ACTIVE SHAREHOLDER

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BARLOWORLD LIMITED

https://www.barloworld.com

Annual General Meeting
10th February 2022
Financial Year End: 30th September 2021

Proxies voted
Labour Research Services
The Ditikeni Trust

We are very pleased to read the new Chair's statement *Barloworld takes ESG* [Environment, Social & Governance] *seriously and climate change in particular*. In light of that statement, an explanation is required of the rapid and significant decline in the number of employees in 2021 (7 998 employees) declined 16% from 2020 (9 543) which was down 34% from 2019 (14 341) which was down 18% from 2018 (17 417). A decline over 3 years of 54%, no mention of changes in the number of employees is made in the Social, Ethics and Transformation Committee Report, the figures were queried with the company we received no reply to our query. The reported number of employees was confusing with different figures in various parts of the report. This is greatly concerning in a country with the unemployment rate we have, and asks some serious questions about Barloworld's social performance.

Despite the company taking climate change seriously as noted above, in reference to climate change targets we are told *New targets therefore need to be established for the next five year period*. In short, the company has not set climate change targets. The setting and measurement of climate change targets is considered a minimum requirment.

The company strategy (set in 2002) of doubling value over 4 years is hardly a strategy – it is an objective. What we need to see is what is the board's strategy to achieve that objective and for the executives to be rewarded for the achievement of milestones per the strategy. Given this strategy it is expected that at least 4 year financial information would be provided, unfortunately this is not done. Perhaps it is time to accept that the *strategy* set in 2002 needs to be refreshed.

It is not appropriate to present a single resolution appointing 2 separate audit firms as joint auditors, a resolution is required for the appointment of each of the audit firms. We have previously noted that, without further disclosure, it is concerning that the 2 audit firms were appointed by an audit committee which comprised 2 former executives from each of the audit firms.

What a wonderful improvement in layout and design, the report is laid in landscape format suitable to read on a computer screen with hyperlinks including tabs at the top of the page. Pages are a little bit large for reading on a laptop screen but are legible even when reduced to read on such a screen. There are too many double page spreads which are very difficult to read on a computer screen. Nevertheless, well done Barloworld.

	Resolution	Rationale	Vote	Outcome of AGM
	Social and Ethics Committee Report	The Social and Ethics Committee Report is not presented as part of the Agenda of the meeting. We consider this a minimum requirement. Despite the fall in employment noted in the introduction above, the company rated its performance in human capital (page 107) as excellent. The Report does state that on *a like-for-like comparison (excluding Ingrain) would have resulted in year-on-year decreases of 8%, 2% and 18% for non-renewable energy, GHG emissions (scope 1 and 2) and water (municipal sources), respectively*. These are commendable reductions, unfortunately in the detailed reporting Ingrain (a new acquisition) is included and we could therefore not examine the changes in a meaningful way.		
	Ordinary Resolution			
1	Acceptance of financial statements.	Barloworld is one of the few companies on the JSE who do present the Annual Financial Statements (AFSs) for acceptance by the shareholders. We consider this to be best practice and commend Barloworld for following this practice. The audit report states that the auditors consider the AFSs fairly present the results and financial position of the company.	FOR	FOR 99.9%
	Election of directors.	Before considering the appointment of individual directors, we assess the overall composition of the board with specific reference to independence, continuity, skills and diversity. We have in the past noted that there is a concern regarding the continuity of this board and that the skill set is rather limited with most directors being qualified in accounting. A new Chair was appointed at the last AGM but her fees were not approved by the shareholders and she resigned from the board shortly after that. This is unfortunate and heightens our concern regarding continuity of this board. Mr Ntsaluba, has 13 years' service and as such we do not consider him independent. However, independence is not a concern with this board. Mr Ntsaluba stepped down as chairman and member of the audit committee at the last AGM and he has now retired.		

	Resolution	Rationale	Vote	Outcome of AGM
		That retirement heightens our concern regarding continuity and leaves average board tenure at just over 3 years. As noted in prior years, the skills set is perhaps rather narrow with 7 out of 9 non-executive directors with accounting backgrounds. Diversity is one of the highest of all listed companies and there has perhaps been too much focus on diversity at the expense of other matters.		
2	Re-election of Mr MD Lynch-Bell as a director.	Mr Lynch-Bell, 68, has been a director for 4 years. He is suitably skilled and experienced and his attendance record was impeccable. He is a director of 3 other companies.	FOR	FOR 76.5%
3	Re-election of Mr H Molotsi as a director.	Mr Molotsi, 55, has been a director for 2 years. His attendance record was impeccable for the year and he brings international and tech skills to the board. He is a director of other enterprises but none listed and we do not find him to be overcommitted.	FOR	FOR 99.9%
4	Re-election of Ms N Mokhesi as a director.	Ms Mokhesi, 60, has been a director for 2 years. Her attendance record was impeccable and she has no other listed company commitments.	FOR	FOR 99.9%
5	Election of Dr NN Gwagwa as a director.	Ms Gwagwa, 62, was appointed to the board and as Chair of the board and company in 2021 after the resignation of the previous chair (details above). She is suitably skilled and has no other listed company commitments although she does have experience as a director of other listed companies.	FOR	FOR 99.9%
	Election of members of the Audit Committee	We do not have any specific concerns with the independence of the board and as such no special concern regarding the independence of this committee. We do not like the fact that of the 4 directors serving on this committee at the time of the appointment of the joint auditors, 2 were previously senior executives with Ernst & Young and 2 were previously senior executives with SNG Grant Thornton. Further disclosure of those relationships is appropriate. We note that there has been opposition to the appointment of those directors as members of this committee at previous AGMs.		

	Resolution	Rationale	Vote	Outcome of AGM
		The audit report is signed by Ernst & Young and by SNG Grant Thornton but the resolution on the appointment of the auditors is only for the appointment of Ernst & Young – the audit committee need to clarify and prepare appropriate resolutions.		
6	Election of Ms HH Hickey as a member and chair of the audit and risk committee	Ms Hickey is a former partner of Ernst & Young and as noted above we have concerns regarding the appointment of that firm by the audit committee when Ms Hickey as a member of the committee. Without further clarity we do not favour her serving on this committee. In addition, the appointment of SNG Grant Thornton has not been put to the shareholders by this committee.	AGAINST	FOR 93.6%
7	Re-election of Mr MD Lynch-Bell as a member of the audit and risk committee	As with Ms Hickey, Mr Lynch-Bell was a former executive with Ernst & Young and we oppose his reappointment on the same grounds as Ms Hickey.	AGAINST	FOR 76.1%
8	Re-election of Ms NP Mnxasana as a member of the audit and risk committee	Ms Mnxasana was a former senior partner and executive of SNG Grant Thornton whose appointment as an auditor is far from clear. Nevertheless, they appear to be joint auditors and were appointed as such when Ms Mnxasana served on this committee together with the founder of that audit firm.	AGAINST	FOR 78.2%
9	Election of Mr HN Molotsi as a member of the audit and risk committee	Mr Molotsi, is suitably skilled and experienced to serve on this committee.	FOR	FOR 98.6%
10	Appointment of external auditor	In 2020, the resolution was for the appointment of E&Y only. In 2021, it was for E&Y *in a shared arrangement with SNG - Grant Thornton*. This years' resolution is for the appointment of Ernst & Young and SNG Grant Thornton as joint auditors. However, separate resolutions should be presented for each of the now joint auditors. E&Y have been auditors for 2 years and SNG Grant Thornton for 1 year.	FOR	FOR 98.6%

	Resolution	Rationale	Vote	Outcome of AGM
11	Non-binding advisory vote on remuneration policy	Shareholders have not been enthusiastic about the remuneration policy or the remuneration implementation reports with 2021 support just above the required 75% support and in 2020 the company received only 56% support for its implementation report and had to consult with shareholders. We are told that the company did engage shareholders after the 2021 vote although it was not obliged so to do, however no details of that engagement are provided and we presume this engagement was restricted to large institutional shareholders. We appreciate the table of concerns which the company notes were extracted from voting and consultations and are pleased to note that the LTI will in future be 100% performance based and that ESG metrics will be introduced. This is an improvement. The remuneration committee comprises 4 independent directors which is as it should be, 3 of those directors have served on the committee for 2 or more years. Remuneration consultants are named but their precise role is not clear. The Report states that Remco does consider the internal Gini coefficient and various other measures of the internal wage gap which is commendable – however the results of these measures are not disclosed. Executive pay consists of Guaranteed Pay, Short Term Incentive (STI) and Long Term Incentive (LTI). Executive remuneration was benchmarked by independent consultants but we are not told the comparator group of companies but are told it is benchmarked to the median. We are pleased to note *The STI scheme applicable to Group Executives is simplified to place greater emphasis on sustainability through Environmental, Social and Governance (ESG) measures*. We consider the use of the ESG metric as a modifier to be appropriate. STI financial metrics for executives and the weighting of each metric are: Return on equity (ROE) 25%, Free cash flow after interest (FCF) 30%, Headline earnings per share (HEPS) 25%, and Economic profit (EP) 20%.	AGAINST	FOR 98.2%

	Resolution	Rationale	Vote	Outcome of AGM
		We do find that the setting of threshold for financial targets at the lower of 2020 actual financial results and budget to be too low, the 2020 financial year was most adversely affected by the lockdowns and is a very low base for the targets – a rolling average of a number of years would help reduce fluctuations. ESG measures and other personal targets are applied as a modifier to the bonus calculated using the financial metrics above. This may result in a reduction of the STI by a maximum of 40%. Applicable ESG and personal metrics and their weighting are: Environmental 10%, Safety 5%, Governance 5% and Personal 20%. We find the Personal weighting high for an unspecified weighting and are disappointed that there is no social weighting particularly in light of the massive drop in the number of people employed by the group. STI is capped at 200% of GP for the CEO and 170% of GP for the CFO. We are pleased that the retention element of the LTI has been removed, in terms of that, executives were awarded part of the LTI for remaining in the employ of the company – this does not create a culture of achievement or excellence. We are not convinced that it is necessary to have 2 share plans. These and their weighting being Conditional Share Plan (CSP) 70% and Forfeitable Share Plan (FSP) 30%. Both share plans vest after 3 years which we do not consider sufficiently long term – we would like to see these vest over period of 3 to 5 years at least. Dividends are only paid on the CSP after vesting but it appears they are paid on the FSP shares before vesting, but we could not confirm this. FSP metrics and weighting are HEPS 40%, EBITDA FCF conversion 30%, ROIC 30%. Threshold and targets are based on an average of 2020 and 2021 actuals adjusted by CPI. Given the effects of lockdowns on prior years these are soft targets.		

	Resolution	Rationale	Vote	Outcome of AGM
		Weighting of HEPS was increased to better align awards with shareholder experience. CSP metrics and weighting are HEPS 40%, FCF 30%, and ROIC 30%. LTI is capped at 177% of GP for the CEO and 142% for the CFO, this is high but within norms for similar sized companies. Malus and clawback apply to the STIs and LTIs. We note above that we consider the financial targets for the STI being the lower of prior year or budget to be very soft and this was borne out in 2020 when Remco used its discretion to stop the payment of the STI given the very poor financial performance that year. We also find the LTI targets being the average of the last 2 years to be a soft target. We recognise the improvements to the policy with the changes outlined above particularly the inclusion of an ESG modifier and the change to make the full LTI conditional on performance. However, the method of calculating targets remains very generous and there is no mention in this policy of the company strategy of doubling value in 4 years. Indeed we find no calculation of this value anywhere.		
12	Non-binding advisory vote on remuneration implementation report	Salary increases for the CEO and CFO were 8% and 14%, we consider these to very high increases and above general increases for other staff. This does not sit comfortably with the statement that Remco does consider the internal Gini coefficient. The wage gap between executive directors and other staff has widened. The CEO's Guaranteed Pay (GP) at R 11 210m is high, in comparison the CEO of Nampak has a base pay of R 7 350m and of Reunert R 6 395m. It is higher than the R 10 999 payable to the CEO of Standard Bank. STI's for the CEO and CFO were at 172% and 149% of GP. The ESG modifier had not yet been introduced so these bonuses are based on personal performance and financial targets. We would expect stellar performance of the company to justify these very high bonuses which	AGAINST	FOR 98.4%

	Resolution	Rationale	Vote	Outcome of AGM
		did not find. As noted under policy, we consider the targets to be very soft. The remuneration report notes that Remco tested the STI against the pay for performance principle over the last 4 years and state *we are pleased to report that the average STIs paid to executive directors and prescribed officers over the past four years, relative to the group's performance, reflect the scheme's effectiveness in rewarding executives when there was exceptional performance and reducing/limiting or not granting rewards when performance was not satisfactory*. What this fails to take into account is that the Remco used its discretion to reduce the STI to zero in 2020 as the formula provided for a good STI despite the poor performance during lockdown. LTI's vested were in comparison fairly modest, we were unable to reconcile the value of shares vested per the single figure remuneration to the Vested and Unsettled Awards table. Changes to the LTI awards as outlined under policy will only apply to awards granted as from the current period. We find the Guaranteed Pay and increases of executives to be excessive and the STI is not in line with company performance.		
	Special Resolutions			
1	Approval of non-executive directors' fees	Non-executive directors' fees are most confusing, we could not reconcile fees paid to those approved at the AGM, this was queried with the company and we did receive a reconciliation of fees. Most of our confusion stemmed from the payment of committee fees including payment of these fees to the Chairperson of the board. We further note that the Chair's fee was <u>not approved</u> at the 2021 AGM, however there was not change from the fee approved at the 2020 AGM, which resolution lasts for 2 years or until another resolution is passed. The company therefore continued to pay the Chair's fee. We do not like the fact that the Chair's fee was not an all-inclusive fee but note that this has been changed to be an all inclusive fee for the		

<table>
<tr><th></th><th>Resolution</th><th>Rationale</th><th>Vote</th><th>Outcome of AGM</th></tr>
<tr><td></td><td></td><td>Chair and the Lead Independent Director (LID) with effect from 1 January 2022. We comment this change.
Fees are proposed to increase based on the information per the resolution vary between 5% for most committees with notable exceptions of: 21% for resident board members; 10% for resident committee members; and 15% for the resident chair of the nomination and investment committees. The company states that it has increased the Chair’s fee and LID fees 5% after making them all inclusive fees. We note UK£ fees increase 5% as well which is well above UK inflation.
We do not favour the high increases without some reasonable explanation.
Fees do not include an attendance component which we consider a minimum requirement.
We consider these fees to be high, and compared to the following companies for a selection of positions:
<table>
<tr><th></th><th>Barloworld</th><th>Nampak</th><th>Reunert</th></tr>
<tr><td>Chair</td><td>R 2 418k</td><td>R 1 575k</td><td>R 1 451k</td></tr>
<tr><td>Director</td><td>R 499k</td><td>R 318k</td><td>R 286k</td></tr>
<tr><td>Audit comm</td><td>R 280k</td><td>R 258k</td><td>R 155k</td></tr>
<tr><td>Remco</td><td>R 112k</td><td>R 147k</td><td>R 100k</td></tr>
</table>
Clearly the Barloworld Chairpersons fee is out of line with other companies.</td><td></td><td></td></tr>
<tr><td>1.1</td><td>Chair of the board</td><td></td><td>AGAINST</td><td>FOR 82.5%</td></tr>
<tr><td>1.2</td><td>Resident non-executive directors</td><td></td><td>AGAINST</td><td>FOR 86.2%</td></tr>
<tr><td>1.3</td><td>Lead Independent Director</td><td></td><td>AGAINST</td><td>FOR 99.9%</td></tr>
<tr><td>1.4</td><td>Non-resident non-executive directors</td><td></td><td>AGAINST</td><td>FOR 97.8%</td></tr>
<tr><td>1.5</td><td>Resident chair of the audit and risk committee</td><td></td><td>AGAINST</td><td>FOR 99.9%</td></tr>
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	Resolution	Rationale	Vote	Outcome of AGM
1.6	Resident members of the audit and risk committee		AGAINST	FOR 99.9%
1.7	Non-resident members of the audit and risk committee		AGAINST	FOR 99.9%
1.8	Non-resident chair of the remuneration committee		AGAINST	FOR 99.9%
1.9	Resident chair of the remuneration committee		AGAINST	FOR 99.9%
1.10	Resident chair of the social, ethics and transformation committee		AGAINST	FOR 99.9%
1.11	Resident chair of the strategy and investment committee		AGAINST	FOR 99.9%
1.12	Resident chair of the nomination committee		AGAINST	FOR 99.9%
1.13	Resident members of committees other than the audit committee		AGAINST	FOR 99.9%
1.14	Non-resident members of committees other than the audit committee		AGAINST	FOR 99.9%
2	Approval of loans or other financial assistance to related or inter-related companies and corporations	This resolution provides no reasons or effects as is required for a special resolution. It is without limitation in size, time or terms with the only stipulation that the company be related or inter-related. We recognise the importance and need of the board being empowered to make loans and guarantees as part of its normal business but this resolution is hopelessly inadequate.	AGAINST	FOR 99.9%
3	General authority to acquire the company's own shares	We do not support any general authority to acquire shares as such acquisitions are often prejudicial to minority shareholders.	AGAINST	FOR 99.9%

OUTCOME OF THE AGM

The meeting was well supported with 83% of shares voted in person or by proxy, a large number of shareholders (17%) abstained from voting on the appointment of a number of directors and there was strong opposition (24%) to the appointment of some directors and members of the audit committee. All resolutions were passed.

	Resolution	Rationale	Vote	Outcome of AGM