

Barloworld

Leading brands

PROPOSED BROAD-BASED BLACK ECONOMIC EMPOWERMENT TRANSACTION

HIGHLIGHTS

- Creation of a long-term sustainable B-BBEE transaction
- Contribute to the transformation and inclusive growth in the South African economy
- The creation of a broad-based foundation issued with 3% of Barloworld, which will focus on poverty alleviation, education and youth development
- Broad-based participation of 14 000 employees and an offer to the black public
- The R2.7 billion sale of a property portfolio to a black-owned and controlled company is aligned with the strategic focus of unlocking value in all assets
- Foundation shareholding evergreen and Propco empowerment period is 15 years
- The increased B-BBEE ownership will protect and grow market leading positions of South African operations
- B-BBEE ownership of 14%, while limiting dilution to shareholders

1. INTRODUCTION

Shareholders are advised that Barloworld has entered into agreements aimed at implementing a transformative Broad-Based Black Economic Empowerment ("B-BBEE") transaction ("B-BBEE Transaction") which encompasses:

- The specific issue of 6 578 121 Barloworld ordinary shares of R0.05 each ("Par Value") ("Shares"), which will, following their issue, constitute 3% of the entire issued share capital of Barloworld, to the Barloworld Empowerment Foundation ("Foundation") at Par Value ("Foundation Shares"), in terms of paragraph 5.51 of the JSE Limited ("JSE") Listings Requirements ("JSE Listings Requirements") ("Specific Issue of Shares to the Foundation");
- The specific repurchase by Barloworld of the Foundation Shares at Par Value in the event of a breach of any of the material obligations of the B-BBEE Transaction agreements ("Transaction Agreements") by the Foundation, in terms of paragraph 5.69(b) of the JSE Listings Requirements ("Specific Repurchase");
- The sale by Barloworld of certain immovable properties ("Properties") to Main Street 1646 Limited, a majority black-owned and controlled company, ("Propco") for a consideration of R2.722 billion ("Disposal Consideration") ("Sale") (together with the related leases); and
- The provision by Barloworld of financial assistance to related and inter-related parties in terms of the Companies Act, 2008 (Act 71 of 2008) ("Companies Act") ("Financial Assistance").

2. RATIONALE FOR THE B-BBEE TRANSACTION

Barloworld is committed to improving its B-BBEE status. All Barloworld South African business units require an improvement of their black ownership to remain relevant and competitive. As a responsible corporate citizen, Barloworld is supportive of South Africa's efforts to transform the racial profile of the economy. Barloworld intends to conclude the B-BBEE Transaction which includes its staff, communities and the broader black public as participants ("BEE Participants"). The proposed B-BBEE Transaction meets the following key objectives for Barloworld:

- **Long term:** the Sale of the Properties will confer Black Economic Empowerment ("BEE") ownership points to Barloworld in terms of the BEE Codes of Good Practice gazetted under section 9 of the B-BBEE Act, 2003 (Act 53 of 2003) ("BEE Codes"). In addition, the Foundation is contractually precluded from selling its Shares in Barloworld without the consent of Barloworld;
- **Broad-based participation:** inclusion of all employees, black public and the Foundation whose mandate will be poverty alleviation, education and youth development and advocacy; and
- **Sustainable:** the Properties ensure predictability of cash flows and the Specific Issue of Shares to the Foundation at Par Value, will ensure that the B-BBEE Transaction creates a permanent empowerment legacy.

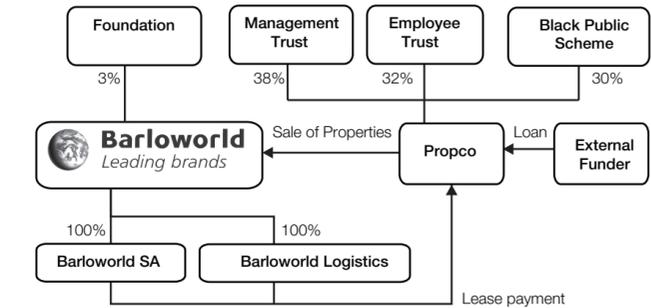
The B-BBEE Transaction will confer B-BBEE ownership to Barloworld equivalent to 14% in terms of the BEE Codes, which will increase B-BBEE ownership to 48% (excluding mandated investments) while limiting dilution to Shareholders to only 3%.

3. THE BARLOWORLD INTERNAL RESTRUCTURE

Certain of the Properties are currently owned by subsidiaries of Barloworld and other parties ("Initial Sellers"). Pursuant to the B-BBEE Transaction and prior to the Implementation Date (as defined in paragraph 16 below), the Initial Sellers will sell and transfer certain of the Properties to Barloworld ("Barloworld Internal Restructure"). Pursuant to the Barloworld Internal Restructure, Barloworld (as lessor) will conclude 10-year lease agreements ("Leases") with Barloworld Logistics Africa Proprietary Limited ("Barloworld Logistics") and Barloworld South Africa Proprietary Limited ("Barloworld SA") (collectively "the Lessees"). The Barloworld Internal Restructure does not require Shareholder approval.

4. THE B-BBEE TRANSACTION STRUCTURE

The B-BBEE Transaction is depicted diagrammatically below (post the implementation of the Barloworld Internal Restructure):



5. THE SPECIFIC ISSUE TO THE FOUNDATION

Barloworld has established a Foundation which complies with the broad-based ownership scheme requirements as set out in the BEE Codes. The creation of the Foundation is in line with Barloworld's growth strategy, as well as the alignment with the South African national development imperatives of advancing economic transformation through the participation of black people in the mainstream economy. The Foundation's focus will be on poverty alleviation, education, youth development, and advocacy targeted at the marginalised and underserved citizens who are currently largely excluded from the economy.

In order to ensure that the Foundation (being a public shareholder in terms of the JSE Listings Requirements) is able to achieve its objectives, Barloworld is proposing to issue the Foundation Shares at Par Value, which is at a discount of 99.96% to the 30-day volume weighted average price per Share on 15 November 2018, being the date prior to signature of the Foundation subscription agreement. The Foundation is expected to hold these Shares in perpetuity as the Foundation will be contractually precluded from selling and/or encumbering the Shares it holds without the prior written consent of the Company.

6. THE SPECIFIC REPURCHASE

In the event that the Foundation breaches any of its material obligations under the Transaction Agreements, Barloworld will have a right, and not an obligation, to repurchase all or a portion of the Foundation Shares at Par Value. Consequently, approval will be sought from the holders of Shares ("Ordinary Shareholders") at the General Meeting (as defined in paragraph 20 below) for the Specific Repurchase only for the specific circumstance of the Foundation being in breach of any of its material obligations as set out in the Transaction Agreements subject to compliance with the JSE Listings Requirements and the Companies Act at the time.

7. THE SALE

The Company has entered into an agreement to sell a portion of Barloworld's South African property portfolio (including the assignment of its rights and obligations under the Leases) to Propco for the Disposal Consideration. The market value of the Properties is R2.755 billion ("Independent Property Valuation") as determined by Broll Valuation and Advisory Services South Africa Proprietary Limited ("Independent Property Valuer"). In order to facilitate the B-BBEE Transaction, the Properties will be sold at a discount of 5% to the Independent Property Valuation (increased by R110 million development expenditure) ("Discount").

The Disposal Consideration will be paid in cash by Propco on the Implementation Date. Propco will raise R2.178 billion of the Disposal Consideration as a loan ("Loan") from an external funder ("External Funder"). Propco will raise the balance of the Disposal Consideration, approximately R544 million, in the form of equity, by issuing ordinary shares in Propco ("Propco Shares") to the Khula Sizwe Management Trust ("Management Trust"), the Khula Sizwe Employee Trust ("Employee Trust") and the black public (pursuant to a public offering in terms of which black participants will be invited to subscribe for Propco Shares ("Black Public Scheme")).

8. BARLOWORLD FUNDING FOR MANAGEMENT AND EMPLOYEES

Management: The Management Trust is required to pay a subscription price of circa R207 million (or up to R370 million if the Black Public Scheme is unsuccessful) for the Propco Shares. Barloworld will provide an interest free loan to enable the Management Trust to subscribe for its Propco Shares ("Management Trust Loan"). Barloworld senior managers and executives will be required to make an own equity contribution of 5% of the equity required (a total amount of circa R8.0 million), which will, once fully contributed, reduce the loan amount to R199 million or R362 million, as the case may be. Junior managers will not be required to make an own equity contribution.

Employees: The Employee Trust is required to pay a subscription price of circa R174 million for the Propco Shares. Barloworld will provide a contribution of circa R174 million to the Employee Trust to enable the Employee Trust to subscribe for its Propco Shares ("Employee Trust Contribution").

9. THE LEASES

The summary of the key terms of the Leases is as follows:

Item	Description
Lessor	Propco
Lessees	Barloworld SA and Barloworld Logistics (Barloworld guarantees the Lessees' lease payment obligations to Propco)
Type of lease	Triple net lease
Escalation rate ⁽¹⁾	8% per annum
Lease term ⁽²⁾	10 years

Notes

⁽¹⁾ The valuation of the Properties was conducted as at 31 August 2018. It is expected that the B-BBEE Transaction will be implemented on 1 October 2019. Therefore, the first year of the Lease, with Propco as lessor, will commence on 1 October 2019 (Implementation Date) or the date of transfer of the Properties if later and end on 30 September 2020, and this would have been subjected to the first escalation of 8% per annum.

⁽²⁾ Barloworld has the right to extend the Lease by a further five years at market-related rental.

10. RELATED PARTY

The Sale constitutes a category 2 transaction in terms of the JSE Listings Requirements. In addition, Propco and the Management Trust have been classified by the JSE as related parties in terms of the JSE Listings Requirements, and are also being treated as related parties in the interest of transparency given that Mr DM Sewela, the group chief executive officer, and Messrs E Leeka and K Rankin, principal executive officers of Barloworld, will collectively indirectly hold 7.20% of Propco (through their 18.95% interest in the Management Trust). Furthermore, the management and employees of Barloworld will hold between 70% and 100% of Propco. Therefore, the Sale and the Lease are being treated as related-party transactions and related-party agreements, respectively. The Financial Assistance is exempted in terms of paragraph 10.6(c)(v) and (vi) of the JSE Listings Requirements. As a result, Shareholder approval is being sought and an Independent Property Valuation as well as an independent fairness opinion have been obtained.

11. INFORMATION ON PROPCO

Propco is a company established for the purpose of acquiring and leasing the Properties in the normal and ordinary course of its business as a property holding and management company.

11.1 RESTRICTIONS AND OBLIGATIONS OF PROPCO

Barloworld, Propco and other parties have entered into the framework agreement ("Framework Agreement") to regulate the obligations of Propco and its shareholders with regards to, *inter alia*, the maintenance of Propco's BEE status for the duration of the empowerment period, being the period ending on the 15th anniversary of the Implementation Date ("Empowerment Period"), after which all B-BBEE restrictions on Propco and its shareholders will fall away. The Propco B-BBEE restrictions include:

- Propco is obliged to utilise any excess cash after servicing its debt and tax obligations and making provision for its budgeted operational expenditure to subscribe for Barloworld Shares (which also have disposal restrictions), subject to any shareholder and regulatory approvals required at the time; and
- Propco shareholders will be restricted from selling or encumbering any Propco Shares they acquire until the end of the 5th anniversary of the Implementation Date ("the Lock-in Period"). After the Lock-in Period and until the end of the Empowerment Period, Propco shareholders may trade among other members of the black public. For this purpose, it is anticipated that Propco may be listed on a restricted stock exchange after the Lock-in Period.

12. THE BLACK PUBLIC SCHEME

It is intended that 30% of the issued share capital of Propco, equivalent to an equity requirement of approximately R163 million, will be held by the black public. The Black Public Scheme is expected to open during the first half of 2019.

The minimum subscription amount to be raised from the Black Public Scheme is approximately R120 million ("Minimum Subscription Amount"). Any shortfall between the R163 million total equity required and Minimum Subscription Amount will be reallocated to the Management Trust, for the specific and exclusive benefit of junior managers. Should the Minimum Subscription Amount not be achieved, the Black Public Scheme will be declared unsuccessful. In the event that the Black Public Scheme fails, the B-BBEE Transaction will continue, and the Management Trust will be obliged to subscribe for Propco Shares resulting in the Management Trust holding up to a maximum of 68% of the entire issued share capital of Propco, but with no change to the holdings of Messrs DM Sewela, E Leeka and K Rankin as the Management Trust deed provides for units related to such shares to be allocated to junior managers.

13. APPLICATION OF THE DISPOSAL CONSIDERATION

The ultimate utilisation of the Disposal Consideration is still being contemplated as part of the Barloworld group's ongoing review of its capital structure and the pursuit of growth opportunities.

14. NATURE OF BUSINESS OF THE PROPERTIES

The Properties comprise commercial, industrial and retail properties situated throughout South Africa and as further disclosed below.

Property type	Independent Property Valuation	Yield	Year 1 rental	Lease tenure	Gross lettable area ("GLA") (m ²)	Vacancies
Motor retail	R1.676 billion	8.83%	R148 million	10 years	128 913	0%
Industrial	R940.3 million	9.28%	R87.2 million	10 years	149 901	0%
Commercial	R95.28 million	9.00%	R8.6 million	10 years	9 150	0%
Mixed – commercial and industrial	R13.8 million	9.00%	R1.2 million	10 years	5 264	0%
Residential	R29.4 million	9.38%	R2.8 million	10 years	595	0%
Total	R2.755 billion	9.00%	R248 million		293 823	0%

15. CONDITIONS PRECEDENTS

The B-BBEE Transaction is intended to comprise a single indivisible transaction. The conditions precedent ("Conditions Precedent") to each of the components comprising the B-BBEE Transaction have been set out under the Framework Agreement and the material Conditions Precedent are as follows:

- Approval by Ordinary Shareholders of the requisite resolutions to give effect to the B-BBEE Transaction;
- The entry into funding arrangements by Propco in order to enable Propco to fund a portion of Disposal Consideration;
- The conclusion of the Barloworld Internal Restructure;
- Inasmuch as may be required, the South African competition authorities approving the implementation of the transactions comprising the B-BBEE Transaction; and
- Fulfilment of all of the requirements (including any fairness opinion, as required) of the JSE in respect of the Sale and its related aspects.

16. EFFECTIVE DATE AND IMPLEMENTATION DATE

The effective date of the Sale, the Leases and the B-BBEE Transaction as a whole will be the first business day after the fulfillment or waiver of the last of the Conditions Precedent. The Implementation Date of the Sale and the Specific Issue of Shares to the Foundation is expected to be 1 October 2019 or such other date as may be determined by Barloworld, after consultation with Propco, which shall not be later than 1 October 2020 ("Implementation Date"). In respect of specific Properties, transfer of ownership may only take place on or after the Implementation Date.

17. FINANCIAL EFFECTS OF THE B-BBEE TRANSACTION

The *pro forma* financial effects of the B-BBEE Transaction on the results of Barloworld as at and for the year ended 30 September 2018, should be read together with the detailed *pro forma* financial effects that will be contained in the circular to be issued on or about 21 December 2018 ("Circular") together with the independent reporting accountant and auditors' report thereon. The *pro forma* financial effects are in the process of being reviewed by the independent reporting accountants and auditors.

The *pro forma* financial effects are presented for illustrative purposes only and because of their *pro forma* nature, may not fairly present Barloworld's financial position, changes in equity, results of operations or cash flow, nor the effect of the B-BBEE Transaction going forward.

The *pro forma* financial effects are the responsibility of the directors and have been prepared using accounting principles that are consistent with International Financial Reporting Standards and the accounting policies adopted by Barloworld in its published consolidated financial statements for the year ended 30 September 2018. The *pro forma* financial effects are presented in accordance with the JSE Listings Requirements and the Guide on *Pro Forma* Financial Information issued by the South African Institute of Chartered Accountants.

PRO FORMA A: The *pro forma* financial effects presented below are based on the assumption that the Black Public Scheme is fully subscribed and reflects the following shareholding:

30%	Black Public
32%	Employee Trust
38%	Management Trust

Basis of preparation

The *pro forma* income statement has been prepared on the basis that the B-BBEE Transaction was implemented on 1 October 2017.

The *pro forma* statement of financial position has been prepared on the basis that the B-BBEE Transaction was implemented on 30 September 2018.

Pro Forma A	Barloworld group before the B-BBEE Transaction	B-BBEE Transaction adjustments (with full Black Public)	Barloworld group after the pro forma adjustments
Basic earnings per Share (cents)	1 042.8	(172.6)	870.2
Diluted earnings per Share (cents)	1 036.5	(171.5)	865.0
Basic headline earnings per Share (cents)	1 150.9	(77.3)	1 073.6
Diluted headline earnings per Share (cents)	1 144.0	(76.8)	1 067.2
Net asset value per Share (cents)	10 452.9	(325.3)	10 127.6
Tangible net asset value per Share (cents)	8 854.1	(277.4)	8 576.7
Weighted average number of Shares in issue ('000s)	210 875		210 875
Weighted average number of diluted Shares in issue ('000s)	212 147		212 147
Number of Shares in issue ('000s)	212 693	6 578	219 271

Shareholders are advised that two further scenarios of *pro forma* financial effects have been presented as follows:

PRO FORMA B: Assumes the Minimum Subscription Amount in the Black Public Scheme is achieved. In this *pro forma* the Propco shareholding reflects the following:

21%	Black Public Scheme
32%	Employee Trust
47%	Management Trust

PRO FORMA C: Assumes the Minimum Subscription Amount in the Black Public Scheme is not achieved. In this *pro forma* the Propco shareholding reflects the following:

32%	Employee Trust
68%	Management Trust

Notes

For a full appreciation of the *pro forma* financial effects above and the two additional scenarios, Shareholders are referred to the *pro forma* financial information and underlying assumptions by using the following website link: <https://www.barloworld.com/investors/>

In the event that Barloworld loses control of Propco in terms of IFRS 10: Consolidated Financial Statements, Propco would be "deconsolidated" from the Barloworld group. Assuming that this takes place at the end of the initial empowerment period of 10 years, this would result in the group recognising a loss on disposal of Propco of approximately R2.2 billion, representing the estimated net asset value of Propco after the initial empowerment period of 10 years. The net asset value of Propco has been estimated assuming no appreciation of the Properties' values from the date of acquisition.

The book value of the net assets of the Properties as at 30 September 2018, as derived from the unadjusted aggregated unconsolidated financial information on the Properties, is R2.140 billion. The net profit attributable to the Properties for the year ended 30 September 2018, as derived from the unadjusted aggregated unconsolidated financial information on the Properties, is R185 million. However, rental revenues attributable to the Properties of R302 million are currently eliminated on consolidation in the Barloworld group financial statements for the year ended 30 September 2018. In relation to the Properties, the Barloworld group recognised net operating expenses of R102 million in the consolidated financial statements for the year ended 30 September 2018.

18. ECONOMIC COST OF THE B-BBEE TRANSACTION

The IFRS 2 charge on the Specific Issue of Shares to the Foundation is R749 million (which equates to 3% of Barloworld's market capitalisation as at 15 November 2018).

The B-BBEE Transaction facilitation costs of the Sale is the Discount of R143 million which equates to 0.57% of the Company's market capitalisation as at 15 November 2018 and the IFRS 2 charge for the Management Trust Loan and Employee Trust Contribution of R282 million or 1.13% of Barloworld's market capitalisation as at 15 November 2018.

Overall the total B-BBEE Transaction facilitation costs represent 4.70% of Barloworld's market capitalisation as at 15 November 2018 for a transaction conferring 14% B-BBEE ownership. The B-BBEE Transaction is long term and enduring with the Foundation as a permanent BEE shareholder whilst Propco will remain a black-owned company for 15 years.

Other transaction costs include the cost of the rental escalation rate being higher than the market escalation rate and the tax incurred. The lease payments from the Lessees to Propco are subject to an annual escalation rate of 8%. This exceeds a market-related escalation rate of 7% and represents a pre-tax cost of R80 million (being the present value, at Barloworld's weighted average cost of capital, of the annual differences over the lease term) or 0.3% of Barloworld's market capitalisation as at 15 November 2018. Barloworld will incur taxes on the Sale of the Properties to Propco totalling R194 million plus the breakage costs of R7 million which will be incurred on the early settlement of property related debt.

19. IMPORTANT DATES AND TIME

Record date for the distribution of the Circular	Friday, 14 December 2018
Circular distributed on or about	Friday, 21 December 2018
Last day to trade to be eligible to vote at the General Meeting	Tuesday, 5 February 2019
Record date to be eligible to vote	Friday, 8 February 2019
Last day to deliver written notification to participate in the General Meeting via electronic communication	Monday, 11 February 2019
Last day for receipt of forms of proxy for the General Meeting (or they may be handed to the chairperson of the General Meeting at any time prior to the commencement of voting on the resolutions tabled at the General Meeting)	Tuesday, 12 February 2019
General Meeting to be held at 14:00 on	Thursday, 14 February 2019
Results of the General Meeting released on SENS on	Friday, 15 February 2019
Results of the General Meeting published in the press on	Monday, 18 February 2019

Notes:

The above dates and times are subject to amendment and any amendment made will be released on the Stock Exchange News Service of the JSE ("SENS") and published in the press.

20. GENERAL MEETING

A general meeting of Ordinary Shareholders and holders of the 6% non-redeemable cumulative preference shares of R2.00 each in the share capital of Barloworld ("Preference Shareholders") (collectively "Shareholders") will be convened to be held at 14:00 on Thursday, 14 February 2019 at 180 Katherine Street, Sandton to consider and, if deemed fit, pass, *inter alia*, the shareholder resolutions necessary to implement the B-BBEE Transaction ("General Meeting"). Preference Shareholders may attend, but will not be entitled to vote at the General Meeting.

21. BOARD'S OPINION AND RECOMMENDATION

The board (excluding DM Sewela and O Ighodara (who recently joined the board)), having regard to the independent fairness opinion and the Independent Property Valuation, is of the opinion that the B-BBEE Transaction is fair insofar as Shareholders are concerned and should be supported, and recommend that Ordinary Shareholders vote in favour of the relevant resolutions at the General Meeting. Directors (other than DM Sewela) who hold shares in the Company intend to vote such Shares in favour of the resolutions pertaining to the Sale, the Lease and the B-BBEE Transaction as a whole.

22. DISTRIBUTION OF CIRCULAR

The Circular, providing Shareholders with details of the B-BBEE Transaction (including the independent fairness opinion and the Independent Property Valuation) will be distributed to Shareholders on or about 21 December 2018. The Circular will be distributed to Shareholders holding certificated shares and those Shareholders holding dematerialised shares that have elected to receive such documents. Shareholders who hold dematerialised shares and have not elected to receive such documents should contact their broker or a Strate Proprietary Limited authorised participant ("Participant") in a manner and at the time stipulated in the agreements between such Shareholders and their broker or Participant.

19 November 2018	Company secretary
Sandton	Andiswa Thandeka Ndoni