

# Corporate Governance Report

## Introduction

Brambles is a global organisation, with businesses operating in approximately 50 countries. This demands that it comply with an extensive range of varying legal, regulatory and governance requirements. In particular, through the dual listings of Brambles Industries Limited (BIL) on the Australian Stock Exchange (ASX) and Brambles Industries plc (BIP) on the London Stock Exchange, Brambles is committed to observing the extensive requirements applicable to publicly listed companies in Australia and the UK.

There are inevitably differences between the requirements of different jurisdictions, such as those of Australia and the UK. To meet such differing requirements, and recognising the nature of Brambles as a single economic enterprise with shareholders having common interests, the Board has adopted a common governance framework across Brambles, taking into account both local regulatory requirements and international best practice. Where the standards of best practice for corporate governance vary across jurisdictions, as they inevitably do, the Board has resolved to adopt those practices it considers to be the better of the prevailing standards.

This Corporate Governance Report outlines the key components of Brambles' governance framework and reports on developments in this area since publication of the 2002 Annual Report.

## Global developments in corporate governance

During the last year, there has been a great deal of public discussion of the adequacy of the governance framework for publicly listed companies.

In Australia, the main response has been the publication of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. The Council's report outlines a series of principles and recommendations designed to "develop and deliver an industry-wide, supportable and supported framework for corporate governance which could provide a practical guide for listed companies, their investors, the wider market and the Australian community". New ASX Listing Rule requirements have been introduced, adopting the Council's report, and apply with respect to the year ending 30 June 2004.

In the UK, the past year saw the publication of the Smith Report on Audit Committees and the Higgs Review of the role and effectiveness of non-executive directors. These reports recommended substantial amendments to the UK Combined Code. A revised Combined Code has now been published and comes into effect for financial years ending on or after 1 November 2003.

In response to these developments in Australia and the UK, the Board has undertaken a detailed review of its approach to each of the relevant corporate governance areas. The Board's objective in that review was to seek to comply as at 1 July 2003 with the new requirements under the ASX Listing Rules and from 1 September 2003 with the revised Combined Code. In many cases, Brambles already met or exceeded those new requirements.

The Board is conscious that best practice in the area of corporate governance is continuously evolving, and will therefore continue to anticipate and respond to further corporate governance developments on an ongoing basis.

## Shareholders

Shareholders play an important role in the governance of Brambles by electing the Board, whose task it is to govern on their behalf.

Brambles is committed to the promotion of investor confidence by taking steps within its power to ensure that trade in its securities occurs in an efficient and informed market. Brambles recognises the importance of effective communication as a key part of building shareholder value and that, to prosper and achieve growth, it must, among other matters, earn the trust of shareholders, employees, customers, suppliers and communities, by being open in its communications and consistently delivering on its commitments.

The Board has adopted a Continuous Disclosure and Communications Policy to reinforce Brambles' commitment to the continuous disclosure obligations imposed by law and to describe the processes implemented by it to ensure compliance; to outline Brambles' corporate governance standards and related processes and ensure that timely and accurate information about Brambles is provided equally to all shareholders and market participants; and to outline Brambles' commitment to encouraging effective shareholder participation in shareholder meetings. A copy of the Continuous Disclosure and Communications Policy can be found on the Brambles website at [www.brambles.com](http://www.brambles.com).

To achieve the above objectives and satisfy regulatory requirements, the Board provides information to shareholders and the market in several ways:

- Significant announcements are released directly to the market via the ASX and a UK regulatory information service. Copies of these announcements are immediately placed on the Brambles website at [www.brambles.com](http://www.brambles.com).
- The Brambles website contains further information about Brambles and its activities, including copies of recent interim and annual reports, and recordings of the most recent presentations to analysts.
- The Annual General Meeting provides an opportunity for the Board to communicate with investors and encourage their participation, through presentations on Brambles' businesses and current trading.

- The Chairman regularly meets major investors to understand their issues and concerns and discuss in particular matters relating to Brambles' governance and strategy. No new material price sensitive information is provided at such meetings. Other Non-executive Directors may attend meetings with major investors and will attend them if requested. The Chairman reports to the Board on the matters discussed at meetings with major investors, and copies of relevant correspondence are included in the Board papers. Copies of analysts' reports are also circulated to the Board. The Senior Independent Directors (Mr Mark Burrows in Australia and Sir David Lees in the UK) will attend sufficient meetings with a range of major investors to listen to their views in order to help develop a balanced understanding of their issues and concerns.

## Board of Directors

### Role of the Board

The Board is responsible for overall management of Brambles, directing and supervising its affairs within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets Brambles' strategic aims, ensuring that appropriate financial and human resources are in place to meet its objectives, and for reviewing management performance.

The roles of the Chairman and executive management, led by the Chief Executive Officer, are separated and clearly defined:

- The Chairman, Mr Don Argus AO, is responsible for leadership of the Board, ensuring effectiveness in all aspects of its role, setting the Board's agenda and conducting Board meetings, and ensuring effective communication with shareholders and the conduct of shareholder meetings.
- Executive management, led by the Chief Executive Officer, Sir CK Chow, has been delegated responsibility by the Board for the day-to-day operation and administration of Brambles. The levels of authority for management are periodically reviewed by the Board and are documented. The Chief Executive Officer is assisted in managing the business by the Executive Committee. Further details concerning the Executive Committee are outlined below.

The Non-executive Directors constructively challenge and assist in the development of strategy. They scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They have a prime role in appointing and, where necessary, recommending the removal of, Executive Directors, and in succession planning.

The Board has delegated some of its responsibilities to the Audit, Nominations and Remuneration Committees. The Board is also supported by the Executive Committee and the Group Risk Committee, which are management committees. Details of all these committees are set out below.

With the assistance of these Board and management committees, the Non-executive Directors satisfy themselves as to the integrity of financial information, and that financial controls and systems of risk management are robust and defensible. Through the Remuneration Committee, they also determine appropriate levels of remuneration of the Executive Directors.

The Chairman is responsible for facilitating the effective contribution of Non-executive Directors by ensuring that Directors receive accurate, timely and clear information so that they may effectively discharge their duties and responsibilities, and for ensuring constructive relations between Executive and Non-executive Directors. Where necessary, Directors seek clarification or request the provision of further information. In appropriate circumstances, Directors may take independent professional advice at Brambles' expense in the furtherance of discharging their duties and responsibilities.

The Chairman holds meetings with the Non-executive Directors from time to time, without the presence of the Executive Directors or other executives. Led by the Senior Independent Directors, the Non-executive Directors meet without the Chairman present at least annually to appraise the Chairman's performance, and on such other occasions as may be considered appropriate.

The Board has a schedule of matters specifically reserved to it for decision, a copy of which can be found on the Brambles website at [www.brambles.com](http://www.brambles.com). This schedule includes, among other matters, the establishment of Brambles' overall strategic

direction and strategic plans for the major business units, the approval of budgets, financial objectives and policies, and significant capital expenditure, the approval of Brambles' financial statements and published reports, the establishment of Brambles' systems of internal control and risk management, and the appointment of key senior executives. The Charters of the various Board committees also require certain matters to be approved by the Board including, among other matters, approval of the executive remuneration policy and a recommendation for the appointment of the external auditors.

The Board is assisted by the Company Secretary who, under the direction of the Chairman, is responsible for ensuring good information flows within the Board and its committees and between senior executives and Non-executive Directors, as well as facilitating the induction of new Directors and the ongoing professional development of all Directors. The Company Secretary is responsible for ensuring that Board procedures are complied with, and for advising the Board, through the Chairman, on all governance matters. All Directors have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Board.

### Board performance review

During the year, the Board undertook a review encompassing the performance of the Board as a whole, its committees and each Director.

The review was conducted by an independent consultant, who separately interviewed each of the Directors and a number of senior executives who have direct contact with the Board. The Directors and senior executives also completed a detailed questionnaire on matters relevant to the Board's performance.

A report on the review was presented to, and reviewed by, the Board. Various action plans are being developed in response to its recommendations. The Board intends to carry out further performance reviews on an annual basis.

### Composition of the Board

The Boards of BIL and BIP are identical and consist of ten members, with two Executive Directors (the Chief Executive Officer and the Chief Financial Officer) and eight Non-executive Directors. The Directors' biographies, shown on pages 42 to 43, indicate the breadth of their business, financial and international experience. This gives the Directors the range of skills, knowledge and experience essential to govern Brambles, including an understanding of the health, safety, environmental and community related issues which it faces. The Board considers that its current composition reflects an appropriate balance of Executive and Non-executive Directors.

Directors are subject to election by shareholders at the first Annual General Meeting after their initial appointment by the Board. No member of the Board may serve for more than three years without being re-elected by shareholders. Re-appointment is not automatic. The Board's Nominations Committee is responsible for considering the re-nomination of retiring Directors for re-election, having regard to the contribution of their individual skills and experience to the desired overall composition of the Board.

The names of the Directors in office at the date of this Report, the year of their most recent election by shareholders, their status as Executive or Non-executive Directors, whether the Board considers that they are independent Directors, whether they will retire and seek re-election at the 2003 Annual General Meeting, and when they are next due for re-election, are set out in the table below.

Prior to proposing their re-election, the Nominations Committee reviewed the performance of each Non-executive Director seeking re-election and satisfied itself that they continue to contribute effectively to the Board.

While the Nominations Committee and the Board firmly consider that the re-election of these Directors is in the best interest of shareholders, the Board has decided to implement a process of renewal of Board membership. Further details are outlined below in the section on Board succession planning.

### Independence of Non-executive Directors

The Board has considered the independence of each of the Directors in office as at the date of the Directors' Report. A summary of the conclusions drawn by the Board in relation to each Director is set out in the table below.

A discussion of each of the potentially significant factors which the Board considered is as follows:

### Tenure

Brambles' dual listed companies structure (DLC) was established in August 2001. As indicated in the 2002 Annual Report, the Board considers that the formation of that structure involved a fundamental change to the characteristics of, and issues faced by, the organisations from which it arose. In other words, a completely new economic enterprise was formed. Although each of the Directors was associated with elements of the organisations which combined to form that new enterprise, the Board considers that, for the purpose of considering whether the

Directors are independent, their associations with BIL and GKN plc prior to formation of the DLC should not be taken into account.

### Retirement benefit contracts

Of the eight Non-executive Directors, four – Messrs Argus, Burrows, McDonald and Milne – are party to retirement benefit contracts executed at various points in time in the years prior to the formation of the DLC. As indicated in the 2002 Annual Report, following the formation of the DLC, a decision was taken not to enter into any further retirement benefit contracts. The existing retirement benefit contracts were also amended to ensure that the amount of the retirement benefit is calculated by reference to the lower pre-DLC fees paid by BIL. Further details of these arrangements are provided in the Remuneration Report, on page 57. As indicated in the 2002 Annual Report, given the amendments which have been made, the Board does not consider that the existence of these contracts compromises the independence of participating Directors.

Name of Director in office at the date of this report	Last elected	Executive or Non-executive	Independent	Retiring in 2003	Seeking re-election in 2003	Next due for re-election at AGM
Don Argus AO	2002	Non-executive	Yes	No	No	2005
Roy Brown	2001	Non-executive	Yes	Yes	Yes	2003
Mark Burrows	2001	Non-executive	Yes	No	No	2004
Sir CK Chow	2001	Executive	No	Yes	Yes	2003
Graham Kraehe AO	2001	Non-executive	Yes	No	No	2004
Sir David Lees	2001	Non-executive	Yes	Yes	Yes	2003
Allan McDonald	2002	Non-executive	Yes	No	No	2005
Ron Milne	2001	Non-executive	Yes	Yes	Yes	2003
Sir John Parker	2002	Non-executive	Yes	Yes	No	–
David Turner	2001	Executive	No	No	No	2004

### Cross-directorships

Sir David Lees and Mr Roy Brown serve as directors of GKN plc. The Board does not consider that this cross-directorship impairs the independence of these Directors.

### General

Having regard to its review, the Board considers all Non-executive Directors to be independent.

The structure of the Board ensures that no individual or group of individuals dominates the Board's decision-making process. The Joint Deputy Chairmen, Mr Mark Burrows and Sir David Lees, have been identified as the Senior Independent Directors for the purposes of the UK Combined Code.

### Board succession planning

The Board is conscious of the need to ensure that proper processes are in place to deal with succession issues at Board level, and to keep the Board evergreen. This will require the Board periodically to assess the skills set necessary to meet Brambles' demands.

The Nominations Committee assists the Board in this process, which ordinarily involves the identification of the need for a new appointment and suitable candidates, the preparation of a brief including a description of the role and capabilities required, and the engagement of independent recruitment organisations. Further information concerning the Nominations Committee is set out below.

As noted above, the Board believes that a process of renewal of Board membership should be undertaken. The Board will therefore be seeking over the coming years to appoint new members to succeed existing Directors as they retire, ensuring an appropriate balance of skills and experience.

Sir John Parker has decided to retire from the Board at the conclusion of the BIP AGM on 21 October 2003, given his other workload commitments.

Mr Ron Milne – who will stand for re-election this year – has indicated he will retire at the conclusion of the AGMs in 2004, having regard to his length of service, and as a part of the Board's ongoing process of renewal.

### Induction and ongoing professional development of Directors

Newly appointed Directors will receive appropriate induction and training. Under this process, new Directors will visit operating sites and be given presentations on Brambles'

businesses and functions by each of the business unit leaders and functional heads.

On an ongoing basis, Directors will participate from time to time in various seminars and conferences held by industry and professional bodies. In addition, Board meetings regularly include sessions on recent developments in governance and corporate matters.

### Board meetings

The Board holds scheduled Board meetings at least six times a year to review matters such as Brambles' financial performance, current trading, key business initiatives, and strategy, budget and business plans. The Board meets in both Sydney and London, and in other locations, including operational sites, from time to time. Details of the number of Board and committee meetings held during the year, and attendance at those meetings by each of the Directors and committee members, are set out in the Directors' Report on page 63.

Presentations to the Board are frequently made by senior executives.

The Board recognises the importance of independent judgment and constructive debate on all issues under consideration.

### Directors' remuneration

Details of remuneration, including retirement benefits, paid to the Directors are set out in the Remuneration Report on pages 58 to 60.

## Committees of the Board

The Board has established three standing committees to assist in the execution of its responsibilities: the Audit Committee, the Nominations Committee, and the Remuneration Committee. Other committees of the Board are formed from time to time to deal with specific matters.

Each of the Board's standing committees operates under a charter detailing its delegated authority from the Board. The charter of each committee can be found on the Brambles website at [www.brambles.com](http://www.brambles.com).

Regular reports of the committees' activities are provided to the Board and minutes are circulated to all Directors.

### Audit Committee

The objective and purpose of the Audit Committee is to assist the Board in fulfilling

its corporate governance and oversight responsibilities by:

- monitoring and reviewing:
  - the integrity of financial statements;
  - internal financial controls;
  - the objectivity and effectiveness of the corporate (internal) auditors; and
  - the independence, objectivity and effectiveness of the external auditors;
- making recommendations to the Board in relation to the appointment of the external auditors, and approving the remuneration and terms of their engagement; and
- developing and implementing policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditors; and reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The Audit Committee discharges these responsibilities by meeting regularly throughout the year and, among other matters:

- reviewing, and challenging where necessary, the actions and judgment of management in relation to all regular financial reports and any other formal announcements relating to Brambles' financial performance prepared for release to the Stock Exchanges, regulators and the public, including interim and annual financial reports, before making appropriate recommendations to the Board;
- reviewing the audit plans of the corporate (internal) auditors, including the scope and materiality level of their audits, monitoring compliance with, and the effectiveness of, the audit plans of the corporate auditors, reviewing reports from the corporate auditors on their audit findings, management responses and action plans in relation to those findings, and reports from the corporate auditors on the implementation of those action plans, and facilitating an open avenue of communication between the corporate auditors, the external auditors and the Board;
- reviewing and recommending to the Board the fees payable to the external auditors, pre-approving the performance by the external auditors of any non-audit related work in accordance with the Board's policy, and any proposed fees to be paid

to the external auditors for that work, and monitoring compliance with the Board's policy on the performance by the external auditors of non-audit related work; and

- reviewing the audit plans of the external auditors, including the nature, scope, materiality level and procedures of their audits, monitoring compliance with, and the quality and effectiveness of, the audit plans of the external auditors, and reviewing reports from the external auditors in relation to their major audit findings, management responses and action plans in relation to those findings, and reports from the external auditors on the implementation of those action plans.

The Committee is also responsible for ensuring that Brambles' policy on Speaking Up is properly communicated and complied with throughout Brambles, for monitoring that policy, and for ensuring that appropriate protection against victimisation and dismissal is given to Brambles employees who make certain disclosures in the public interest.

A copy of the Audit Committee's charter giving full details of its duties and responsibilities can be found on the Brambles website at [www.brambles.com](http://www.brambles.com).

In line with current best practice recommendations, the Audit Committee is comprised entirely of Non-executive Directors, all of whom the Board considers to be independent.

The members of the Audit Committee, including details of their relevant qualifications, are as follows:

- Mr Allan McDonald (Committee Chairman) had an extensive career in the investment and commercial banking fields. He has a Bachelor of Economics degree from The University of Sydney and is a Fellow of CPA Australia, of the Australian Institute of Management, and of Chartered Secretaries Australia.
- Mr Roy Brown was an Executive Director of Unilever PLC and Unilever NV. He has a Master of Business Administration degree from Harvard Business School.
- Mr Ron Milne was General Manager, Finance and Development, at BIL from April 1981. He was appointed a Director of BIL in June 1985, and retired as Finance Director in August 1995. He has had a management career extending through

the manufacturing, oil exploration and merchant banking industries. He is a member of CPA Australia and is a Fellow of Chartered Secretaries Australia.

The Board considers that each of the members of the Audit Committee has recent and relevant financial experience, and an understanding of accounting and financial issues relevant to the industries in which Brambles operates.

Details of Audit Committee meetings held during the year, and attendance at those meetings, are set out in the Directors' Report on page 63.

#### **Nominations Committee**

The objective and purpose of the Committee is to support and advise the Board in fulfilling its responsibilities to shareholders in ensuring that the Board is comprised of individuals who are best able to fulfil the responsibilities of directors.

The Committee discharges these responsibilities by meeting regularly throughout the year and, among other matters:

- assessing periodically the skills required to discharge competently the Board's duties, having regard to Brambles' strategic direction, and assessing the skills currently represented on the Board by the Directors to determine whether those current skills meet the required skills as identified;
- reviewing the structure, size and composition (including the balance of skills, knowledge and experience) of the Board and the effectiveness of the Board as a whole, and keeping under review the leadership needs of Brambles, both executive and non-executive, with a view to ensuring the continued ability of Brambles to compete effectively in the marketplace;
- preparing a description of the role and capabilities required for any Board appointment; identifying suitable candidates to fill Board vacancies as and when they arise and nominating candidates for the approval of the Board;
- ensuring that, in determining the process for the identification of suitable candidates for appointment:
  - a search is undertaken by an appropriately qualified independent third party acting on a brief prepared by the Committee which identifies the skills sought;
  - the search is international, extending to those countries in which candidates with the necessary skills would ordinarily be

expected to be found; and

- candidates are considered from a wide range of backgrounds;

- ensuring that, on appointment, Non-executive Directors receive a formal letter of appointment, setting out the time and responsibility envisaged in the appointment;
- in relation to any re-appointment of a Non-executive Director on conclusion of their specified term of office, undertaking a process of review of the retiring Non-executive Director's performance during the period in which they have been a member of the Board;
- reviewing annually the time required of Non-executive Directors and carrying out performance evaluations to assess whether the Non-executive Directors are devoting enough time to fulfil their duties; and
- giving full consideration to appropriate succession planning, satisfying itself that processes and plans are in place in relation to both Board (particularly for the key roles of Chairman and Chief Executive Officer) and other senior appointments.

A copy of the Nominations Committee's charter giving full details of its duties and responsibilities can be found on the Brambles website at [www.brambles.com](http://www.brambles.com).

The members of the Nominations Committee are Mr Don Argus AO (Committee Chairman), Mr Mark Burrows and Sir David Lees.

Details of Nominations Committee meetings held during the year, and attendance at those meetings, are set out in the Directors' Report on page 63.

#### **Remuneration Committee**

The objective and purpose of the Committee is to assist the Board in establishing remuneration policies and practices which:

- enable Brambles to attract and retain executives and Directors who will create value for shareholders;
- fairly and responsibly reward executives having regard to the performance of Brambles, the performance of the executive and the general remuneration environment; and
- comply with the provisions of the UK Combined Code and any relevant UK legislation, and with the ASX Listing Rules and the Australian Corporations Act.

The Committee discharges these responsibilities by meeting regularly throughout the year and, among other matters:

- determining and agreeing with the Board the broad policy for the remuneration of the Chief Executive Officer, the Chairman of the Board and other members of the senior executive team, and reviewing the ongoing appropriateness and relevance of the executive remuneration policy;
- determining the remuneration for the Executive Directors and the Company Secretary, reviewing the proposed remuneration for the senior executive team, ensuring that contractual terms on termination, and any payments made, are fair to the individual and Brambles, that failure is not rewarded and that the duty to mitigate loss is fully recognised, and, in determining such packages and arrangements, giving due regard to all relevant regulations and associated guidance;
- insofar as they impact on the Executive Directors and the senior executive team, approving the design of, and determining targets for, all cash-based executive incentive plans, and approving the total proposed payments from all such plans;
- keeping all equity-based plans under review in the light of legislative, regulatory and market developments, determining each year whether awards will be made under such plans and whether there are exceptional circumstances which allow awards at other times, approving total proposed awards under each plan, and approving awards to Executive Directors and reviewing awards made to the senior executive team;
- annually reviewing and taking account of the remuneration trends across Brambles in its main markets; and advising on any major changes in employee benefit structures throughout Brambles;
- reviewing the funding and performance of Brambles' retirement plans and reporting to the Board; and

- selecting, appointing, and setting the terms of reference for, external remuneration consultants who advise the Committee in respect of the remuneration of the Executive Directors.

A copy of the Remuneration Committee's charter giving full details of its duties and responsibilities can be found on the Brambles website at [www.brambles.com](http://www.brambles.com).

The Remuneration Committee is comprised entirely of Non-executive Directors, all of whom the Board considers to be independent.

The members of the Remuneration Committee are Sir David Lees (Committee Chairman), Mr Mark Burrows, Mr Graham Kraehe AO and Sir John Parker. The Committee meets at least three times a year.

Details of Remuneration Committee meetings held during the year, and attendance at those meetings, are set out in the Directors' Report on page 63.

Details of Brambles remuneration policy can be found in the Remuneration Report on pages 52 to 57.

## Management committees

### Executive Committee

The Brambles Executive Committee assists in developing and implementing Brambles' strategic direction, and ensuring its resources are well managed. The Committee has a range of responsibilities, which include:

- reviewing business and corporate strategies;
- formulating major policies in areas such as human resources management, information technology, risk management, communications, and post-investment project reviews; and
- leading the implementation of change processes.

Minutes of meetings of the Executive Committee are circulated to the Board.

The members of the Committee are Sir CK Chow (Committee Chairman and Chief Executive Officer), Mr David Turner (Chief Financial Officer), Mr Victor Mendes (Chief Executive Officer, CHEP), Mr Gerben Westra (Chief Executive Officer, Cleanaway), Mr Al Trujillo (President and Chief Executive Officer, Recall), Mr Jean-Louis Laurent (Chief Executive Officer, Brambles Industrial Services), Ms Chris Bulmer (Senior Vice President – Human Resources), Mr Paul Martinez (Senior Vice President – Strategy and Information Technology) and Mr Craig van der Laan (Group General Counsel and Company Secretary).

### Group Risk Committee

The Group Risk Committee assists the Board in fulfilling its corporate governance and oversight responsibilities by establishing, monitoring and reviewing internal control and risk management systems to safeguard shareholders' investment and Brambles' assets, ensuring compliance with, reviewing the effectiveness of, and continuously monitoring Brambles' internal control systems, and reporting to the Board on a regular basis.

Based on its review work, the Committee also prepares and submits to the Board a statement on internal control covering the previous year for inclusion in Brambles' annual report and accounts, in compliance with the Turnbull Guidance on Internal Control published in the UK, and with other best practice.

The Committee members are Mr David Turner (Committee Chairman and Chief Financial Officer), key managers from each business unit and senior executives from Brambles' risk management, legal and corporate (internal) audit functions.

A copy of the Group Risk Committee's Charter can be found on the Brambles website at [www.brambles.com](http://www.brambles.com).

## Accountability and audit

### Internal control and risk management

The Board has overall responsibility for Brambles' systems of internal control, supported by the Group Risk Committee, the Audit Committee and corporate (internal) audit. These systems are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations, with a view to limiting the risk of failure to achieve business objectives. It must be recognised, however, that internal control systems can provide only reasonable and not absolute assurance against the risk of material loss.

Key elements of Brambles' internal control systems include:

- a Code of Conduct that sets out an ethical and legal framework for all employees in the conduct of Brambles' business;
- financial systems to provide timely, relevant and reliable information to management and to the Board;
- appropriate formalised delegations and limits of authority consistent with Brambles' objectives;
- annual management declarations confirming, among other matters, the adequacy of internal control procedures and compliance with all regulatory and statutory requirements;
- a corporate (internal) audit function to provide assurance on the robustness of the ongoing internal control environment; and
- other sources of independent assurance, such as environmental audits, occupational health and safety audits and reports from the external auditors.

During the year, the Board reviewed the effectiveness of the internal control systems and risk management and will continue to do so on an ongoing basis by:

- considering and approving the budget and forward plan of each business;
- reviewing detailed monthly reports on business performance and trends;
- setting limits on delegated authority;

- receiving regular reports on Brambles' treasury activities, and reviewing treasury guidelines, limits and controls;
- receiving reports from the Group Risk Committee, which has a broad responsibility to assist the Board in monitoring and reviewing internal control and risk management systems; and
- receiving reports from the Audit Committee, which has a responsibility to assist the Board in reviewing internal financial controls.

### Business risk management systems

The Board is of the view that, during the year and as at the date of this report, Brambles had in place sound systems of business risk management. The key elements of Brambles' business risk management systems are set out below:

- **Risk control** – Risks to the achievement of business objectives are identified through a process of examination between Brambles' risk management team and functional process-owners. The identified risks are assessed in facilitated workshops in terms of their underlying causes, business consequences, external variables and controllability, current internal control effectiveness, likelihood of occurrence and overall risk priority.

The resulting risk and control profiles are presented to the Board, together with a risk improvement program designed to increase the effectiveness of controls and manage the overall level of risk. This process forms part of the Board's annual review of the effectiveness of the systems of internal control.

- **Risk monitoring** – In addition to regular monitoring by the Group Risk Committee, risks and controls are re-assessed by management on a biannual basis and reported to the Board along with details of progress in implementing the risk improvement program. The effectiveness of the specific risk controls and risk improvement programs are also periodically reviewed by corporate (internal) audit, and the results reported to the Group Risk Committee and the Board.

### Financial reporting and going concern

Brambles operates under a DLC structure, which requires compliance with the corporate and accounting regulations of both Australia and the UK. Consistent with the fact that Brambles constitutes a single economic entity, the Board has published combined financial statements for the DLC, with versions prepared in accordance with both Australian and UK generally accepted accounting principles.

The Directors confirm that they are satisfied that Brambles has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### External audit

PricewaterhouseCoopers has been engaged by the Board to act as external auditors to Brambles since the 2002 financial year. Under the terms of engagement, the Australian and UK audit engagement partners will rotate every five years.

The Audit Committee is responsible for making recommendations on the appointment, evaluation and dismissal of external auditors, setting fees and reviewing the independence and objectivity of the external auditors.

The Board remains committed to its policy relating to the performance of non-audit work by external auditors, so as to safeguard the external auditors' objectivity and independence. As noted in the 2002 Annual Report, this is achieved by prohibiting non-audit work where independence may be compromised or conflicts arise. Prior consultation with, and approval of, the Audit Committee is required wherever management recommends that the external auditors undertake non-audit work. Management consultancy, IT implementation and specialist internal audit work will not be performed by the external auditors.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in Note 6 to the combined financial statements on page 78.

## Share ownership and dealing

Details of Brambles' shares held by Directors are set out on page 59.

The Board has put in place policies covering dealings in securities by Directors, senior executives and individuals located in Brambles' corporate offices. These are contained in a Securities Trading Policy, a copy of which can be found on the Brambles website at [www.brambles.com](http://www.brambles.com).

The policy is designed to ensure that shareholders, customers and the international business community have confidence that Brambles' Directors and senior executives are expected to comply with the law and best practice in corporate governance, and handle confidential information lawfully and with integrity.

Under this policy, Directors and relevant employees are required to obtain approval before dealing in Brambles' securities, and are prohibited from such dealing at certain times.

Any dealings in Brambles' shares by a Director are reported to Brambles within five business days of effecting such dealings. The ASX and a UK regulatory information service are notified of these transactions within applicable time limits.

## Corporate social responsibility

Brambles is committed to meeting high standards of compliance with respect to its health, safety, environmental and community responsibilities, which are essential to the way in which Brambles' businesses operate.

A Corporate Social Responsibility Report addressing these issues can be found on pages 29 to 37, and on the Brambles website at [www.brambles.com](http://www.brambles.com).

## Brambles Code of Conduct

Brambles has a Code of Conduct, which provides an ethical and legal framework for all employees in the conduct of Brambles' business. The Code of Conduct defines how Brambles relates to its shareholders, employees, customers, suppliers and the community. Further details of the content of the Code of Conduct are set out in the Corporate Social Responsibility Report. A copy of the Code of Conduct can be found on the Brambles website at [www.brambles.com](http://www.brambles.com).

The Code of Conduct has been reviewed for compliance with the best practice principles outlined by the ASX Corporate Governance Council. The Board is of the view that it meets, and in some respects exceeds, the requirements of those principles.

## Compliance

### **ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations**

The Board considers that, as at the date of the Directors' Report, Brambles was in compliance in all material respects with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

### **UK Combined Code**

The Listing Rules of the Financial Services Authority require UK listed companies to report on the manner in which they apply the Principles of Good Governance and the extent to which they comply with the provisions in the Code of Best Practice (collectively the Combined Code). The Code lays down rules dealing with directors, directors' remuneration, accountability and audit, and relations with shareholders.

The Board considers that Brambles was in compliance with all Combined Code provisions during the year and as at the date of this report, except as disclosed in the Remuneration Report on page 56 in relation to the service contract of the Chief Executive Officer, Sir CK Chow, which was terminable at any time without cause on giving at least 24 months' notice, rather than the period of 12 months required under the Combined Code.

On 28 August 2003, the Board announced that the notice period under Sir CK's service contract will be reduced to 12 months, with effect from 1 December 2003, bringing it into line with the provisions of the Combined Code. As a result, the Board considers that Brambles will be in full compliance with the Combined Code from 1 December 2003.

A revised Combined Code comes into effect for financial years commencing on or after 1 November 2003. The Board has already implemented a review of its corporate governance policies and practices in the area of corporate governance in light of the revised Combined Code, and believes that, as at the date of the Directors' Report (subject to the matter in the previous paragraph), Brambles was in compliance with the revised Combined Code provisions.

The Board will continue to take steps it considers appropriate to ensure Brambles' compliance with the relevant governance requirements in Australia and the UK.