellence.

Looking outside the business to our communities, we contributed R17 million to socio-economic and corporate social investment initiatives.

We continue to focus on achieving our aspirational targets for 2014 in non-renewable energy consumption and greenhouse gas emissions (scope 1 and 2) efficiency improvements, as well as addressing water stewardship. While most of our businesses are on track to achieving our targets the acquisition of Manline impacted our fuel usage and emissions within our Automotive and Logistics division.

In terms of recycling, we continue to increase our machine and parts rebuild capacity to ensure second life capability for Cat earthmoving machines to reduce the use of non-renewable resources associated with the building of new machines.

## Q&A with the chief executive continued

Barloworld is proud to have been recognised on several indices associated with sustainable business practices. These include the Dow Jones Sustainability Emerging Markets Index, the Johannesburg Stock Exchange (JSE) Socially Responsible Investment (SRI) Index, and the CDP's South African Carbon Performance Leadership Index.

### **How do you see the outlook for the Barloworld group?**

First and foremost, we will continue to focus on organic growth and niche acquisitions across our key growth segments of mining, infrastructure, power, agriculture, automotive and logistics. We have become respected and sought after solutions providers in these sectors and are well positioned strategically to expand our influence across them all.

Mining is one of our major sources of revenue and we recognise that mining cycles are becoming shorter and less predictable. We anticipate that mining companies will be slow in committing to capital expenditure and new projects through 2014, with a recovery likely only commencing in 2015.

However, continued growth in construction, power, EMPR and after-sales revenues will all contribute to our performance in 2014 in southern Africa and Russia. We expect a slow recovery in Iberia in the year ahead.

While consumer demand is expected to remain constrained in South Africa, we believe our Automotive and Logistics division is well positioned to capitalise on recent project awards and acquisitions and another solid performance is expected.

Overall, the various strategic initiatives undertaken together with our focus on achieving ongoing operational efficiencies should ensure further progress in 2014.

Our leaders provide the direction and guidance and, importantly, instil passion and commitment in their teams. But it is our employees who deliver excellence in their day-to-day activities. Every employee of Barloworld has a role to play in our success, individually and as a team.

I wish to thank our management teams and all employees for their dedication to the job at hand, focus on adding value, and loyalty to the Barloworld group. Your efforts are sincerely appreciated.

We are fortunate to be led by a very experienced, capable and committed executive team, who have directed the achievement of excellent results in a difficult trading environment in 2013, and who are, as we speak, working hard to deliver another credible performance in 2014.



**Clive Thomson**  
*Chief executive*



## Excellence rewarded

*(left to right) Nigel Lewis, Vice President, EAME Distribution, Caterpillar Inc., Doug Oberhelman, Chairman and CEO, Caterpillar Inc, Clive Thomson, CE Barloworld Ltd and Stu Levenick, Group President, Customer and Dealer Support, Caterpillar Inc.*

In April 2013 Barloworld Equipment had the honour of being recognised as a Circle of Excellence Dealer in the Europe Africa Middle East (EAME) region, making the company one of three dealers in the region recognised with such a prestigious award. The Circle of Excellence is a Caterpillar award programme for top performing dealers judged against a defined dealer scorecard. The award was initially confined within the Americas region, but has now become a global event to include other regions worldwide.

This achievement confers to Barloworld Equipment prestigious dealer status, along with the opportunity to be an integral part of the dealer advisory group that will provide input into the Caterpillar distribution model transformation process.

This is testament to Barloworld's proven excellence in customer focus and delivering on the shared business model and the strong long-standing, mutually beneficial relationship that exists between Barloworld and Caterpillar.



One of three dealers in the EAME region recognised  
with the prestigious award

# Human resources, strategy and sustainability director's report

I believe Barloworld has a great culture and that is one of the reasons we have up to four generations working side by side in the group.

## Key highlights

- Implementing our Integrated Employee Value Model
- Being recognised as the most empowered company in the general industrial sector
- Maintained leadership position in CDP's South African Carbon Indices
- Member of Dow Jones Sustainability Emerging Markets Index
- Lost-time injury frequency rate (LTIFR) down 16%

**Barloworld is well on track to achieve its Vision 2015<sup>3</sup> which aims to deliver significant incremental value for all stakeholders through 2015.** I believe

that to date our operations have done an admirable job in fulfilling the requirement of our vision to be a recognised global market leader in the provision of integrated solutions in distribution, rental, fleet management, product support and logistics to customers in our chosen business segments and geographies.

## Strategy

Our Vision 2015<sup>3</sup> was formulated as part of a five-year strategy to emerge successfully from the worst global recession in living memory and the response from our businesses has been

overwhelmingly positive. However, 2015 is almost upon us and Barloworld stands at a critical juncture that requires in-depth thinking on where we need to be in 2020.

The theme of our Global Leaders Conference this year was *Driving 2015<sup>3</sup> and beyond*. Its primary objective was to map out a strategic framework for the future success of our business through innovation and teamwork.

Barloworld has been strategising for 111 years and a great deal has changed in that time. So we should expect change to continue. In the past two years, for example, we have exited certain businesses in markets including the United States of America, UK and Belgium.

### Isaac Shongwe

Human resources, strategy and sustainability director

**Age:** 51

**Qualifications:** BA (Hons), MPhil (Oxon)

**Nationality:** South African



These divestments are part of our strategy to allocate capital to opportunities delivering higher financial returns in line with our objectives. A big part of our business remains in southern Africa and, indeed, we have made some significant new acquisitions on the African continent in the past two years. The world's fastest growing economies are in Africa and its future is tremendously exciting.

At the same time we are a multinational company and global opportunities remain very much part of our strategic thinking. Our considerable investment in growing our Russian footprint and expertise is a case in point.

In realigning our business to 2020 we need to assess the products and solutions we offer, the sectors in which we operate and our geographies. Our strategic growth segments, mining, infrastructure, power, agriculture, automotive and logistics continue to provide an exciting platform for future growth.

Underpinning our strategy will always be our Value Based Management philosophy, recognising that success depends on creating sustainable value for all stakeholders: employees, shareholders, customers, principals and suppliers, our communities/society and the environment. This includes continuous engagement with all stakeholders both at divisional level and those that cut across all levels of our business.

Our six Strategic Focus Areas continue to be central to how we drive our business. I am pleased that we are devoting the requisite attention to all these critical areas.

Given Barloworld's financial success and pleasing growth in the past three years, we have a strong ambition to expand our activities and increase the value for all stakeholders in the next phase of our history. This will require innovation, something that can only come from our people.

## People

We are operating in a highly competitive environment where skills are in short supply and it is becoming increasingly challenging to attract and retain the right talent to deliver our future strategies.

I believe Barloworld has a great culture and that is one of the reasons we have up to four generations working side by side in the group. However, what attracted the right kind of employees to our business 20 years ago will not work today. In addition, we operate in diverse business sectors and some very tough environments.

About 70% of our 19 692 employees work in South Africa, 12% in other parts of Africa, and 13% in Russia and Europe.

While most of our people are employed in Africa we are a multinational organisation and need to attract and retain a high level of talent to remain competitive in all geographies.

With this in mind we have revisited our approach to the people in our business through our Integrated Employee Value Model (IEVM), which has evolved into one of the building blocks to support our future strategy and is currently being rolled out across our business.

The model comprises three integrated components:

- **The Employee Value Proposition** – designed to attract, engage and retain top calibre employees by making Barloworld a great place to work. This is how we create value for employees as a key stakeholder in our business.
- **The High Performing Organisation** – the methodology, including standards, best practice and tools, to bring the Employee Value Proposition (EVP) to life and ensure organisational alignment and performance.
- **The Learning Organisation** – the platform that sustains our model through teamwork, communication and sharing of information, supported by our leadership, our Worldwide Code of Conduct and our Code of Ethics.

Through the IEVM we will align our employees' objectives with the value drivers identified in our IFVM, focusing their activities and optimising the execution of our strategic initiatives.

The health and safety of all our people is central to our EVP. Tragically, we had three work-related deaths during the year resulting from motor vehicle accidents in our Logistics operations. Regrettably we had a subsequent fatality in Equipment

South Africa. We continue to focus on training and related initiatives aimed at eliminating fatalities.

The group's Lost-Time Injury Frequency Rate (LTIFR) continues on its declining trend, manifesting the benefits of our focus on providing a safe and healthy work environment.

## Diversity

Transformation continues as a top focus on the agenda in every boardroom in our South African business. We had the foresight five years ago to start addressing transformation at the highest level and we are proud of the progress we have made across our South African businesses.

Our South African business units have achieved Level 2 or 3 B-BBEE rating. Barloworld is ranked as the top empowered company in the general industrial sector.

We are determined to continue with good progress on the new Department of Trade and Industry (dti) B-BBEE scorecard that has recently been introduced with stretched targets.

Another diversity goal receiving dedicated focus is improving our gender balance through the appointment of more women at all levels of the group including senior management.

## Stakeholders

Balancing our internal focus, we also continue to assess the value provided to our external stakeholders. We are currently working to enhance our engagement with governments in all our territories not only as customers but also as strategic stakeholders in our businesses. Working in multiple geographies requires us to engage with government structures to ensure our business retains its firm foundations of values and ethics while aligning with the strategic vision of the respective countries in which we operate.

This has its roots in the philosophy of "ubuntu". When we expand our footprint we must know where we are going. It's part of due diligence and corporate governance to acquaint ourselves with the public and private sectors as well as the communities that will be affected by our presence.

# Human resources, strategy and sustainability director's report

continued

## Balancing our internal focus, we also continue to assess the value provided to our external stakeholders.



### Sustainable development

Whether we are developing our business in Africa, Russia or Europe, our integrated approach to our Strategic Focus Area of Sustainable development remains constant and includes minimising the environmental impact of our operations, products and services as well as customer solutions. This is incorporated into our strategic planning processes and underpinned by representing leading international original equipment manufacturers.

Giving credence to this, in 2009 we set an aspirational target of a 12% efficiency improvement in non-renewable energy consumption and greenhouse gas (scope 1 and 2) emissions by the end of 2014 financial year off a 2009 baseline. We also focus on water conservation and responsible waste management. Many innovative initiatives have been put in motion in all our divisions to raise awareness of environmental stewardship and to drive responsible behaviour among all our employees. In light of increasing energy costs and uncertainty of supply in some regions, these initiatives have resulted in cost savings and contributed to our operational resilience.

Our operations continue to make good progress towards our aspirational targets although organic growth and acquisitions, including the expansion of our Logistics

business which is energy intensive, have increased the weighting of these operations in the group and negatively impacted our consolidated group energy and emissions (scope 1 and 2) intensity metrics. It is expected that this trend will continue as the transport aspects of our Logistics business expand and may cause group intensities higher than targeted levels at the end of our 2014 financial year. We will continue to monitor progress and report against our original group target which will be reviewed at the end of the target period, balancing our strategic imperatives, environmental objectives and commercial realities.

Our focus on waste management has increased in the past year, not only in terms of responsible waste disposal but also in increased capacity for remanufacturing and rebuilding of earthmoving and mining machines. Cat machines are designed with second and sometimes third life potential and by realising this potential our Equipment division is able to secure significant savings in energy and resources required to rebuild a machine.

Since its launch in May 2012, the Barloworld Reman Centre (BRC) in Boksburg, Johannesburg, more than doubled Barloworld Equipment's capacity to rebuild Cat engines, hydraulic and drive-train components, making it one of

the biggest Cat rebuild dealers in the world. Our investment in re-, an environmental solutions company, enhances our ability to address waste in a responsible manner and to incorporate this focus into our customer solutions.

### Responsible corporate

Alongside our responsibility to our natural environment goes our responsibility to our communities, the group has committed 1% of its worldwide net profit after tax to corporate social initiatives. We are cognisant of the stronger role and louder voice of society in the actions of business and Barloworld strives to act at all times as a responsible corporate citizen.

We conduct our activities in accordance with the highest ethical standards and principles of corporate governance. Focus is on acting in accordance with our Code of Ethics, Worldwide Code of Conduct and compliance. Frameworks are provided at group level and our operations establish specific, relevant and appropriate policies, as well as management and control environments in the context of their respective industries and countries in which they operate.

Barloworld is also a signatory to the United Nations Global Compact which addresses human rights, labour standards, the environment and anti-corruption. The means to deal with these continue to be developed and entrenched throughout the group in relevant policies and standards.

**Isaac Shongwe**  
*Human resources, strategy and sustainability director*



## Empowering youth

The programme is a powerful developmental tool for young people

The President's Award (TPA) for Youth Empowerment aims, with the assistance of adult volunteer leaders, to empower young people between the ages of 14 and 25, by providing a self-development programme based on the achievement of new skills, physical recreation, community service and an adventurous journey.

Development is undoubtedly one of the cornerstones of empowerment and the programme, which the Barloworld group has supported for many years, is a powerful developmental tool for young people. It has brought change in the lives of over 130 000 young people in South Africa since 1983, and there are

currently more than 300 award units, managed by 600 volunteers hosting approximately 14 000 active award youth across South Africa.

The organisation is also a member of the Duke of Edinburgh's International Award Association, a family of organisations in over 140 countries that operate the award around the world. It was in this context that Edward and Sophie, the Earl and Countess of Wessex, representing the Duke of Edinburgh's International Award Association, joined President Jacob Zuma, the Patron of The President's Award, in Cape Town in October 2013 to present gold awards, to the delight of high achieving participants of the programme.



*Ricardo Adonis and Nceba Matafeni from Die Herberg Children's Home in Robertson received their Gold Awards from His Excellency President Jacob Zuma, Patron-in-Chief of The President's Award for Youth Empowerment Trust, and Their Royal Highnesses the Earl and Countess of Wessex who were in South Africa in October 2013 for the organisation's 30th anniversary.*

The President's Award has  
changed the lives of  
**130 000**  
young people since 1983



## Finance director's report

### We continue deployment of capital into higher returning businesses.

Revenue for the year increased by 11% to R65.1 billion. Good revenue growth was achieved in Equipment southern Africa which was up by 17% mainly as a result of the inclusion of the EMPR Bucyrus business for the full year and in Automotive and Logistics, which was also up by 17%. The weakening rand added revenue for the year by R2.1 billion.

Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 15% to R5 623 million with depreciation and amortisation increasing by 9%, while operating profit rose by 18% to R3 527 million.

The Equipment businesses in southern Africa and Russia performed well in difficult trading conditions particularly in the mining sector. Equipment southern Africa increased operating profit by 9% to R1 678 million assisted by a strong performance from the EMPR business. Equipment Iberia incurred a loss of R16 million which was substantially below the loss of R139 million in the prior year. No further restructuring charges were incurred this year despite a continued decline in demand in Iberia.

The Automotive and Logistics division performed well in a competitive trading environment, once again improving operating margins and increasing operating profit by 28% to a record R1 479 million for the year.

The increase in the company's share price since September 2012 resulted in a charge of R121 million for the year in respect of the provision required for cash-settled Share Appreciation Rights (SARs) previously awarded to employees (2012: R25 million).

The total negative fair value adjustments on financial instruments of R47 million (2012: R93 million) mainly relate to the cost of forward points in foreign exchange contracts in Equipment southern Africa.

Finance costs increased by R156 million to R983 million mainly owing to higher average debt levels during the year. Additional interest charges of R92 million were incurred on the debt utilised to fund the acquisition of the southern Africa and Russian EMPR businesses.

Exceptional charges of R119 million mainly comprise impairments of goodwill in Handling Netherlands (R28 million) and Motor Retail Australia (R40 million) together with losses on disposal of subsidiaries and investments of R43 million.

Taxation for the year was R804 million. The charge includes impairments of deferred tax assets of R17 million. The effective taxation rate (excluding prior year taxation and taxation on exceptional items) was 31.7% (2012: 32.7% excluding secondary tax on companies (STC)). The effective rate is lower than last year mainly owing to reduced losses in Spain.

Income from associates increased by 31% to R185 million (2012: R141 million) again driven by a strong performance from our Equipment joint ventures.

The non-controlling interest in the current year's earnings includes R36 million representing the dividends paid to the holders of 14 485 013 ordinary shares in terms of the BEE transaction concluded in 2008. These shares are not included in issued shares for purposes of calculating headline earnings per share (HEPS).

HEPS increased by 26% to 860 cents (2012: 680 cents).

#### Donald Wilson

Finance director

Age: 56

Qualifications: BCom, CTA, CA(SA)

Nationality: South African



## Cash flow

Cash generated from operations increased significantly to R4.3 billion (2012: R43 million utilised). Good equipment deliveries in the second half resulted in a reduction in working capital this year of R0.5 billion (2012: R3.1 billion

increase). This contributed to a net inflow of funds this year of R653 million (2012: R2.9 billion outflow). This was also a significant improvement on the cash outflow of R2.9 billion reported at the interim. A net R1.3 billion was applied in investing activities during the year. This

mainly comprised R497 million incurred to acquire the Bucyrus business in Russia and the Logistics acquisitions in South Africa and net property, plant and equipment expenditure during the year of R701 million.

	2013	2012
Summarised cash flow statement	Rm	Rm
Operating cash flows before working capital	5 936	5 199
Decrease/(increase) in working capital	535	(3 128)
Net investment in leasing assets and vehicle rental fleet	(2 208)	(2 114)
Cash generated/(utilised) from operations	4 263	(43)
Other net operating cash flows	(1 663)	(1 311)
Dividends paid (including minority shareholders)	(598)	(443)
Cash retained from/(used in) operating activities	2 002	(1 797)
Cash applied to investing activities	(1 349)	(1 120)
Net cash inflow/(outflow) before financing activities	653	(2 917)

## Financial position and debt

Total assets employed in the group increased by R4 923 million to R40 733 million. The increase was driven by the weaker rand (R2 879 million) and an increase in rental and leasing assets, as

well as the acquisition of property, plant and equipment during the year.

Total interest-bearing debt at 30 September 2013 increased to R10 253 million (2012: R10 088 million)

while cash and cash equivalents increased to R2 836 million (2012: R2 624 million). Net interest-bearing debt at 30 September 2013 of R7 417 million was slightly down on the prior year of R7 464 million.

Debt maturity profile	Borrowings September	Redemption			
	2013	2014	2015	2016	2017 onwards
	Rm	Rm	Rm	Rm	Rm
Southern Africa	9 117	2 033	2 956	1 098	3 030
Offshore	1 136	935	166	11	24
<b>Total</b>	<b>10 253</b>	2 968	3 122	1 109	3 054

During the year the R1 billion Bucyrus funding note was extended into 2015 and a R700 million maturing bank loan was extended into 2019. The long-term debt maturity profile at 30 September 2013 was 71% (2012: 70%). However, in addition to a number of bonds, the R1.2 billion BEE loan is scheduled to mature in 2015 and it is our intention to address certain of these maturities in the 2014 financial year.

In South Africa, short-term debt due for redemption includes commercial paper (CP) totalling R1 200 million. The CP market has remained liquid during the current year with spreads narrowing and we expect to maintain our participation in this market. The company has unutilised debt facilities with domestic banks totalling R4 606 million at 30 September 2013. The offshore facilities include five bilateral loans totalling £100 million (R1 630 million) which were undrawn at 30 September 2013. Other offshore

unutilised bank lines amounted to the equivalent of R1 720 million. Of the total unutilised facilities of R7 956 million at September 2013, R4 865 million are considered to be committed facilities.

The company's credit rating of A+ was recalibrated upwards to AA- (Stable Outlook) at the time the South African sovereign credit was downgraded by Fitch Ratings. The company's credit rating was reaffirmed by Fitch Ratings following the formal credit review in February 2013.

# Focus on value drivers

Gearing in the three segments are as follows:

DEBT TO EQUITY (%)	Trading	Leasing	Car Rental	Group total debt	Group net debt
<b>Target range</b>	30 – 50	600 – 800	200 – 300		
Ratio at 30 September 2013	<b>39</b>	<b>666</b>	<b>224</b>	<b>65</b>	<b>47</b>
Ratio at 30 September 2012	50	472	217	77	57

The weaker rand resulted in an increase of R1 671 million in shareholders' funds (2012: R276 million) and increased net debt at September by R124 million.

## Accounting policies

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The basis is consistent with the prior year except for the adoption of the amended Headline Earnings Circular 2/2013 which had no impact on presentation, recognition or measurement.

The revised accounting standard, IAS 19 Employee Benefits, will be effective in our 2014 financial year and will be applied retrospectively. The new standard will impact the measurement and presentation of the Barloworld Pension Scheme (UK) (defined benefit scheme). The new standard will in future result in fund expenses being expensed directly in the year incurred and in addition an interest charge will be incurred on the deficit in the fund. The impact on the

estimated defined benefit expense in 2013 based on the new standard would have been an administration cost of £1.5 million, an interest charge (on liabilities and assets) of £2.8 million. This compares to a net defined benefit credit to operating expenses of £3.0 million under the existing IAS 19 in the current year.

## Integrated Financial Value Model

During the year the company launched its Integrated Financial Value Model (IFVM). The model applies various financial value metrics to the group and divisions to measure value creation and is applied in the strategic decision-making processes within the group. The model focuses management on the key "value drivers" in their businesses that drive value creation.

## Dividends

Dividends totalling 291 cents per share were declared in respect of this year's earnings (2012: 230 cents). Of the issued shares of 231.3 million, only 227.7 million are entitled to receive dividends. The majority of shares not entitled to

dividends relate to the Black Managers Trust (BMT) and Education Trust (ET).

The dividends declared this year are covered 2.8 times by headline earnings (2012: 2.8 times).

## Going forward

The group return on shareholders' funds of 12.8% in the current year was up on the 11.3% achieved last year. The group continues redeployment of capital into higher returning businesses, which together with a projected return to profitability in Equipment Iberia, should contribute to improved returns in 2014.



**DG Wilson**  
Finance director

# Barloworld BU

Given the nature of our business model responsible leading principals and OEMs, and robust

## The integrated group business model and value chain that support our strategy

Barloworld's business philosophy has been articulated in terms of Value Based Management, which recognises the importance of driving value creation for all our stakeholders. Central to this philosophy is the understanding that successful implementation of the strategy towards value creation hinges on having employees who are engaged both in mind and heart. The success is based on having inspired, aligned, empowered, results-driven, globally competitive and passionate people to deliver excellence in managing our relationships, the cornerstone of our business model.

## At the core of our business model – excellence in managing relationships



## Inputs

Components of value creation

## Activity

### Value-adding elements

Supported by our people and financial management framework, stakeholder engagement processes that identify value drivers and priorities for all our stakeholders

**Place** our products (sales of vehicles, plant and equipment, car rental), services (maintenance and repair, warehousing, administration, freight forwarding) and solutions (vehicle usage, maintenance and repair, supply chain optimisation) into a broad customer base

**Grow** our customer base and the demand for our products, services and solutions through service excellence, leading technology and managing relationships

**Service** our customer base realising recurring aftermarket opportunities and through logistical support and supply chain optimisation



10 Pillars of  
Worldwide Code of Conduct

# Business Model

Best supply chains underpin our ability to sustain long-term value creation for all stakeholders.



Long-term value creation for all stakeholders including the communities in which we operate aligned with our Value Based Management approach

- Shareholders and providers of capital
- Customers
- Employees
- Principals and suppliers
- Public sector
- Local communities

Refer to Statement of total value added. Page 25.



## Outcomes

Value for stakeholders

## Outputs

Key products and solutions

Flexible, value-adding, integrated customer solutions in:

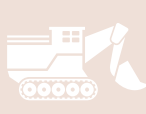
- Earthmoving: Mining and infrastructure
- Power systems (electric power, marine, petroleum and industrial)
- Materials handling: Lift trucks
- Agricultural equipment
- Short-term vehicle usage
- Vehicle ownership solutions
- Long-term vehicle leasing and fleet management
- Services: transport, warehousing, freight forwarding
- Supply chain solutions

### Training and development

- People development and empowerment

### Environmental aspects

- Emissions
- Waste



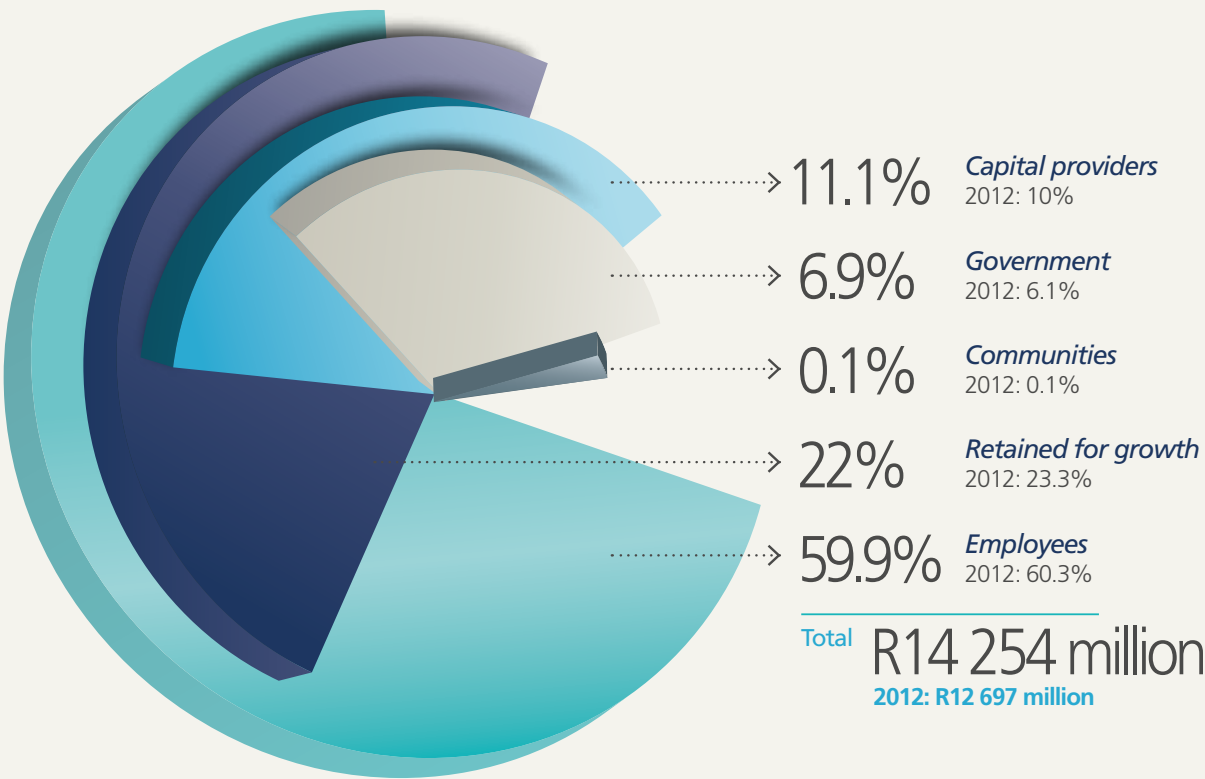
of Sustainability  
Product • Barloworld Code of Ethics



# Statement of total value added

for the year ended 30 September 2013

Value creation for all our stakeholders is central to our Value Based Management approach.



Number of employees

19 692

up 2.4%

Revenue per employee

R3.3m

up 8.3%

Value created per employee

R732 293

up 9.3%

# Statement of total value added continued

for the year ended 30 September

A measure of the value created by the group by its diverse trading distribution and other activities to the cost of products and services purchased. This statement shows the total value created and how it was distributed.

	2013		2012		2011	
	Rm	%	Rm	%	Rm	%
Revenue from continuing operations	65 102		58 554		49 823	
Paid to suppliers for products and services	51 074		46 049		39 086	
Value added	14 028		12 505		10 737	
Income from investments <sup>^</sup>	226		192		133	
<b>Total value created</b>	<b>14 254</b>		<b>12 697</b>		<b>10 870</b>	
<b>VALUE DISTRIBUTION</b>						
● Employees (note 1)	8 537	60	7 661	60	6 786	62
● Capital providers	1 591	11	1 270	10	1 012	9
Finance costs	983		827		755	
Dividends to Barloworld Limited shareholders	522		393		223	
Dividends to non-controlling interest in subsidiaries	86		50		34	
● Government (note 2)	978	7	778	6	642	6
● Communities (corporate social investment)	17		17		16	
● Reinvested in the group to maintain and develop operations	3 131	22	2 971	24	2 414	23
Depreciation	1 961		1 805		1 620	
Retained profit	1 156		939		679	
Deferred taxation	14		227		115	
	<b>14 254</b>	<b>100</b>	<b>12 697</b>	<b>100</b>	<b>10 870</b>	<b>100</b>
<b>VALUE ADDED RATIOS</b>						
Number of employees (30 September)	19 692		19 238		18 671	
Revenue per employee (Rand) <sup>#</sup>	3 344 567		3 089 187		2 704 979	
Value created per employee (Rand) <sup>#</sup>	732 293		669 883		590 163	
Corporate social investment – % of profit after taxation, excluding exceptional items	1.0		1.1		1.6	
<b>Notes</b>						
<b>1. EMPLOYEES</b>						
Salaries, wages, overtime payments, commissions, bonuses and allowances <sup>**</sup>	7 497		6 724		5 864	
Employer contributions <sup>†</sup>	1 040		937		922	
	<b>8 537</b>		<b>7 661</b>		<b>6 786</b>	
<b>2. CENTRAL AND LOCAL GOVERNMENT</b>						
Current taxation	837		596		389	
Rates and taxes paid to local authorities	64		70		66	
Customs duties, import surcharges and excise taxes	38		76		163	
Skills development levy	39		36		24	
	<b>978</b>		<b>778</b>		<b>642</b>	

<sup>^</sup> Includes interest received, dividend income and share of associate companies' and joint ventures' retained profit.

<sup>#</sup> Based on average number of employees.

<sup>\*\*</sup> Represents the gross amounts paid to employees including taxes payable by the employees.

<sup>†</sup> In respect of pension funds, retirement annuities, provident funds, medical aid and insurance.

 EC1 to EC9

## Determining materiality

Numerous factors, both external and internal, encompassing regulatory, economic, social, political and global influences and stakeholder expectations, among others, have an impact on organisations; and in turn organisations influence and impact these issues. These considerations are brought to bear on the identification, prioritisation and ratification of issues deemed material to Barloworld's value creation activities. These matters are deliberated at both the operational and board levels, feeding into our strategic framework, SFAs and the identification of risk impacts on the organisation.

The Barloworld approach to determining matters to report on is an ongoing engagement throughout the year, informed by our risk identification process and stakeholder engagement to prioritise issues.

Similarly the identification and prioritisation of report content and associated key messaging are guided by processes that seek to ensure that those issues deemed to be material are effectively communicated.

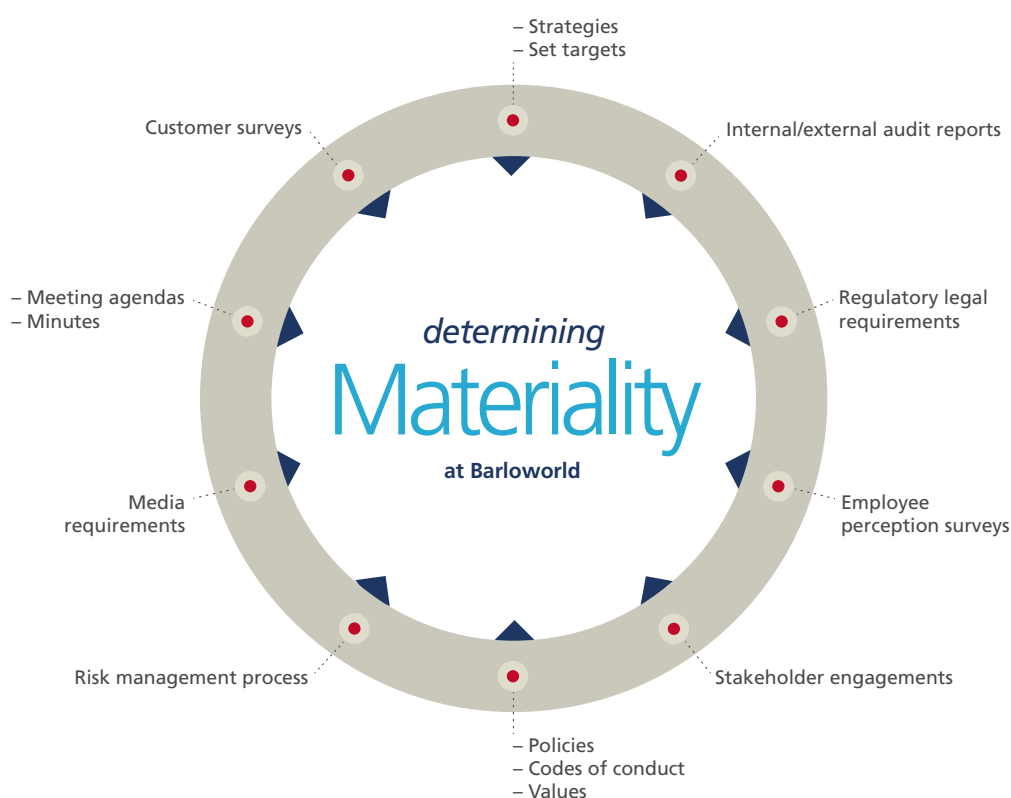
These influences are quantitative and qualitative in nature and cover internal and external perspectives. Issues are identified by considering meeting agendas and minutes, policies, our values, ethics and codes of conduct, strategies, targets, risk management processes and employee surveys. External identification considers: stakeholders' interests along with leading reporting initiative frameworks such as CDP's Climate Change and Water responses, the JSE SRI Index requirements, the United Nations (UN) Global Compact, as well as peer

reporting, media requirements, regulation and expectations. These are compared and then prioritised based on internal and external assessments.

In general, there is alignment between issues raised internally and those raised through external processes, although emphasis does vary in some cases. Currently, validation is essentially an internally orientated process, with authorisation by various board sub-committees and ultimate sign-off by the audit committee and Barloworld board. While our materiality framework is still evolving, we believe it is sufficiently robust to instil confidence in the report's content, particularly when read in conjunction with the remainder of our annual reporting.

Given the group's focus on engaging with employees, shareholders, customers and principals/service providers, Barloworld is aware of the primary issues governing these relationships, what topics are important to these stakeholders, how to prioritise them, and hence what the focus for its reporting should be.




The group does not conduct focused engagement tailored for its integrated report but uses ongoing engagement throughout the year as the basis for defining report content. Through these processes, the group prioritises report content, and, via engagement, validates the importance of these issues with the concerned stakeholder group. The principle of materiality guides the prioritisation of topics identified during the stakeholder engagement process.



# Progress on Strategic Focus Areas




## Core strategic themes

The group has identified top imperatives that form our material focus areas for each core strategic theme. Key performance indicators have been set to track progress.

Core themes		Material focus areas		
Strategic Focus Area	Strategic objectives	Key performance indicators	Progress review	Page references
<b>Profitable growth</b> 	Achieve targeted compound growth in total shareholder return in the five years to September 2015	<ul style="list-style-type: none"> <li>Top-quartile growth in total shareholder returns over five years to 2015</li> <li>Increase group operating profit by executing turnaround and growth strategies</li> <li>Execute identified growth projects for each division</li> </ul>	<ul style="list-style-type: none"> <li>Share price up 104% off September 2010 baseline</li> <li>Operating profit up 18% in current year</li> <li>Newly acquired distribution and support businesses of Bucyrus earnings accretive in first full year</li> <li>Global Power growth strategy continues to gain momentum</li> <li>Agriculture businesses in Siberia and Mozambique positioned to tap agricultural growth potential</li> <li>Niche acquisitions and growth projects implemented in Automotive and Logistics</li> </ul>	Page 40
<b>People</b> 	Build an organisation that adds value to employees and other stakeholders through inspired, aligned, empowered, results-driven, globally competitive and passionate people who create value through strategic innovation and continuous improvement	<ul style="list-style-type: none"> <li>Drive employee engagement: Individual Perception Monitor (IPM) overall score above 75% for all businesses</li> <li>People development and succession aligned with strategic growth priorities</li> <li>Leadership retention</li> <li>Provide a safe and healthy work environment</li> </ul>	<ul style="list-style-type: none"> <li>Communicating and implementing the revised people management approach as well as redeveloping the measures and processes</li> <li>Talent management discussions and planning completed</li> <li>LTIFR improved by 16% to 1.02</li> </ul>	Page 44
<b>Integrated customer solutions</b> 	Drive market leadership through competitive differentiation by accelerating the evolution of our business model from pure distribution to the provision of flexible, value-adding, integrated customer solutions	<ul style="list-style-type: none"> <li>Market leadership in targeted segments through delivery of integrated customer solutions</li> </ul>	<ul style="list-style-type: none"> <li>Market leadership position retained across most businesses</li> <li>Successful integration of the Bucyrus distribution and support businesses provides expanded product range to customer base in surface and underground mining</li> <li>Joint venture with EMD/Progress Rail is pursuing opportunities to provide locomotive and rail services to customers in southern Africa</li> <li>Niche acquisitions in Automotive and Logistics expand customer solutions and support business model</li> </ul>	Page 50

## Core themes

## Material focus areas

Strategic Focus Area	Strategic objectives	Key performance indicators	Progress review	Page references
<b>Sustainable development</b> 	<p>Develop products and services to capitalise on emerging sustainable business opportunities, realise cost savings through energy efficiency and other sustainable business practices, and enhance Barloworld's reputation by leading in sustainable development</p>	<ul style="list-style-type: none"> <li>Aspirational target of 12% efficiency improvement in non-renewable energy consumption and greenhouse gas (scope 1 and 2) emissions by end of 2014 financial year (2009 baseline)</li> <li>Cumulative cost savings through sustainability initiatives</li> <li>Pursue emerging commercial opportunities</li> </ul>	<ul style="list-style-type: none"> <li>While most operations positively contributed to progress towards our aspirational targets, increased energy consumption and emissions from our expanding Logistics operations negatively affected group progress <ul style="list-style-type: none"> <li>Energy efficiency (GJ/Rm revenue) is 7% worse than baseline</li> <li>GHG emissions efficiency (tCO<sub>2</sub>e/Rm revenue) is 7% better than baseline</li> </ul> </li> <li>Related savings in operations</li> <li>A number of environmentally sustainable commercial opportunities being pursued</li> </ul>	<p>Page 74</p>
<b>Empowerment and transformation</b> 	<p>Enhanced competitiveness, credibility, legitimacy and reputation in the eyes of all stakeholders by leading in broad-based empowerment and transformation</p>	<ul style="list-style-type: none"> <li>Department of Trade and Industry's B-BBEE Level 2 or 3 rating for each South African business unit</li> <li>Leadership position</li> <li>Drive gender equality, localisation, people with disabilities and diversity across the group</li> </ul>	<ul style="list-style-type: none"> <li>Ranked as number 1 in general industrial sector for fourth consecutive year</li> <li>All South African operations achieved a Level 2 or Level 3 B-BBEE rating</li> <li>Group B-BBEE Level 2 rating retained</li> <li>General staff trust shares with a value of R266.6 million vested allowing the 11 531 South African recipients the opportunity to sell or retain shares</li> </ul>	<p>Page 90</p>
<b>Financial returns</b> 	<p>Achieve top-quartile financial returns as measured against peer groups in each of our chosen business segments</p>	<ul style="list-style-type: none"> <li>Top-quartile financial returns on average through the cycle (at or above our cost of equity, and measured against relevant peer groups in our chosen business segments)</li> <li>Achieve return on equity target (15%) by 2015</li> <li>Achieve return on net operating assets target (20%) by 2015</li> <li>Internal targets and hurdle rates set for all businesses</li> <li>Release capital from underperforming assets</li> </ul>	<ul style="list-style-type: none"> <li>Group return on equity improved from 11.3% to 12.8%</li> <li>Group return on net operating assets declined slightly from 18.8% to 18.6%</li> <li>Positive turnaround in Logistics operations continued</li> <li>Released R1 057 million proceeds on disposals of businesses in the past two years</li> </ul>	<p>Page 98</p>



## Engaging with our stakeholders

Barloworld's management and board are cognisant that the group's reputation is derived from stakeholders' perception of the organisation, based on the quality of its products and services, the ethical and professional behaviour of its people and its full, fair and timely communications to stakeholders in the markets and countries in which it operates.

In order to compete in an increasingly complex and ever-changing business environment, Barloworld ascribes high strategic importance to stakeholder relationship management. Aligned with the group's business and external profile, responsibility for stakeholder management has been assigned to an executive director on the group's main board, the board being charged with overall accountability for the status of the group's key relationships and reputation.

The group is committed to delivering sustainable value through open, mutually beneficial relationships that inspire the trust and confidence of its stakeholders. As such, stakeholder engagement is a key aspect of the group's approach to responsible corporate citizenship and underpins the profitability and sustainability of our businesses.

Creating sustainable value for key stakeholders is integral to the ongoing management activities of group functions and business operations and a regular agenda item at executive meetings.

In order to understand and behave in the best interests of our stakeholders, a wide range of regular, structured and ad hoc engagements take place at various levels in the organisation, targeting investors, employees, customers, suppliers, government, civil society

**Central to our business model is the management of relationships with our stakeholders.**



and the media. These are aimed at channelling stakeholder intelligence into strategy formulation and decision-making processes, and exploring ways to enhance key relationships and generate trust.

Material matters raised by stakeholders and the management responses to these issues are regularly reported on, to ensure an inclusive and responsive approach to stakeholder engagement.

A forum of stakeholder engagement champions from divisions and functions across the

group provides a management platform to strengthen the group's approach to stakeholder engagement, relationship management, cross-functional implementation and accountability. The forum shares information on stakeholders across the group and develops strategic approaches to shared group needs and interests, such as establishing clear goals for key stakeholders, key performance indicators (KPIs) for strategic relationships, management tools and relevant communications.

 4.14 to 4.17


 Barloworld Stakeholder Engagement policy

## Stakeholder groups engaged and the key issues addressed in 2013

Key issue	Management response
<b>Shareholders and providers of capital</b>	
<ul style="list-style-type: none"> <li>• Sustainability of business, operational and financial performance</li> </ul>	<ul style="list-style-type: none"> <li>• Business models, strategic direction and approach to long-term value creation articulated</li> <li>• Performance against reported financial metrics monitored</li> <li>• Strategic alignment with identified growth industries and regions.</li> </ul>
<ul style="list-style-type: none"> <li>• Fair executive and non-executive directors' emoluments</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive remuneration report disclosed annually</li> <li>• Remuneration committee in place and chaired by independent non-executive director</li> <li>• Independent remuneration advisers retained.</li> </ul>
<b>Customers</b>	
<ul style="list-style-type: none"> <li>• Unique solutions and relationships which assist them to achieve their objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Close relationships enhance capability to identify and deliver unique integrated solutions</li> <li>• Alignment with leading principals ensures optimal product availability and legitimate supply chains</li> <li>• Leading technology and service support facilitates customer interventions, expanded and competitive offerings.</li> </ul>
<b>Employees and their representatives</b>	
<ul style="list-style-type: none"> <li>• Fulfilled careers</li> </ul>	<ul style="list-style-type: none"> <li>• Regular and committed employee engagement</li> <li>• Revitalisation of Employee Value Proposition designed to facilitate value add for and by employees, attract and retain skills.</li> </ul>
<b>Principals and suppliers</b>	
<ul style="list-style-type: none"> <li>• Leading representation of products and services</li> </ul>	<ul style="list-style-type: none"> <li>• Leading product distribution and after-market offering supported by significant investment in world-class skills and facilities</li> <li>• Regular customer satisfaction surveys and feedback</li> <li>• Increasing sales secures improved demand for principal's products and services.</li> </ul>
<b>Public sector</b>	
<ul style="list-style-type: none"> <li>• Support for national objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Employment, investments in development and taxes contribute to financial and social stability, and economic competitiveness of countries in which we do business</li> <li>• Monitoring and constructive responses to changes to policy framework and group's regulatory environment in countries of operation</li> <li>• Compliance and conformance with relevant standards and legislation.</li> </ul>

## Engaging with our stakeholders continued

Key issue	Management response
<b>Civil society and local communities</b> <ul style="list-style-type: none"> <li>• <b>Responsive corporate citizenship</b></li> </ul>	<ul style="list-style-type: none"> <li>• Engagement on shared interests and concerns</li> <li>• Responsiveness to needs of communities through corporate social investment and enterprise development programmes with set performance targets and objectives</li> <li>• Diversity, empowerment and transformation, as well as responsible environmental custodianship identified as key focus areas with set performance targets and objectives.</li> </ul>
<b>Empowerment partners</b> <ul style="list-style-type: none"> <li>• <b>Mutually beneficial relationship and value creation</b></li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing engagement and review of existing B-BBEE structures</li> <li>• Focus on value creation and total shareholder returns.</li> </ul>
<b>Industry associations</b> <ul style="list-style-type: none"> <li>• <b>Range of industry issues of collective interest and concern</b></li> </ul>	<ul style="list-style-type: none"> <li>• Leadership involvement and engagement with industry bodies and forums include: <ul style="list-style-type: none"> <li>• Policy development</li> <li>• Conditions of employment, skills development</li> <li>• Transition to lower carbon economies.</li> </ul> </li> </ul>
<b>Media</b> <ul style="list-style-type: none"> <li>• <b>Relevant, credible, comparable information and reporting</b></li> </ul>	<ul style="list-style-type: none"> <li>• Engagement through formal structures, media campaigns and editorial content</li> <li>• Available and engage proactively and on request.</li> </ul>

 For full list of stakeholder issues and responses see [GRI 4.14](#)

## Partnerships that drive value

*Avis Fleet Services provides outsourced fleet management services to the City of Johannesburg.*



The City of Johannesburg (COJ) outsourced fleet management contract awarded to Avis Fleet Services in November 2012 is one of the biggest automotive tenders of its kind in South Africa.

Johannesburg is home to about 4.5 million people with a municipal budget the largest in South Africa. Naturally a significant portion of this budget is demarcated for operational expenditure and the provision of most of COJ's services depend on up-time mobility of some 3 500 vehicles.

The contract, which involves the supply of a fully maintained fleet solution over five years to eight core departments, some of these being the Johannesburg Roads Agency, City Power, City Water and Pikitup Waste Management, called for intensive engagement with COJ management to understand their complex and various needs and to provide a world-class transport solution.

Strong B-BBEE credentials, as well as the capacity to demonstrate the benefits through appointments "on the ground" and ensure the city's

policies are adhered to, were important elements of the tender.

This necessitated a 360 degree organisational assessment, and ingenuity in dealing with intricate pricing models, sharing of risks and proactive supplier engagement.

This was a task that consumed thousands of man-hours and drew on the knowledge and expertise of people from across the entire Automotive and Logistics division coordinated through Avis Fleet Services (AFS). The outcome is that the AFS team has negotiated a contract designed to meet the needs of the city in the most cost effective manner available. Since signing of the agreement, the city has seen 1 793 new vehicles delivered into its fleet.

Delivery of the integrated customer solution has also demanded seamless collaboration between business units within Barloworld Automotive and Logistics, particularly the Barloworld General Motors City Deep team and Avis Fleet Services. The Barloworld GM City Deep site was equipped to allow AFS to

launch the full bouquet of operational services to the COJ, including maintenance authorisation and customer engagement, and resulted in 90% of the vehicles being sourced through Barloworld Motor Retail dealerships. The contract also entailed the implementation of a new billing system, reporting protocols and use of data to effect continuous improvement in the services provided. As a result of the COJ contract, GM City Deep has increased revenue by 40% and sustained higher profitability resulting in better OEM relationships.

For AFS, the COJ contract is ground breaking. It represents the culmination of 33 years of innovation and continuous improvement into a milestone that will provide a launch pad for future contracts of this type.

Driving the overriding business imperative is the Barloworld philosophy of creating sustainable value for all stakeholders.

Since signing of the agreement, **1 793**  
new vehicles delivered into the city fleet

## Implementing the group strategy

### Our vision 2015<sup>3</sup>

To deliver significant incremental value for our stakeholders through 2015 by being a recognised global market leader in providing integrated solutions in distribution, rental, fleet management, product support and logistics to customers in our chosen business segments.

### Integrated Solutions and Profile

We strive to build an organisation that adds significant value to shareholders, customers, principals, employees and communities through offering a range of integrated customer solutions in selected related industries, with similar business models and core competencies, common customers and realisable synergies.

### Our Strategic Focus Areas and Critical Success Factors

We focus on doing these aspects well to drive value creation for our stakeholders.

Our Strategic Focus Areas are the same through all divisions with Critical Success Factors being tailored to each business.

### Our Worldwide Code of Conduct

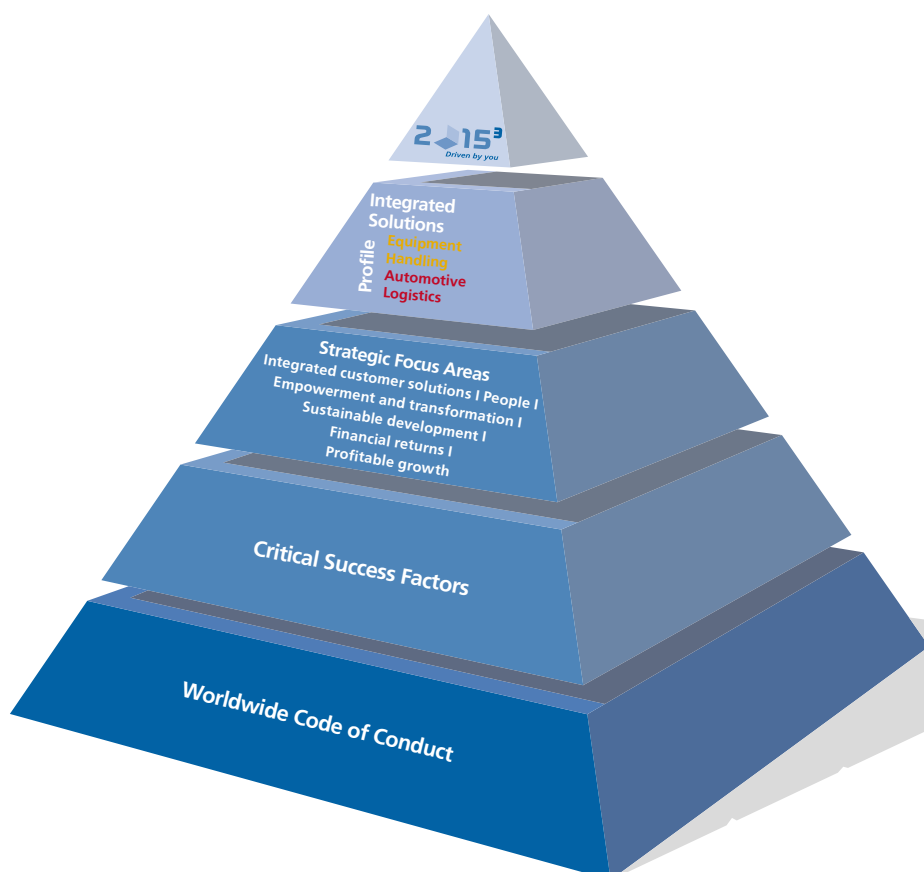
Integrity, Excellence, Teamwork and Commitment. These values apply across the group and to all our interactions with stakeholders.

Similar business models and core competencies, common customers and realisable synergies support our strategic approach.

Our growth and resilience are underpinned by the activities defined in our business model which include delivering our products and services into the markets, growing our market share and successfully servicing the aftermarket opportunities. This continuing cycle ensures our ongoing capability for long-term stakeholder value creation.

### Aligned and efficient strategy implementation

Barloworld strategic framework is consistent throughout the group





.....

**In order to ensure successful implementation of our strategy, realise opportunities and address stakeholder issues and group risks, alignment between these issues and throughout the group is essential.**

**An alignment framework aimed at consistent cascading of our Strategic Focus Areas through the group is in place and appropriately adapted by the divisions and business units. It includes divisions identifying Top Imperatives for each Strategic Focus Area aligned to group priorities for 2015<sup>3</sup>, together with related Critical Success Factors, measures, risks and responses.**

Implementation of the group's strategic plan is monitored at board level. Divisional executive teams are accountable for fulfilling their strategic plans, meeting objectives and achieving key performance indicators.

Strategic plans are executed through elements of a comprehensive Integrated Employee Value Model which includes accessing, harnessing and directing the group's collective wisdom. The framework includes a structured performance management system ensuring attention to top imperatives and value drivers, and enables employees to benefit

appropriately from value created. An Integrated Financial Value Model highlights areas of focus to optimise value creation activities (value drivers), measures progress against objectives and provides relevant peer comparisons. These aspects enhance the group's value creation capability.

In line with the Strategic Focus Areas of improving our financial returns and profitable growth, the group has set hurdles for allocation of financial and other resources to opportunities and continually assesses the performance of existing operations against these hurdles. Businesses are exited where it is believed that they will not be able to meet the required performance level and investments are made into opportunities that align with the group's strategic direction. Examples are exiting the United States of America, Belgian and UK Handling businesses and investing into a range of new opportunities including the acquisition by the Equipment division of the Bucyrus distribution rights in southern Africa and Russia, a number of

investments by the Automotive and Logistics division and Handling's expansion in the agriculture sector in southern Africa and Russia.

## **Managing risk**

Identifying risks and opportunities through a robust and systematic process is central to our strategic planning process. A comprehensive risk management policy is in effect throughout the group and is complemented by the Barloworld Limited Risk Management Philosophy.

In line with international best practice, risks are assessed on their probability, severity and quality of the existing control environment. These measures result in residual risk scores that indicate the importance of the risk and facilitate assessing progress made in addressing identified risks. Through the risk and sustainability committee, the board determines the levels of risk tolerance for the group and also ensures that risk assessments are performed on a continual basis by formally reviewing the divisional and group risk registers twice a year.

# Managing risk

This table reflects the group's top risks as well as management's responses to them.

## Barloworld group top risks 2013 (in alphabetical order)

Key risks	Category of risk and management response
<b>Acquisition underperformance</b> 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.	<b>Acquisition risk</b> <ul style="list-style-type: none"> <li>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</li> <li>Following acquisitions, planning and task teams are established to focus on the realisation and management of possible synergies.</li> </ul>
<b>Climate change and environmental stewardship</b> Barloworld considers a number of environmental related risks to its operations. These include climate change and related physical risks due to changing weather patterns; regulatory risks associated with greenhouse gas emissions; financial risks resulting from carbon taxes; operational risks due to constraints in energy supply and the availability of natural resources, such as water. The group identifies the predominant use of fossil fuel-based energy in its supply chain, operations, products and solutions as a risk to itself and its value chain.	<b>Environmental/operational/strategic/financial/regulatory risk</b> <ul style="list-style-type: none"> <li>Minimise exposure through in-depth risk assessments and strategic responses. Ensure organisational resilience through aligned and integrated management activities and policies. These include:               <ul style="list-style-type: none"> <li>Implementation of aspirational efficiency improvement targets in non-renewable energy consumption and greenhouse gas (scope 1 and 2) emissions and focus on water stewardship</li> <li>Association with leading principals, provision of products and solutions with reduced environmental footprint and which assist customers achieve their sustainable development objectives</li> <li>Geographic, industry and product diversification.</li> </ul> </li> </ul>
<b>Competitor actions</b> Competitor actions will erode our competitive position and have a significant impact on the value we create for shareholders.	<b>Competitor risk</b> <ul style="list-style-type: none"> <li>Continually reduce costs by focusing on operational efficiencies and staff training</li> <li>Continually improve service and the provision of innovative solutions to customers</li> <li>Develop key customer plans which contain all the information and strategies to satisfy the customer.</li> </ul>
<b>Currency volatility</b> 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.	<b>Financial risk</b> <ul style="list-style-type: none"> <li>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 and guideline parameters within which to operate and permissible financial instruments to be utilised</li> <li>Preventive measures are implemented around determination of pricing mechanisms and structuring of commercial contracts to reduce the impact of any adverse currency fluctuations.</li> </ul>

 1.2

 Barloworld's 2013 CDP Climate Change disclosure response and 2013 CDP Water disclosure response

Key risks	Category of risk and management response
<p><b>Defined benefit scheme exposure</b></p> <p>One of the key risks for the UK's defined benefit scheme over the past few years has been the reduced real yield on AA-rated corporate bonds which is used to value the liabilities. In addition, increased life expectancy of members will have an adverse impact on the scheme's funding position. Market volatility remains a risk, with 50% of the schemes assets invested in growth assets (largely equities), which includes 25% diversification into absolute return funds. A further deterioration in the funding level will require additional company contributions over and above the scheme's current normal and agreed recovery plan contributions.</p> <p>The year-end valuation resulted in the deficit increasing to £85 million, largely due to the higher inflation rate which was partially offset by increased bond yields. The increased liabilities were offset to an extent by good asset performance which was ahead of expectations.</p> <p>As the active members have reduced substantially, the trustee board will adopt more prudent assumptions in future in line with the maturity profile of the liabilities which will result in the scheme's liabilities increasing in the actuarial valuation as compared to the accounting valuation.</p>	<p><b>Market risk</b></p> <ul style="list-style-type: none"> <li>• A suitably qualified representative board of trustees exists which, together with a separate investment sub-committee, is responsible for regularly evaluating the effectiveness of investment decisions. Professional investment advisers are used to assist in the management of the investment portfolios with a view to conservatively preserving and enhancing fund valuations. Complex investment risk models are run by the investment advisers and actuaries to assess optimum risk balance. The actuary also conducts a formal triennial valuation with six monthly updates</li> <li>• Funding shortfalls are planned to be made up within sensible timeframes via market-anticipated increased interest rates, positive returns on investments and additional contributions from the company agreed as part of a 10-year recovery plan to bring the fund back to full funding on an accounting basis</li> <li>• The defined benefit scheme in the UK was closed to new members in 2002 and benefits were changed to a CARE basis in 2006 to assist in managing future liabilities. The scheme is now mature with only minimal active membership following the disposal of Handling UK. All new employees in the UK are automatically enrolled in the UK's defined contribution scheme</li> <li>• During the year, as part of the trustee and company strategy to de-risk the UK pension scheme, the fund purchased an insurance policy structured as a buy-in, for a category of pensioners. This was funded through the sale of government gilts and a special contribution by the company of £3.0 million.</li> </ul>
<p><b>Dependence on principals and suppliers</b></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 and quality 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, inter alia, on reliable power and water supply and appropriate transport networks.</p>	<p><b>Strategic risk</b></p> <ul style="list-style-type: none"> <li>• Add value by giving constant feedback to our principals on market movements and product competitiveness</li> <li>• Continually improve/build our relationships with our principals and major suppliers and attempt to ensure that we are a preferred dealer/customer</li> <li>• Provide excellent customer service and lead in our markets</li> <li>• Build long-term partnerships with customers</li> <li>• Supplier due diligence performed</li> <li>• Build relationships with local authorities</li> <li>• Align strategies and targets with those of our major principals as far as possible.</li> </ul>

## Barloworld group top risks 2013 (in alphabetical order) continued

Key risks	Category of risk and management response
<p><b>Exposure to political risks, terrorism and crime in the countries in which we operate</b></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><b>Operational risk</b></p> <ul style="list-style-type: none"> <li>Minimise exposure in high-risk countries through in-depth risk assessments, coupled with the application of preventive and corrective risk management activities</li> <li>Maintain flexible business models</li> <li>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.</li> </ul>
<p><b>Exposure to significant customers and dependence on channels to market</b></p> <p>We are exposed to certain large customers and/or industries and well-established distribution and support channels may change or consolidate.</p>	<p><b>Market risk</b></p> <ul style="list-style-type: none"> <li>Build long-term partnerships with customers</li> <li>Develop customer solutions which differentiate and expand our offering from product-based businesses</li> <li>Diversify customer base</li> <li>Develop new channels.</li> </ul>
<p><b>Occupational Health and Safety risks</b></p> <p>Barloworld's key asset is its employees. The Occupational Health and Safety risk is the likelihood of a person being harmed or suffering adverse health effects if exposed to a hazard in the workplace.</p>	<p><b>Employee/operational/strategic risk</b></p> <ul style="list-style-type: none"> <li>Minimise exposure through in-depth risk assessments, coupled with the application of preventive and corrective risk management activities and policies</li> <li>Training in accident prevention, accident response, emergency preparedness and the use of protective clothing and equipment, all with the aim of ensuring a safe workplace.</li> </ul>
<p><b>Regulatory environment</b></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><b>Regulatory risk</b></p> <ul style="list-style-type: none"> <li>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</li> <li>Where feasible, the group will comment on proposed changes to the regulatory environment that may adversely affect the group in a particular jurisdiction.</li> </ul>
<p><b>Slow recovery of global economies</b></p> <p>The effect of the slow recovery on our businesses, customers, suppliers and funders and the continued risk that funding constraints within the supply chains could result in a double-dip recession and/or impede growth. This, in turn, has lowered commodity prices and impacted mining company investments.</p>	<p><b>Financial risk</b></p> <ul style="list-style-type: none"> <li>Inflationary pressures to be carefully monitored and managed, as appropriate, in each business</li> <li>Reduce costs and improve operating efficiencies</li> <li>Monitor our customers' ability to spend and access credit</li> <li>Reduce working capital, limit capital expenditure and improve cash flow</li> <li>Secure adequate committed borrowing facilities.</li> </ul>
<p><b>Strategic employee skills</b></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><b>Employee risk</b></p> <ul style="list-style-type: none"> <li>Barloworld has a defined Employee Value Proposition and methodology to align employees with the strategy of the organisation</li> <li>These identify and align all employee elements of a value-creating organisation to ensure sustainable intellectual capacity and value-creation competence</li> <li>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</li> <li>Investments in training resources and facilities are continuing to assist and encourage employees to enhance their levels of competence and performance</li> <li>An appropriate suite of reward and incentive schemes ensures recognition, value creation for employees and retention of high-performing employees.</li> </ul>

# Information technology

## Supporting strategy and mitigating risk

The information technology (IT) teams in Barloworld have recognised the changing nature of the IT ecosystem and various technology game changers that are having significant impact on how business is done and enabling new business models and revenue streams. There have been ongoing successes in Internet commerce with steady growth in revenues across the group.

IT has successfully supported the changing shape of Barloworld with the integration of acquisitions and new ventures and the successful handover to new owners of disposed businesses. This is part of a successful practice to integrate acquired businesses. There is a core focus on the capabilities to enable integrated customer solutions. This includes inter divisional working groups to take advantage of those skills in the group that have already been developed and focusing IT resource on the changing

nature of the IT ecosystem. This changing IT ecosystem also stimulates growing Information security risks. There is a broad approach across the group to appreciate and mitigate these risks and make sure that the Barloworld environment is kept secure. To this end a group information security officer has been appointed to enable the organisation to keep up to speed with the changing external environment.

The IT environment is broadly governed according to the King III principles and is fully integrated into the strategic planning process within the company, ensuring the consideration of new business opportunities, and strategic, tactical and operational alignment in the achievement of business objectives.

Chief information officers in each division represent IT at divisional board level and the group finance director is responsible at a group level. IT steering committees at a group, divisional and business unit level enable alignment with business direction

and synergies across IT in the group. The IT function is represented at quarterly risk and sustainability committee meetings, a sub-committee of the board.

The group IT steering committee ensures that IT is applied to the best advantage of the company through:

- Strategic alignment
- Innovation and major trends in technology
- Value delivery
- Performance management
- Governance of IT
- Risk management
- Resource management
- Information security.

Barloworld is guiding IT to support the group's future growth and value creation ability.

@ [Full Corporate governance report 2013](#)



## Growing for the future

**A strong ambition to expand activities and increase value created for all stakeholders**

The following growth industries provide opportunities for the group into the future and are central to our strategy. Given our strategic profile, representation of principals and Original Equipment Manufacturers (OEMs) and brands, as well as our regions of activity, we are well placed to realise opportunities in these segments. Recent investment activities illustrate our commitment to these

**The group focuses on opportunities in its core businesses and limits moves into adjacent markets unless there are clear strategic linkages.**

opportunities and to growing our business.

These include:

- The acquisition of Bucyrus in southern Africa and Russia
- The merger of Dedicated Transport Services (DTS) business with Manline Logistics to form Barloworld Transport Solutions (BWTS) in which Barloworld has a 50.1% stake
- The formation of Manline Mega, an abnormal load transport business
- Finalising the acquisition of the 25% minority holding in Logistics Africa

- The acquisition of a 25.1% minority stake in re-, an environmental solutions business.

In addition, a realignment of management structures within our Equipment, Handling and Power Systems operations was effected on 1 October 2013 with the aim of allocating sufficient management resources to areas of future growth, to optimise synergies through collaboration between our businesses and also ensure that leadership development and seamless management succession is in place.

### Identified growth segments and growth drivers

#### Mining

**Emerging market industrialisation driving demand for commodities**

**Southern Africa  
Russia**

#### Infrastructure

**Infrastructure backlogs and rapid urbanisation in developing economies**

**Southern Africa  
Iberia  
Russia**

#### Power

**Increasing demand in electricity, marine, petroleum and industrial segments**

**Southern Africa  
Iberia  
Russia**

#### Agriculture

**Importance of food security, growing demand for biofuels, including rich potential in Africa and Russia**

**Southern Africa  
Russia**

#### Automotive

**Increasing need for flexible vehicle usage solutions for private, corporate and inbound tourism**

**Southern Africa  
Australia**

#### Logistics

**Growing international trade and trend to outsource supply chain management activities**

**Southern Africa  
Middle East  
Europe  
Far East  
North America**

## Bucyrus acquisition successfully integrated

Barloworld Equipment southern Africa's acquisition of the Bucyrus distribution business from Caterpillar Global Mining, effective on 1 July 2012, could not have been better timed.

The new business was named as Extended Mining Product Range (EMPR) to differentiate it from the legacy Cat mining business and give it the necessary focus to take root. It has taken a dedicated team,

led by executive Gerhard Vorster, a great deal of time and effort to achieve a difficult integration process involving almost 500 people and a line-up of very different opencast and underground mining machines with unique sales and support requirements.

The acquisition also coincided with the start of the cyclical mining sector decline. Yet, through sheer determination and hard work, the EMPR team have caught the imagination of customers and positively impacted Equipment revenue and profits.

Essentially the EMPR business, contributing significantly to the diversity of our mining offering, has filled a revenue gap created by a cyclical decline in legacy Cat mining machine sales due to the industry downturn. Exceeding expectations, the EMPR team achieved its first full financial year targets within 10 months.

The integration process started with complex challenges. The team has taken a measured approach, identifying gaps, listing problems, prioritising and tackling one by one using 6 Sigma methodology.

There have been many successful sales to sites including Husab Uranium; FQM Kalumbila copper mine; Debswana's diamond mines; Optimum Colliery; Sishen, Mamatwan and Kolomela in the Northern Cape, as well as breakthroughs with Glencore Xstrata. Major improvements have been seen in after-sales and parts availabilities in particular.

"Now we are starting to align the EMPR business and people into our existing regional structures," says Vorster. "The operations must start running the EMPR business alongside the legacy Cat business. We must benefit from synergies with our existing structures and footprint throughout the business."



*A Cat dragline, an important excavating tool used in many surface mining operations worldwide. One of the new machines offered in the EMPR range, the Cat dragline offers the lowest material removal cost per tonne and an average operating life of 40 years.*

The aim is to become market leader on prime EMPR product as we are in legacy Cat product.

This integration process involves  
**500 people**

# Creating a world of excellence

**Barloworld's key asset is the intellectual capacities and skills of its employees. Employees are central to the implementation and success of our vision and strategy.** We aspire to creating an organisation of the future where we deliver employee value by engaging the hearts and minds of all employees so that they come to work with a sense of purpose and leave with a sense of achievement.

Our people strategy supports the business model in delivering the Employee Value Proposition (EVP) articulated in our people statement and strategic intent.

## Critical success factors for employee value creation

Six critical success factors guide the group in managing its employees. Each of these factors is closely aligned to deliver on the EVP and ensure that Barloworld has the intellectual capacity to create sustainable value for the business and all its stakeholders.

An Individual Perception Monitor (IPM) surveys employee opinion on the six areas of the EVP in each division. The objective is to identify and communicate areas for improvement and targeted interventions. This survey is conducted every two years and will be held again in 2014.

## INSPIRE through clear purpose and direction

This element establishes strategic clarity and alignment which is clearly understood by all employees. Strategic imperatives and targets are translated into individual balanced scorecards that define the strategic value drivers for each job. The relationship between individual/team efforts and business goals is clear and employees are encouraged to find innovative ways to improve performance.

## GROW our sustainable competence

Sustainable competence is achieved through organisational learning and development. Recruitment practices are professional, effective, fair and transparent. Workforce planning is conducted to identify future manpower needs aligned to the company's strategic plans. Based on this analysis, a talent pipeline review identifies any gaps. Talent segmentation is important to identify core and scarce skills which are prioritised and incorporated into recruitment strategies and skills development plans.

Initiatives include the following:

- An Intellectual Capital Review (ICR) is conducted annually by the chief executive to assess the current talent pipeline. This ensures succession in critical roles and appropriate career development of key individuals. A similar process is undertaken at divisional level

- Skills development programmes address both hard and soft skills and are aligned to national regulations and frameworks. Trainee, graduate, apprenticeship and learnership programmes are in place. The group has 3 492 artisans, technicians and technologists as well as 3 392 employees with degrees or diplomas. We provide financial support to 227 employees studying towards degrees or diplomas and assist 196 individuals in training, including work experience, through a number of internship programmes. We have 1 464 delegates in our learnership and apprentice programmes
- Management/executive development programmes are also held through external recognised business schools/universities.

Overall direct training and development spend for the period amounted to R120 million.

### Average training hours per employee by level

Occupational level	2013	2012	2011
Board*	3.00	3.17	7.42
Executive	4.02	8.19	16.63
Senior management	12.24	8.93	28.39
Middle management	21.74	27.29	35.44
Skilled upper	37.40	28.18	29.86
Semi skilled/apprentices/trainees	38.55	53.14	38.45
Labour/unskilled	2.51	16.04	31.03
<b>Overall group average</b>	<b>35.05</b>	35.40	33.34

\*Includes executive directors only.

### Percentage spend by level

Occupational level	2013	2012	2011
Board*	0.00**	0.01	0.02
Executive	0.02	0.09	0.27
Senior management	0.87	0.22	1.13
Middle management	11.34	10.96	16.98
Skilled upper	48.36	48.13	45.80
Semi skilled/apprentices/trainees	39.36	39.60	33.50
Labour/unskilled	0.05	0.99	2.30
<b>Total spend (R)</b>	<b>120 078 219</b>	156 589 474	119 140 406

\*Includes executive directors only.

\*\*Training provided by the group's advisers at no additional cost.

## THRIVE as a result of talent management

Talent management focuses on the processes to identify, develop and manage the career paths of employees within the organisation.

A formal system of talent identification exists within the organisation and the annual ICR effectively manages strategic talent.

A total of 12 552 employees had a career development discussion during the 2013 reporting period. Individual development plans are implemented and employees are given opportunities to develop the skills required for current and future roles.

The organisation creates an open and transparent internal labour market and vacancies are advertised on the intranet site.

## LIVE in a caring, equitable workplace

A healthy, equitable organisational climate supports all stakeholders including employees and broader society. We care about our employees' safety and their wellbeing is paramount.

In addition to the results from an IPM survey, feedback is received from general and informal communication, structured team forum meetings, one-on-one discussions and 360 degree reviews.

Regrettably, there were three work-related deaths in our Logistics unit during the year as a result of truck accidents. The group continues to focus on providing a safe and healthy work environment.

Barloworld also invests in society and its communities as a responsible corporate citizen. The group has a clearly understood policy on social investment and responsibility. Volunteerism is supported, allowing employees to become involved in projects that are meaningful to them.

## RELATE to a professional climate

A professional climate creates a culture of innovation, ethical leadership, environmental stewardship and good corporate governance.

The Barloworld Leadership Behaviours define the behaviour expected from leaders throughout the organisation. This is aligned to the Barloworld Worldwide Code of Conduct and Code of Ethics.

Surveys such as 360 degree reviews and the IPM offer feedback to leaders.

Management/executive development programmes are aligned to reinforce the desired leadership behaviours and values. From 2001 to date, 544 delegates have attended the leadership development programme and 141 the executive development programme.

**Striving to build an organisation of the future through alignment of standards, best practice and tools to bring our Employee Value Proposition to life.**

## REWARD aligned to performance management

Performance is managed to recognise excellence. The reward and performance management system is aligned to value creation through remuneration, performance coaching and reviews.

Performance reviews are conducted annually. During the reporting period 13 460 reviews took place.

### HIV/Aids statistics in Barloworld South Africa

Division	Employees			Employees who know their status*			% who know their status*			% of those tested who are HIV positive*		
	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
Equipment and Handling	4 293	4 210	3 623	2 160	2 627	2 473	50	62	68	3	4	4
Automotive and Logistics	9 471	8 241	7 674	5 301	4 918	5 031	56	60	66	5	5	7
Corporate	113	119	106	50	100	106	44	84	100	4	4	4
<b>Total</b>	<b>13 877</b>	<b>12 570</b>	<b>11 403</b>	<b>7 511</b>	<b>7 645</b>	<b>7 610</b>	<b>54</b>	<b>61</b>	<b>67</b>	<b>4</b>	<b>5</b>	<b>6</b>

\* Cumulative over three years.

Reward and incentive programmes are clear, well communicated and linked to strategy and business results and each employee participates in some form of incentive/reward scheme.

Balanced scorecards ensure goals are balanced and aligned and targets are captured for each role. Individual development plans support continuous learning to enable individuals to meet or exceed targets.

The pay for performance system ensures that employees are appropriately rewarded for their level of performance. Remuneration and employee benefits are attractive, well structured and competitive. The group's remuneration practices are regularly reviewed and we are committed to removing discrimination in pay scales.

## Learning Organisation

The Learning Organisation is the sustainability platform on which the six critical success factors of the EVP are based. The key drivers are information sharing, collaboration, innovation and collective wisdom through structured team forums.

Through the Learning Organisation, reinforced by our Leadership Behaviours, Worldwide Code of Conduct and Code of Ethics, employees are able to take an active role in reviewing and continuously improving organisational processes, systems and practices and building the organisation of the future.

## Number of employees

Overall headcount (permanent and contractors longer than 12 months) in the group increased from 19 238 to 19 692 as a result of acquisitions within our Equipment Russia and Logistics units. The growth in employment in Russia partly offset the effect of the disposals of businesses in Handling.

## Workforce by division

Division	2013	2012	2011
Equipment and Handling	8 691	9 427	9 430
Automotive and Logistics	10 888	9 692	9 135
Corporate	113	119	106
<b>Total</b>	<b>19 692</b>	<b>19 238</b>	<b>18 671</b>

Barloworld is a global entity with a presence in multiple geographies and we are committed to recruiting from communities in which we operate and developing the local skills base. Where the required skills are not available, the opportunity is used to broaden the experience and expertise of expatriate employees who, in turn, assist in developing local skills. Overall 1.58% of employees are expatriates.

## Workforce by region

Region	2013	2012	2011
RSA	13 877	12 570	11 403
Rest of Africa	2 418	2 334	1 905
UK, Europe and Russia	2 632	3 548	3 743
Middle East and Asia	242	244	291
Australia	510	528	492
North America	13	14	837
<b>Total</b>	<b>19 692</b>	<b>19 238</b>	<b>18 671</b>



## CEO Awards 2013 – excellence recognised

*The finalists for the CEO Awards 2013, Sean Walsh of Barloworld Equipment southern Africa, Oleg Sorokin of Barloworld Equipment Russia, Mathys Enslin representing Barloworld Logistics and the PPC TMS team, Gary Halverson of Barloworld Handling, Clive Thomson, Lerato Manaka of Corporate Office, Manuel Jurado of Equipment Iberia and Nelson Govender representing Avis Fleet Services and the City of Johannesburg team*

The CEO Award is a highlight of the annual calendar that recognises exceptional people within the Barloworld group. It celebrates individuals and teams whose achievements testify to the courage, grit, skills and passion of Barloworld's employees.

The CEO Award finalists are selected through well-established and communicated divisional recognition and reward processes that form a critical component of the group's Employee Value Proposition.

The seven finalists represent all aspects of the business and are chosen for their professional achievements, leadership skills and contributions to the community to compete for the ultimate title of the Barloworld CEO Award winner.

All nominees for the CEO Award, whether they are teams or individuals, have some common attributes:

- They go beyond the call of duty, exercising discretionary effort to make a positive difference in their workplaces
- Through their actions they create sustainable value for all our stakeholders
- They focus on the achievement of Barloworld's vision and live our values of integrity, excellence, teamwork and commitment.

The judges had a very difficult task and after much deliberation the CEO Award 2013 went to a team of 25 people – Avis Fleet Services' City of Johannesburg (CoJ) team led by Nelson Govender, general manager, CoJ operations.

Winning the hotly contested CoJ contract has been a great success for Avis Fleet Services and added significant value for the entire Automotive and Logistics division. Tough negotiating and outstanding execution have distinguished this team, which has taken the key business imperatives of collective wisdom and teamwork within the Automotive and Logistics environment to new levels of excellence. These men and women exemplify what can be achieved by talented and passionate people who work together to achieve and exceed business goals. They seek not individual credit but to win as a team.





Exceptional customer service – driving market leadership

# Equipment and Handling



## Economic

	Revenue Year ended 30 September R million		Operating profit/ (loss) Year ended 30 September R million		Net operating assets 30 September R million	
	2013	2012	2013	2012	2013	2012
<b>Equipment</b>	<b>28 148</b>	24 273	<b>2 069</b>	1 740	<b>11 876</b>	10 600
– Southern Africa	<b>19 126</b>	16 326	<b>1 678</b>	1 535	<b>6 901</b>	6 587
– Europe	<b>4 377</b>	4 180	<b>(16)</b>	(139)	<b>2 292</b>	2 177
– Russia	<b>4 645</b>	3 767	<b>407</b>	344	<b>2 683</b>	1 836
<b>Handling</b>	<b>2 534</b>	4 774	<b>54</b>	38	<b>774</b>	733
	<b>30 682</b>	29 047	<b>2 123</b>	1 778	<b>12 650</b>	11 333
Share of associate income			<b>188</b>	148		

## Environmental

	Petrol and Diesel (ML) Year ended 30 September		Electricity (MWh) Year ended 30 September		Energy (GJ) Year ended 30 September		Emissions (tCO <sub>2</sub> e) (scope 1 and 2) Year ended 30 September		Water (ML) Year ended 30 September	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
<b>Equipment</b>	<b>10.17</b>	9.55	<b>29 874</b>	26 985	<b>492 873</b>	453 902	<b>52 449</b>	48 120	<b>286</b>	290
– Southern Africa	<b>7.45</b>	6.85	<b>19 390</b>	17 647	<b>356 983</b>	322 750	<b>40 066</b>	36 340	<b>235</b>	266
– Europe	<b>1.74</b>	1.74	<b>7 164</b>	7 206	<b>89 791</b>	89 976	<b>8 251</b>	8 275	<b>34</b>	7
– Russia	<b>0.98</b>	0.96	<b>3 320</b>	2 132	<b>46 099</b>	41 176	<b>4 132</b>	3 505	<b>17</b>	17
<b>Handling</b>	<b>1.55</b>	4.12	<b>1 441</b>	5 813	<b>67 544</b>	185 234	<b>5 659</b>	15 372	<b>7</b>	29
	<b>11.72</b>	13.67	<b>31 315</b>	32 798	<b>560 417</b>	639 136	<b>58 108</b>	63 492	<b>293</b>	319

## Social

	Employee headcount Year ended 30 September		LTIFR Year ended 30 September		Fatalities Year ended 30 September		B-BBEE rating* Year ended 30 September	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Equipment</b>	<b>8 002</b>	7 701	<b>0.91</b>	0.94		1		
– Southern Africa	<b>5 701</b>	5 541	<b>0.59</b>	0.63		1	<b>2</b>	2
– Europe	<b>1 448</b>	1 493	<b>3.23</b>	2.35				
– Russia	<b>853</b>	667	<b>0.24</b>	0.97				
<b>Handling</b>	<b>689</b>	1 726	<b>2.65</b>	2.02			<b>2</b>	3
	<b>8 691</b>	9 427	<b>1.03</b>	2.96		1		

\* B-BBEE rating for South Africa only.

**Peter John Bulterman**  
Chief executive officer:  
Equipment division southern  
Africa, Iberia and Russia

**Dominic Sewela**  
Chief executive officer:  
Equipment southern Africa

**Peter John Blackbeard**  
Chief executive officer: Power  
systems southern Africa,  
Iberia, Russia and Handling  
division

**Viktor Salzmann**  
Chief executive officer:  
Equipment Iberia and COO  
Power Systems southern  
Africa, Iberia and Russia



Revenue up

**6%**

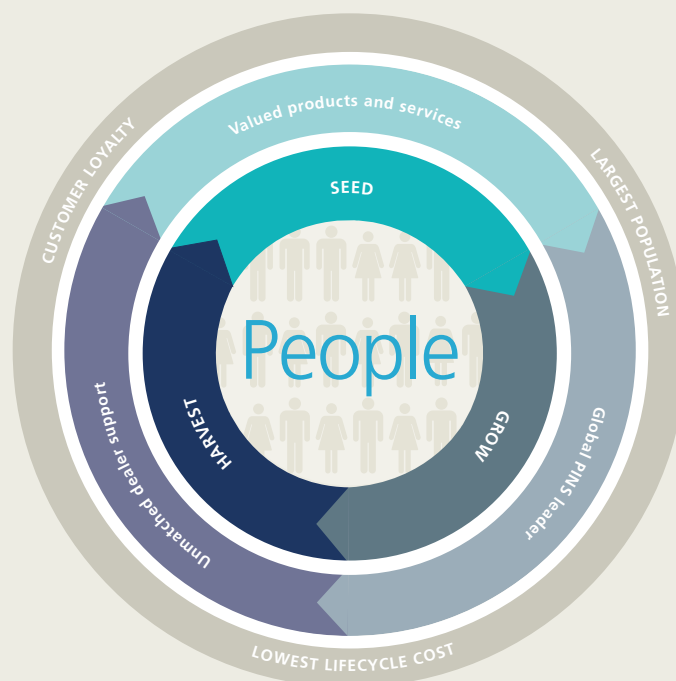
Operating profit up

**19%**

Operating margin

**6.9%**

## Business model

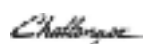


Strategic performance

## Equipment



## Handling



### Southern Africa

#### Market overview

Following early indications of a slowdown in the mining supercycle in the final months of the 2012 financial year, 2013 has confirmed the downward trend on the back of slower growth in China, consequent declines in commodity demand and prices, and lacklustre economic performance globally. As a result, mining houses have reduced capital expenditure in order to extend the useful lives of machines.

Despite this Barloworld Equipment southern Africa's diversity across several countries and commodities, as well as our strong focus on after-sales support driven by our service teams and repair/rebuild facilities, assisted us in withstanding the mining downturn to produce a pleasing result. The Extended Mining Product Range (EMPR) of opencast and underground Cat mining products (ex-Bucyrus) acquired in mid-2012 further diversifies our solutions offering.

Labour issues in the South African mining sector continue to affect investor confidence. This is, however, concentrated mainly in underground platinum and gold mining, where Barloworld Equipment has limited exposure.

Market conditions continue to be positive for the power business in most sectors and southern African territories.

#### Business overview

Barloworld Equipment southern Africa's vision 2015, **to be the market leader by providing customers with the lowest total owning and operating cost over the life of the machine**, demands that our people have the skills and passion to deliver exceptional customer service, with the support of world-class facilities and systems, underpinned by mutual understanding with our principal Caterpillar.

While the long-term fundamentals remain in place, our business model is adjusting to the shorter mining cycles resulting from a volatile global economy.

We continue to be the overall market leader in earthmoving equipment sales in southern Africa.

**To be the market leader by providing customers with the lowest total owning and operating cost over the life of the machine**

## Equipment and Handling continued

#### Performance overview

Barloworld Equipment southern Africa produced another pleasing result against the backdrop of the mining sector slowdown and a low growth rate in South Africa, which generates more than 63% of our southern African revenue.

Following record growth in revenue and operating profit in 2012 due to unprecedented mining machine deliveries, we have withstood the significantly weaker economic climate to increase revenue by 17% to R19 billion in 2013. Operating profit of R1.67 billion comes in 9% higher from R1.53 billion in 2012.

Despite a lower order book at the start of the year due to reduced orders for Cat legacy mining machines, sales were boosted by the contribution of the well-timed acquisition of the EMPR business.

Tight control of operating expenses was maintained, balanced with the need to invest in providing exceptional customer support in the future.

With the slowdown in activity following high levels of working capital required in the previous year, we were able to generate R1.4 billion of cash in 2013.

South African performance improved on the back of better than expected EMPR revenue and improved construction equipment sales. South African coal mines were less affected by lower Chinese imports of thermal coal due to sustained demand from Eskom.

However, in Mozambique revenue declined as our coal mining customers suffered the effects of the Chinese slowdown, together with a lack of rail infrastructure to transport commodities to ports.

The Angolan business improved its result with good construction sales, some breakthroughs in the mining sector and a strong order book. However, government payments to contractors continue to be intermittent, causing uncertainty in the market.

Chinese imports of cheaper construction machines into Angola and other African countries have ramped up and we are focusing on used sales to counter this. The power business is benefiting from the Angolan government's plan to increase capacity to produce and distribute electricity.

Zambia has achieved higher machine sales this year, balanced by flat parts and service revenue due to cost cutting by copper mines.

Namibia benefited from almost 50 machines to the B2Gold Otjikoto site and started upskilling for the first deliveries to Swakop Uranium's Husab project early in the 2014 financial period.

The Botswana result was subdued following major mining deliveries the previous year, but new equipment support agreements with Debswana's diamond mines testify to our strong customer alignment and will boost the parts and service business going forward.

While the Mota Engil contract for the Nacala Corridor railway project was mainly responsible for our improved result in Malawi, there were also indications of increased activity by other customers.

### **Mining**

Reduced capital expenditure by most mining houses resulted in a decline in large Cat legacy mining machines delivered this year to 220 compared to more than 350 in 2012. Contract mining again made a significant contribution to sales.

The acquisition of the Bucyrus distribution business from Caterpillar Global Mining, resulting in the formation of our EMPR business in 2012, has been key to securing mining business this year. The EMPR sales and support business exceeded the first year operating profit target through strong after-sales activity and good cost control.

Our biggest EMPR order, for equipment and support worth more than US\$130 million, came from Swakop Uranium for the Husab project in Namibia.

The absence, until recently, of electric-drive mining trucks in our offering has resulted in lost sales on some key mining sites. However, the delivery of six Cat 795F AC electric drive trucks to Kumba Iron Ore at Sishen on a trial basis this year marks a significant breakthrough.

As part of Caterpillar's continuing investment in the Unit Rig products that formed part of the Bucyrus acquisition, the first four MT4400D AC trucks incorporating Cat engine and electric drive system have also arrived in South Africa.

### **Construction, rental and used equipment**

Our construction business showed pleasing growth to exceed target and gain market share despite the lack of major capital projects.

The complementary Metso crushing and screening equipment business had another excellent year and the focus on packaging Cat and Metso solutions together for construction and mining is meeting with customer approval.

The rental and used business was particularly buoyant as an alternative to new sales in the current market, achieving over 70% growth in operating profit.

Cat Certified Used sales have increased from 200 units last year to almost 300 and growing. In this model, rental machines are swapped out between 1 500 and 6 000 hours and sold as CCU with attractive warranties.

### **Power**

Barloworld Power had a flat year as a result of the softening in the mining market, which negatively impacted the supply of diesel engines into the industrial power business. This was offset by increased activity by OEMs selecting Cat engines as part of their factory fit offering.

Eskom's avoidance of significant load shedding meant lower electric power sales, however, we achieved pleasing growth in rental and the Perkins business.

Additional activity in the oil and gas sector brought an increase in work-boat activity to support offshore installations. A high proportion of these vessels are powered by Cat engines, providing continuing after-sales prospects.

Barloworld Global Power is developing its gas capability in Electric Power, as well as petroleum in Angola and northern Mozambique to serve the new offshore gas discoveries. Mining coverage is being increased in the Northern Cape and Limpopo provinces in South Africa.

Importantly, the business has increased its complement of professional engineers. ISO 9001 accreditation was achieved by the Power business at the Boksburg campus.

Electro-Motive Diesel Africa (EMD Africa), the joint venture formed last year to serve the southern African rail sector as part of our power business growth strategy, has attracted significant interest from customers and suppliers. We are awaiting adjudication of the diesel locomotives tender which forms part of Transnet's R300 billion budget to upgrade South Africa's port, rail and pipeline infrastructure.

We remain committed to working closely with Barloworld Global Power to realise synergies across all Barloworld geographies.

### **Managing for value**

We moved into our new Kathu facility on 1 October 2012 and significant growth in business 2013 has proved the value of this investment. The new facility in Kitwe

on the Zambian copper belt will open shortly and construction of the facility to serve the coal mines in Tete, Mozambique, is progressing well. In the current economic climate we are planning a conservative approach to major capital projects.

Interviews with major customers have been completed as part of a formal review of the Barloworld Equipment Customer Value Proposition and the satisfaction levels of key customers. The Customer Value Proposition is a combination of what we do, how we deliver it, and how this combination adds value to the customer's business. Plans are in progress to address customer concerns identified.

Our SAP CRM (customer relationship management) programme, replacing the current customer service (CS) system, went live in Namibia as a pilot site in July 2013. The CRM system was developed for our business and we will be the first Cat dealer in the world to implement it. It will significantly enhance our ability to provide our customers with the lowest total owning and operating cost over the life of their machines.

A restructure of our human resources (HR) function into HR Operations and HR Talent in early 2013 is enabling the business to increase focus on all aspects of our Great People Management philosophy. As part of this philosophy the HR Talent team has commenced the launch of the Integrated Employee Value Model (IEVM), providing a framework for the Equipment business to attract, engage, motivate and retain the highest calibre of people.

### **Skills development/talent**

Barloworld Equipment has been formally recognised by the Manufacturing, Engineering and Related Services Sector Education and Training Authority (merSETA) as a major contributor to skills development in our industry. The merSETA plays a central role in ensuring that the national skills development strategy is fulfilled, covering approximately 44 000 companies with a workforce of about 600 000.

We have trained almost 600 learners from all our southern African territories in our Technical Academy over the year and

carried out over 700 assessments. The trainee accommodation achieved 92% occupancy, although extensions have been put on hold due to current cost constraints.

Some 1 250 customer employees have also received training at the academy this year.

We continue to work towards ensuring that all employees have balanced scorecards and individual development plans (IDPs). A strong succession plan supported by a formal middle management excellence programme is being built.

### **Transformation**

We retained our B-BBEE Level 2 status in our South African operation, with a notable improvement in employment equity and in particular, employment of people living with disabilities.

### **Health and safety**

Barloworld Equipment aims to run an injury-free operation. To this end we have set ourselves very tight targets to reach a zero LTIFR by 2016.

### **Environmental sustainability**

We continue to roll out various water and energy-saving initiatives to ensure we meet or exceed our aspirational targets and are confident that these will be achieved.

### **Ethics and compliance**

Barloworld Equipment aims to ensure that employees conduct business and interact with all our stakeholders in an ethical manner through an ethics and compliance programme that is currently being introduced in all territories. Action plans have been developed, responsibilities assigned and timeframes agreed to address identified ethics risks.

### **Future outlook**

The firm order book has reduced to R3.5 billion and we expect further contraction in Cat legacy mining machine sales in 2014. However, continued EMPR profitability is expected and major EMPR orders for FQM Kalumbila operation in Zambia and Husab Uranium in Namibia will be delivered in the coming year.

Focus will be placed on continuing improvement of customer service and parts supply chain in the EMPR business, which will also be aligned into our regional structures to achieve the benefit of synergies with our Cat legacy mining

# Equipment and Handling continued

business and our extensive southern African footprint.

The short-term outlook remains good for the rental operation based on our successful business model and current market conditions. We expect the construction sector to provide further opportunities as the need for infrastructure development becomes more pressing throughout southern Africa, but the timing in South Africa remains uncertain.

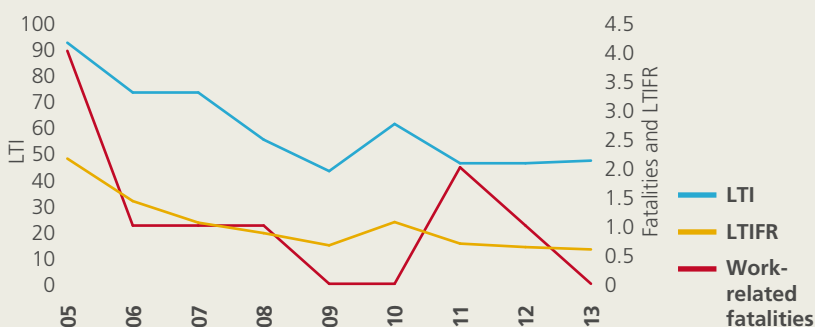
The outlook is positive for the Power business throughout southern Africa, with gas as a significant development area. We also expect growth in the marine sector as a result of new investments in port

support vessels and anti-piracy vessels. The potential for shale gas exploration in the Karoo basin will bring significant opportunities for Power should it materialise.

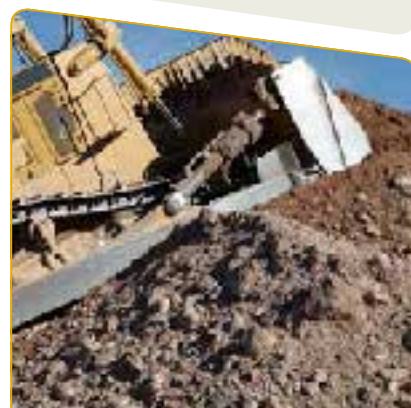
The mining environment in 2014 is likely to remain challenging and we will continue to conserve cash through a company-wide efficiencies management programme. Low-priority capital projects will be shelved in the short term.

The outlook for infrastructure and construction in southern Africa is showing renewed optimism driven by proposed projects in transportation, power and mining.

### **Improving safety**



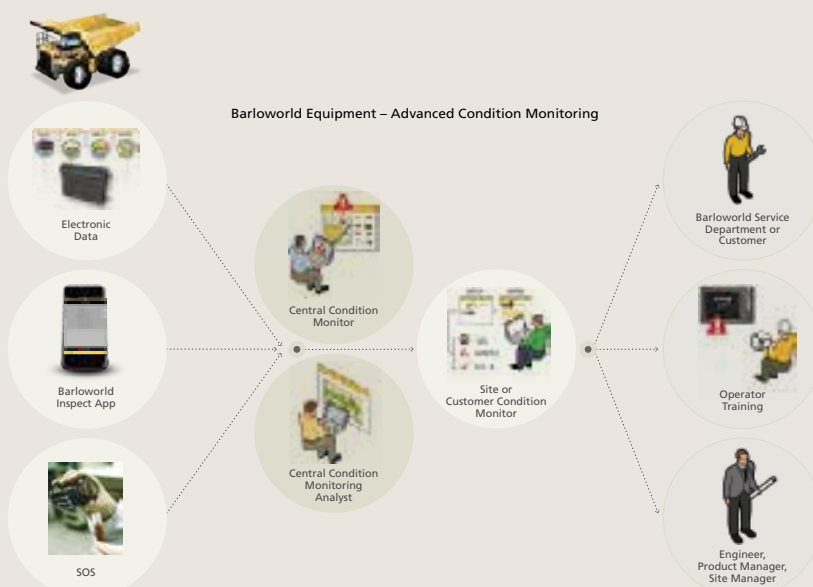
The graph shows a steady improvement in safety since 2005.







# Technology strategy drives customer solutions



Servicing and maintenance of machines are a critical aspect of our customer solutions strategy. Barloworld Equipment aims to achieve a silver Service Excellence rating from Caterpillar as part of our alignment with our principal and an approved condition monitoring status was required for this purpose. We were successfully certified as an approved condition monitoring (CM) dealer during a Caterpillar audit in July 2013.

A condition monitoring bureau was opened at our Boksburg facility in August using SAP as a platform. The bureau aims to add value to customers by enabling monitoring of their machines on a 24/7 near real-time basis to manage cost and equipment productivity.

The bureau already has connectivity with almost 1 000 machines in the field through Caterpillar's Product Link and MineStar Health solutions. A roadshow is planned early in the 2014 financial year to market this joint Barloworld Equipment/Caterpillar initiative to customers.

## Supporting responsible business in Angola

Barloworld Equipamentos Angola has become one of the first signatories to the Principles for Responsible Business for Angola. Angola is currently ranked 157 out of 176 countries on the Transparency International Corruption Perception Index.

In a move to change the negative perceptions around doing business in Angola, the Chamber of Commerce and Industry of Angola (CCIA) and the Ethics Institute of South Africa have launched the Principles for Responsible Business for Angola and the Centre for Ethics Angola. Sudhir Khanna, financial director of Barloworld Equipamentos Angola, attended the launch on 28 May 2013 and committed Barloworld as one of the initial signatories to the principles.

*"We as Barloworld have been involved with this project since the beginning and are happy to see this idea take root in the Angolan business environment,"* he said.



## Russia

### Market overview

The decline in global demand for coal has impacted the Russian mining industry, particularly our dealership territory where 90% of coal reserves are located. Gold mines were buoyant in the first six months, assuming a more neutral position in the latter part of the year as the gold price weakened.

The construction segment is being hampered by a lack of infrastructural megaprojects due to the weakening rouble and uncertain market conditions. The purchase of TNK-BP by Rosneft has delayed many planned projects in the petroleum sector, but this consolidation phase is expected to be temporary.

### Business overview

Over 70% of revenue in our Russian territory is derived from mining and the acquisition of the Bucyrus distribution business from Caterpillar in January 2013 produced pleasing initial performance. This Extended Mining Product Range (EMPR) business will provide significant future opportunities for Equipment Russia, particularly in the substantial underground coal mining market.

The after-market business in all sectors is contributing strongly to revenue, indicating increased maturity in this young dealership and a high level of market penetration. This is key to achieving our vision: *To be a recognised market leader in our targeted industry segments by offering profitable integrated customer solutions.*

### Performance overview

Following a record year in 2012, we achieved a good result in the depressed economic context to lift revenue marginally from \$476 million in 2012 to \$498 million in 2013. Operating profit is similar at \$43 million.

The operating margin was slightly lower at 8.8% due to continued development of the facility footprint and skills needed to offer customers world-class service throughout our extensive territory.

The gold mining sector was a strong contributor to revenue, boosted by an order for 18 Cat 785 trucks from Polyus Gold International, the largest gold

# Equipment and Handling continued

## EMPR performed in line with our expectations.

producer in Russia. Half of this order was delivered by year-end, with the balance due by January 2014.

Construction was slower due to the absence of notable infrastructure development and the Power result was down on the previous year, impacted by delays in project awards.

### Managing for value

Improving our facility infrastructure remains vital in building a platform for future growth. During the year a dedicated facility was opened in Novosibirsk for the Power business, and new facilities were also opened in Irkutsk and Novokuznetsk. Progress has been made on facilities in Magadan, Kemerovo and Norilsk.

The mining business has been segmented into opencast and underground units to ensure dedicated focus on Cat legacy and EMPR equipment sales and support into both markets. The service operation is also undergoing extensive process improvements to accommodate future aftermarket growth.

Efforts continued to entrench safe working practices across all levels of the workforce. A partnership was established with Irkutsk Railway University to function as our training centre and skills source in the Eastern Siberia region. Leadership skills development is well advanced and we have started to integrate the Integrated Employee Value Model (IEVM) into our operations.

### Future outlook

A relatively flat year is anticipated in 2014 in line with the mining cycle decline and operating expenses will remain under tight control. There will be strong focus on improved utilisation of existing resources and ensuring that the current workforce has the skills and tools to achieve the best results from the business. The facility development programme will slow to conserve cash.

Our capabilities in the areas of mining technology and equipment management will be expanded in the coming year, together with focus on penetrating the large mining truck business and supporting the new fleets at Polyus Gold, Pavlik and Alrosa.

We anticipate an improvement in our construction business as a number of major projects should come to fruition in 2014 and 2015. Both the Power of Siberia gas pipeline and the Kuyumba to Tayshet oil pipeline project will commence in 2014. We also expect several major electric power projects in the new financial year.

## Using all our abilities to satisfy a customer

*Signing the new customer solutions agreement (from left): Kopanang Thekiso (financial manager, Barloworld Equipment Botswana); Emile Coetzer (group asset manager, Debswana); Sean Walsh (general manager, Barloworld Equipment Botswana); France Mashinyana (strategic sourcing manager, Debswana); and Hermann Siegling (group supply chain manager, Debswana).*

**A new three-year customer solutions agreement between Barloworld Equipment Botswana and Debswana for the Jwaneng diamond mine took effect on 15 April 2013. This follows the expiry of the 10-year MARC (maintenance and repair contract) early last year.**

"Our overall relationship, together with machine availabilities at Debswana's mines, was under pressure towards the end of 2011 and we needed a new way forward," says Sean Walsh, general manager of our Botswana operation. "To help remedy the situation, a joint fleet improvement initiative was launched with buy-in and commitment from the executive teams of both companies. The new contract builds on this successful initiative, with increased collaboration to maintain machine availabilities. The idea was to do away with the 'them and us' attitude that used to prevail. Under the new agreement, we charge a fixed cost (people, vehicles and tooling to look after the fleet) and a variable rate for running repairs and maintenance," Sean explains.

"A significant variation on the old contract is that major components are now excluded from the rate, but are jointly analysed and discussed when replacement/repairs are needed. Now the customer makes the final call on the level of repair and/or replacement."

To assist in driving the right behaviour, the agreement includes an incentive to reward availabilities over set targets and, conversely, discounts on payments when targets are not achieved. "A good working spirit was evident throughout the negotiation process," says Sean. "Availabilities have improved on the truck fleet, which has resulted in a happier customer. Our Jwaneng team has done a great job in a challenging environment and is working very hard to sustain and improve on this success."



## Iberia

### Market overview

The Mediterranean region of Europe continued to suffer the effects of the collapsed property and investment sectors, resultant government austerity programmes and external debt market pressures. These factors have led to a prolonged recession, growing unemployment, an ailing banking system and ongoing negative political and economic sentiment.

### Business overview

In addition to defending market share for the Cat equipment and power products on the Iberian Peninsula in extremely difficult market conditions, we continued to grow our internally generated brand, MyTractor.com, to capitalise on rising internet-based sales channels globally and broaden opportunities for the business.

During the year a new dealership agreement for Sullair compressors was signed in Portugal.

We continued to focus on our vision of being recognised by our customers as **the market leader in providing integrated solutions for Caterpillar products, rental and product support**. Caterpillar's integrated rental, new and used model has enabled us to remain leader in our territories, while new opportunities have arisen to secure business with key Iberian clients expanding their operations into Barloworld Equipment southern Africa territories such as Angola, Mozambique and Malawi.

This has resulted in the sale of new and used equipment to customers such as Mota Engil, Zagope, Teixeira Duarte and Finertec, as well as the provision of technicians and parts to assist these customers with ongoing maintenance as well as major machine repairs and rebuilds.

Our service operations continued to attract recognition from Caterpillar with the award of gold status for Service Excellence for the third consecutive year, along with platinum status for Marine Service.

### Performance overview

Despite the ongoing contraction of local markets and poor financial conditions, we achieved year-on-year revenue growth supported by the delivery of large equipment packages to EPSA and Victorino Alonso together with sales into alternative markets such as quarries, industry, agriculture and forestry. We expanded used equipment sales to the export market as well as seconding mechanics to more than 10 countries requiring technical skills.

# Equipment and Handling continued

## Significant turnaround and improvement achieved over the past year.

Revenue was down by 5% to €367 million in a market where new machines declined 28% year-on-year and after-sales business was affected by a significantly reduced inventory of machines operating in Spain and Portugal.

The Power Systems business was positive in the marine sector as we delivered engines to various shipyards on orders from the previous year, as well as the critical power sector with the commissioning of two key projects for BBVA, a large local and international banking group, and Telefonica, the largest telecommunications provider in Spain.

Additional advances were made in the rail and industrial sector with the supply of engines to Kazakhstan in association with our local key account, Talgo.

However, the Power business was affected on two fronts as tax subsidies to investors in marine vessel construction were declared illegal by the European Union and the Spanish government continued to reduce subsidies on renewable energies. A lower overall gross margin was balanced with additional cost-saving measures such as an enforced salary decrease in the Spanish business on top of previous restructuring. A fine effort by our teams resulted in the year ending with a close to breakeven result at an operating profit level.

The balance sheet remained well controlled, with reductions in working capital and rental fleet investment marginally offset by capital investment in certain areas of the business. This included the continued realignment of the branch network, including the construction of a new facility at Puerto de Luz in Las Palmas to service marine traffic to North Africa and the ongoing construction of new facilities in Barcelona and Seville to replace ageing infrastructure.

An investment to integrate the lucrative Spanish parts business into the SAP system was made as part of a longer-term IT consolidation project.

### Managing for value

Stakeholder engagement continues to play a vital role in the region's development. Customer satisfaction and loyalty measures are at near record highs as key account management programmes, market focus programmes and high service levels form part of day-to-day operations.

Our extensive engagement with our principals covers all areas of the business, while significant progress has been made on the governance, ethics and compliance and sustainability aspects. The Barloworld Code of Conduct is used to drive ethical behaviour across the organisation.

Effective employee health and safety programmes and quality processes have resulted in a reduction in workplace accidents, excellent external health and safety audits, and the retention of two separate ISO ratings for processes and sustainability.

Our employees play a vital role in the success of our business and have ensured that we meet our obligations to our other stakeholders in the face of great adversity. We actively pursue our gender equality programme despite low employee turnover ratios, and the IEVM is being rolled out.

### Future outlook

The European economy has now come out of recession and is projected to grow by 1.5% in 2014. In Iberia, we believe that the equipment industry has bottomed and product support revenues are also expected to grow. The order book is dominated by Power where the outlook for Marine in Spain remains positive.

## Deploying technicians to territories outside Iberia

*Andres Berendt (left) and Juan Manuel Villanueva, technicians from Barloworld Finanzauto, interacting with local children while in Mozambique working on Vale's Moatize coal mine. Based on feedback from technicians in Mozambique, staff in Spain donated more than 2 tons of non-perishable goods, toys, writing and other materials to people in need in the region.*

The Iberian operations employ 495 technicians who form the backbone of our product support capability in the region.

Supported by Caterpillar, we provide these technicians with high levels of training and experience. They also have to work in the business for five years before they can be deployed in customer-facing roles in the field. These skilled employees are essential to our future sustainability and an innovative approach was required when activity in the region slowed down.

Both Finanzauto in Spain and STET in Portugal are recognised by Caterpillar and our customers as leaders in product support within the Europe Africa Middle East (EAME) region. We leveraged this reputation by placing two Spanish technicians in Norway in September 2012 through cooperation with the Scandinavian Cat dealer. Portugal has also placed technicians on sites in various African territories at the request of customers.

The success of these programmes soon saw our technicians working for other dealers in Saudi Arabia, the Dominican Republic and the Bahamas. This year we have also sent technicians to assist our Barloworld Equipment operations in various countries in southern Africa, where they not only take up customer-facing positions but are also involved in training of local technical skills.

In the past year we had up to 100 technicians working outside Iberia at any one time.

Our reach has also extended to international waters, with our marine certified technicians working on customer vessels operating from Mauritius, Senegal, Brazil, Madagascar, the Ivory Coast and the Dutch West Indies. We also have specialists on offshore oil rigs in Angolan waters who have undertaken special survival training in Aberdeen, Scotland, beyond the necessary Caterpillar certifications.

The benefit for the group has been significant as valuable technical skills have been retained and knowledge is being shared with new entrants into the business. The journey has been profound for the technicians involved, many of whom have not travelled abroad previously. They have been exposed to the realities of life in distant countries for extended periods and, despite working six-day weeks, many have extended helping hands to the communities in which they find themselves.

The Spanish business, motivated by its mechanics working in Mozambique, donated non-perishable foods, educational items and toys for villages in the Tete region.





### Handling

#### Market overview

Trading conditions in the various geographies remained challenging, particularly in The Netherlands and Russia. While markets are price sensitive, our key differentiator is the ability to offer an integrated value solution through comprehensive after-sales support and a growing dealer network footprint.

#### Business overview

The business continued to reshape itself post the disposals of the lift truck businesses in the United States of America, UK and Belgium. The business in Belgium was sold in the reporting period, allowing for reallocation of capital to higher-return businesses in Barloworld. Our CLAAS agricultural distributorship in South Africa ended in September 2013 and the AGCO agriculture business will be grown to replace this lost revenue. Despite pressure on margins across all businesses, long-term relationships with principals and customers continued to bear fruit.

#### Performance overview

The Handling business in South Africa grew revenue by 18%, mainly due to major deal deliveries. Operating profit increased 2.8 times to R28 million and net assets increased by 36% to R272 million as a result of higher stock levels. In Angola, Handling revenue increased by 12% while margins were flat. In The Netherlands, revenue was down on last year but market

# Equipment and Handling continued

share increased from 3.4% to 4.3% with some margin improvement.

A drought in the North West province contributed to a 6% reduction in South African commercial maize production, affecting the agriculture business. We made good progress in establishing our brands in the fledgling agriculture and SEM businesses in Mozambique and Russia, with revenue increasing to \$3.6 million in Mozambique and \$20.4 million in Russia although both still reported operating losses.

#### Future outlook

Population growth, increased protein consumption, expanding farm incomes and improvements in agriculture productivity are just some of the factors that are fuelling growth potential in the agriculture sector. Prospects remain positive in South Africa assuming that the drought does not recur. We are continuing to expand our dealer footprint to enhance customer service and territory coverage.

It is anticipated that The Netherlands will remain subdued while the outlook is positive for the Russian agriculture business as good crop yields are forecast. We will focus on further growing and strengthening our relationships with key principals, offering superior service and solutions through a skilled employee base.





## Equipment and Handling

### Top imperatives for 2015<sup>3</sup>

Strategic Focus Area	Top imperatives	Risk	Risk response
<b>Profitable growth</b>	<ul style="list-style-type: none"> <li>Grow new machine sales through leveraging expanded product range</li> <li>Secure aftermarket opportunities and recurring income streams</li> </ul>	<ul style="list-style-type: none"> <li>Slow economic recovery</li> <li>Aggressive competitor pricing and attractive value proposition</li> </ul>	<ul style="list-style-type: none"> <li>Close customer engagement and exceptional performance levels</li> <li>Wide product range and diverse markets</li> </ul>
<b>People</b>	<ul style="list-style-type: none"> <li>Secure required skills to execute strategic objectives and fulfil commitments</li> <li>Provide a safe and healthy work environment</li> </ul>	<ul style="list-style-type: none"> <li>Loss of key skills detracts from ability to provide value-adding customer solutions</li> <li>Employee injury or fatality</li> </ul>	<ul style="list-style-type: none"> <li>Implement comprehensive integrated employee model</li> <li>Continued focus on training and succession planning</li> <li>Tenacious commitment to safety</li> </ul>
<b>Integrated customer solutions</b>	<ul style="list-style-type: none"> <li>Deliver unique value adding solutions to customers</li> </ul>	<ul style="list-style-type: none"> <li>Attractive competitor value proposition results in lost opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Committed customer engagement identifying value propositions and requirements</li> <li>Leading principals and products</li> <li>Extensive infrastructure and resources</li> </ul>
<b>Sustainable development</b>	<ul style="list-style-type: none"> <li>Achieve aspirational non-renewable energy consumption and greenhouse gas (scope 1 and 2) emissions efficiency improvement targets, against the 2009 baseline</li> <li>Pursue emerging commercial opportunities</li> <li>Realise related cost savings</li> </ul>	<ul style="list-style-type: none"> <li>Failure to implement required initiatives and missed targets</li> <li>Environmental impairment as a result of activities</li> <li>Competition secures emerging business opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Continue to implement appropriate energy conservation initiatives including leveraging the rebuild and remanufacture facilities</li> <li>Provide solutions that enable customers to realise their sustainable development objectives</li> </ul>
<b>Empowerment and transformation</b>	<ul style="list-style-type: none"> <li>Drive the achievement of diversity objectives which include: <ul style="list-style-type: none"> <li>Achieving the dti's B-BBEE target levels in South Africa</li> <li>Gender equality, localisation and people with disabilities targets</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Reputational damage and failure to attract and retain key skills</li> <li>Inability to secure commercial opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Drive a diversity culture through appropriate values and leadership</li> <li>Targeted recruitment practices</li> <li>Support and career development in place</li> </ul>
<b>Financial returns</b>	<ul style="list-style-type: none"> <li>Achieve targeted financial metrics or measures</li> <li>Focus on positive cash flows over the business cycle</li> </ul>	<ul style="list-style-type: none"> <li>Inability to generate attractive investor returns</li> </ul>	<ul style="list-style-type: none"> <li>Sound business model, customer base and leading principals</li> <li>Prudent financial management over expenses, capital expenditure, working capital, cash flows, and debt levels</li> <li>Flexible cost structures</li> </ul>