

# Financial Review

## Overview

It has now been two years since the creation of the Brambles dual listed companies structure.

An important initiative to aid the creation of shareholder value has been the introduction of BVA (Brambles Value Added), a tool which measures the economic returns of different businesses and business decisions. BVA forms part of Brambles' investment evaluation system and is used in conjunction with more traditional financial measures such as profit progression, internal rates of return, and returns on capital employed.

Over the past two years, the impact of BVA has been to improve cashflows across Brambles.

The period has also been very challenging in operational terms where strong focus has been placed on business performance and the more efficient use of capital. This has particularly been the case with CHEP where, although revenue growth has been strong, it was not matched by profit and, more particularly, BVA and cash flow performance.

In CHEP USA, after a period of high capital investment in pallets, the business has been re-organised and, in particular, a new service centre network across the USA was finalised in the last half of the year.

In CHEP Europe, a significant reorganisation is also well underway. This reorganisation is moving CHEP Europe to a truly pan-European basis with a strong emphasis on improving asset management and control.

Cleanaway continues to perform satisfactorily with some minor restructuring in Germany ahead of the results of the DSD re-tendering process which is expected later in the year.

Recall has had an excellent year with double digit growth rates in both revenue and profit.

Brambles Industrial Services delivered a strong performance from Australia, offset by some slowing of business in the Northern Hemisphere.

## Financial review

For the purposes of this financial review, the figures included therein are under UK GAAP and comparable operating profit is defined as operating profit before goodwill amortisation, interest, tax (EBITA) and significant items.

Excluding businesses divested, Brambles' revenue was A\$7.9 billion compared with A\$7.7 billion last year, an increase of 3%. The revenue from divested businesses was A\$243 million, down from A\$1.1 billion a year ago.

CHEP continued to be the largest contributor to revenue with sales of A\$3.5 billion, an increase of 5% compared with last year's level.

Sales at Cleanaway also improved, increasing by 3% compared with those of the previous year.

Recall's sales at A\$698 million demonstrated strong growth, 10% ahead of the year before, driven by a combination of organic and acquisition growth.

Sales from the Brambles Industrial Services businesses were slightly above those of the previous year. The Regional Businesses had a weak year with sales well down, particularly at Interlake Materials Handling which is dependent on the growth of the US economy.

Geographically, the major part of Brambles' revenue continued to be generated in Europe and the Americas, with 53% and 29% respectively of revenue from continuing businesses coming from these regions.

Comparable operating profit from continuing businesses of A\$976 million was down 5% compared with the previous year's. For Brambles as a whole, comparable operating profit was 10% down at A\$1.0 billion, with the contribution from discontinued businesses decreasing from A\$87 million to A\$25 million.

Comparable operating profit from CHEP was 4% below that of the previous year, albeit very similar when measured in constant currency terms.

Cleanaway comparable operating profit was down by 3% whereas that of Recall was strongly ahead by 17% as a result of both organic and acquisition driven sales growth and margin improvements.

Brambles Industrial Services continued to generate good profit growth in Australia where the restructuring of its businesses improved performance though not in the Northern Hemisphere. The Regional Businesses had another poor year, with the weakness of the US economy continuing to affect Interlake.

## Interest

Net interest expense was down from A\$270 million to A\$226 million, due to lower interest rates and reduced average debt levels.

## Earnings per share

Earnings per share under AGAAP before significant items and goodwill amortisation was 32.2 cents per share compared with 34.3 cents per share last year on a diluted basis.

## Business disposals and significant items

The divestment program continued during the year and proceeds of some A\$135 million were received. The main business divested this year was Brambles Shipping in Australia. The impact of the sale of Meineke will be included in the 2004 financial year.

The results for the year include a loss within significant items of A\$151 million (A\$104 million after tax). This primarily comprises reorganisation costs in CHEP Europe.

The divested businesses earned a comparable operating profit of A\$25 million in the year and A\$87 million in 2002.

## Taxation

The tax charge of A\$244 million excluding significant items was approximately 32% of comparable operating profit before tax compared with a rate of 28% in the previous year. The prior year was favourably impacted by the tax loss recognition credits in Cleanaway Germany of A\$14 million.

## Cash flow

Net cash inflow from operating activities was A\$1.8 billion, resulting in net debt of A\$4.0 billion. Cash inflow from operations after capital expenditure was A\$585 million compared with A\$302 million last year due in part to reduced capital expenditure, which fell from A\$1.5 billion to A\$1.2 billion following the commencement of the program to increase asset efficiency in CHEP as well as a focus on working capital.

Working capital improved by A\$36 million compared with a deficit of A\$138 million last year. This was mainly due to increased receivable collections particularly in CHEP and Brambles Industrial Services.

## Dividends

The Board has declared a final dividend of 10 cents per share for all shareholders in Brambles Industries Limited and a second interim (instead of a final) dividend of 4.053 pence per share for all shareholders in Brambles Industries plc.

This brings the dividend for the year to 7.810 pence per share for Brambles Industries plc shareholders and 20 cents per share for Brambles Industries Limited shareholders.

## Treasury

Corporate Treasury is responsible for the management of certain financial risks within Brambles. A description of these risks and the types of financial instruments used to hedge them is given later in this section. Other key treasury functions include liquidity management on a daily basis and securing access to short and long-term sources of debt finance at competitive rates. These activities are conducted on a centralised basis in accordance with prescribed Board policies and guidelines through standard operating procedures and delegated authorities. These policies provide the framework whereby Corporate Treasury arranges and implements lines of credit from its financiers, selects and deals in approved financial derivatives for hedging purposes, as described below, and generally executes Brambles' financial strategy.

Corporate Treasury prepares formal reports each month, which are circulated to the Chief Financial Officer and other senior finance executives. Key Treasury statistical and sensitivity analysis, funding utilisation/capacity and commentary on significant matters are included in monthly reports to the Board. In addition, gross and net indebtedness are reported weekly to the Chief Financial Officer, whereas liquidity, interest rate, foreign exchange and other financial risk exposures are monitored daily. The treasury function is included within the scope of Brambles' corporate (internal) audit process.

## Funding and liquidity

Brambles funds its operations predominantly through bilateral bank credit facilities. The facilities are structured on a committed multi-currency, revolving basis and following a refinancing completed during the year, have extended maturities ranging out to September 2008. Borrowings under the facilities are floating-rate, unsecured obligations with covenants and undertakings typical for these types of arrangements. To minimise foreign exchange risks, funding is arranged in the currency of the relevant operating asset to be funded.

At the end of the financial year, borrowing facilities totalled the equivalent of A\$6.1 billion, in a mix of currencies, but predominantly US dollars, sterling and euro. The weighted average term of the facilities is 3.7 years. Brambles also has access to further funding through uncommitted and standby lines of credit principally to manage day-to-day liquidity. Total borrowings at year-end were A\$4.1 billion, of which A\$1.7 billion was denominated in US dollars, A\$1.2 billion in sterling and A\$1.0 billion in euro.

The level of debt versus equity funding is determined by the Board, having regard to various financial ratios and future projections, equity and debt market funding options and conditions, and the overall cost of capital of Brambles.

## Risk management

Brambles is exposed to a variety of market risks, including the effects of fluctuations in interest rates and exchange rates. The business units are also exposed to other financial risks, including sovereign risk in respect of operations spread across diverse geographic territories, and credit risk on counterparties, all of which are difficult to quantify.

Brambles uses standard financial derivatives to manage financial exposures in the normal course of business. Dealings in financial derivatives are restricted through a set of delegated authorities approved by the Board. No derivatives are used for speculative purposes. In addition, derivatives are transacted predominantly with relationship banks which have a close understanding of Brambles' business operations. Furthermore, individual credit limits are assigned to those banks, thereby limiting individual exposure to credit-related losses in the event of non-performance by the counterparties.

## Interest rate risk

Brambles' interest rate risk policy is designed to reduce volatility in funding costs through prudent selection of hedging instruments. This policy comprises maintaining a mix of fixed and floating-rate instruments within a target band, over a certain time horizon. Interest rate derivatives are used to achieve this result synthetically.

The present policy is to require the level of fixed-rate debt to be within 40 to 70% of total forecast debt arising over a twelve-month period, progressively decreasing to 0 to 50% for debt maturities extending beyond three years. These bands have been set to allow sufficient flexibility in the level of interest-rate hedging, having regard to the prevailing economic climate, nature of assets funded and future financial strategies.

As at year-end, 43% of Brambles' total interest bearing liabilities were at fixed interest rates (59% in 2002).

The weighted average period was 1.7 years (1.8 years in 2002). The fair value of these instruments was a A\$74 million loss compared with book values. This amount is deferred and will not be recognised until the individual contracts are settled.

## Foreign exchange risk

Foreign exchange exposures faced by Brambles are managed from a perspective of protecting shareholder value. Exposures generally arise in either of two forms:

- i) transaction exposures affecting the value of transactions translated back to the functional currency of the subsidiary; and
- ii) translation exposures affecting the value of assets and liabilities of overseas subsidiaries when translated into Australian dollars.

Under Brambles' foreign exchange policy, foreign exchange hedging is mainly confined to hedging transaction exposures where

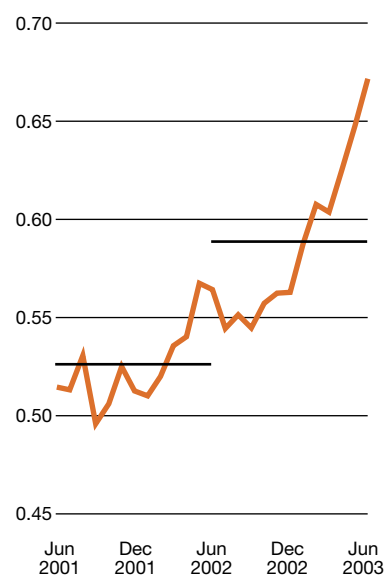
they exceed a certain threshold, and as soon as a defined exposure arises. Within Brambles, exposures may arise with external parties or alternatively by way of cross-border intercompany transactions. Forward foreign exchange contracts are primarily used for these purposes. In Brambles' context, exposures in this regard are not significant given the nature of its operations.

Translation exposures are mitigated by matching the currency of debt with that of the asset. Except for a small amount of balance sheet hedge borrowing in euro, Brambles does not hedge currency exposures incurred on foreign currency profits and net investment balances.

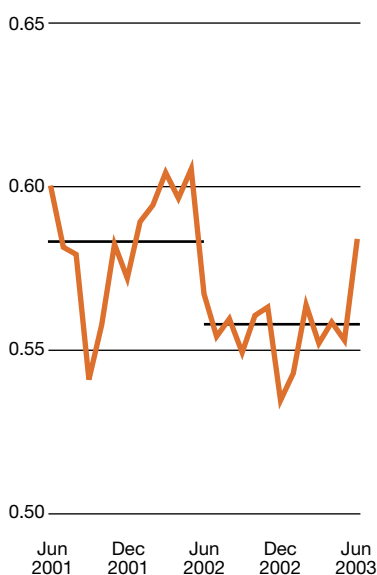
At the end of the financial year, the fair value of foreign exchange instruments was a A\$16 million gain compared with book values. This amount has been deferred, and will not be recognised until the individual contracts are settled.

### Foreign exchange currency movement during the year against A\$

US\$



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