

# Remuneration Report

## Introduction

This Report describes Brambles' policy on the remuneration of Directors and senior executives. This policy is reviewed each year by the Remuneration Committee which recommends any changes to the whole Board for formal approval. It also contains specific details of the remuneration of the Directors and certain senior executives.

## Remuneration Committee

The Remuneration Committee is chaired by Sir David Lees. The other members of the Committee are Mr Mark Burrows, Mr Graham Kraehe and Sir John Parker, all of whom are independent Non-executive Directors. The Remuneration Committee meets at least twice a year and is responsible for recommending overall remuneration policy to the Board as well as approving each individual Executive Director's and the Company Secretary's remuneration arrangements, and reviewing the policy and individual remuneration arrangements for other senior executives.

The Chairman, Chief Executive Officer and Senior Vice President, Human Resources were present at meetings of the Remuneration Committee, although not when their own remuneration arrangements were discussed. The Remuneration Committee appointed Ernst & Young LLP (Ernst & Young) as compensation and benefit consultants to provide independent market information and remuneration advice. One partner advises the Remuneration Committee on remuneration for all Directors and a separate partner advises management on remuneration for executives below Board level. There is then a clear segregation of responsibilities while avoiding the additional cost and potential duplication of retaining two separate firms to fulfil these roles. During the year, Ernst & Young also provided tax advisory services to Brambles.

## Executive remuneration policy

This part of the Report sets out Brambles' policy for the remuneration of its Executive and Non-executive Directors for the year and for the foreseeable future. In reviewing this policy during the year, the Remuneration Committee took note of the 94.98% majority vote in favour of this policy at last year's Annual General Meeting.

The Board's objective is to have in place a remuneration policy for Brambles which is consistent with its business objectives, and seeks to:

- attract and retain high calibre executives;
- align executive rewards with the creation of shareholder value; and
- motivate executives to achieve challenging performance levels.

In order to achieve these objectives, executive remuneration generally consists of basic salary, pension contributions, benefits and short and long term incentives which are subject to performance conditions.

For the Executive Directors and certain senior executives based in Australia, salary, pension contributions and benefits are provided in the more flexible form of "Total Fixed Remuneration" or "TFR".

For all senior executives, Brambles' policy is to provide a significant part of their total potential reward through performance based incentive plans. The Remuneration Committee benchmarks remuneration levels annually against comparator data with the advice of external consultants and also reviews remuneration arrangements for senior executives in Brambles to ensure these are consistent with those for the Executive Directors.

In the case of the Executive Directors, the proportions of their annual remuneration which is allocated to both fixed entitlements and performance based remuneration is set out in the following table:

	Fixed entitlements	Performance based remuneration
Sir CK Chow	46%	54%
D J Turner	49%	51%

These calculations:

- assume that on-target performance is achieved under the Short Term Incentive (STI) Plan; and
- value equity awards using the approach outlined on page 60, except that they only consider awards made during the year, with the entire discounted value allotted to that one year.

The Board believes that these proportions give an appropriate balance between certainty of income and rewards which are dependent on the achievement of targets which enhance shareholder value and therefore align the interests of the Executive Directors with those of shareholders.

The Board believes that Executive Directors' and senior executives' service contracts should be terminable on a maximum period of 12 months' notice (as required by the UK Combined Code) unless a longer period is in shareholders' interests. Given due notice, there should be no termination payments under such contracts. In order to provide fair and equitable arrangements for Brambles and the Executive Directors on their appointment to the newly formed DLC, special arrangements were originally agreed.

Since the 2002 Annual Report, however, the Board has announced amendments to the Executive Directors' service contracts, including where relevant a reduction in the above notice period to 12 months, which will bring the contracts into line with the requirements of the Combined Code. Both the original and amended arrangements are described below in the Executive Directors' terms of appointment section.

Details of each of Brambles' remuneration programs are outlined in the following pages.

### Basic salary and total fixed remuneration (TFR)

As noted above, salary, pension contributions and other benefits are provided to the Executive Directors with flexibility as to the mix of cash, pension contributions and other benefits which they receive, provided that they do not exceed the overall specified TFR.

The initial level of TFR is specified in the service contracts with the Executive Directors and is reviewed by the Remuneration Committee. In assessing the level of TFR for each Executive Director, the Remuneration Committee considers the Executive Director's experience, performance and responsibilities and takes into account market data using comparisons relevant to the role of the individual, geographic location, company size and complexity. For this year's review, three comparisons were undertaken: one using published data for the group of companies used for comparisons in 2002, a second using published data from UK plcs with a turnover between 50% and 200% of the combined turnover of Brambles, and the third using data from the Towers Perrin Executive Remuneration UK Survey 2002 which covers a large number of UK plcs. The level of TFR is reviewed on an annual basis and following a significant change in responsibilities. Any increases are normally effective from 1 July.

Similar criteria are used when setting basic salary or TFR levels for other executives.

#### **Benefits**

Executive Directors are able to choose which benefits they receive within their TFR. These benefits are provided at cost and include motor vehicles, health care and disability and life insurance. As an international group, Brambles requires a number of executives to be internationally mobile. In such circumstances, Brambles operates a policy which includes provision of housing, payment of relocation costs and other location adjustment expenses where appropriate. Executive Directors are included in this policy.

#### **Post-retirement benefits**

No post-retirement benefits are provided to the Executive Directors outside their TFR. The Executive Directors have flexibility to have part of their TFR allocated to contributions into personal pension plans of their choice.

#### **Performance related incentive arrangements**

##### **Short Term Incentive (STI) Plan**

Brambles operates an STI Plan for the Executive Directors and senior executives. For the Executive Directors, the STI Plan offers the opportunity to receive an annual cash bonus for the achievement of specific pre-determined performance targets. The Remuneration Committee considers each year the appropriate targets and

performance measures under the STI Plan and the level of payout appropriate if certain targets are met. This includes setting the maximum level of payout under the STI Plan.

For the Executive Directors, for the 2003 year, 90% of the maximum possible award under the STI Plan related to Brambles' improvement in BVA against preset targets, and the remaining 10% on performance against personal objectives.

BVA is the value generated by a business over and above the cost of the capital it uses to generate that value. This is measured as profit less the cost of capital invested. Brambles' external auditors have reported to the Remuneration Committee on the extraction and calculation of BVA in accordance with procedures agreed by the Committee.

For the 2004 year, 90% of the maximum possible award for the Executive Directors under the STI Plan will relate to Brambles' improvement in profit before tax and amortisation of goodwill (PBTA) against preset targets, and the remaining 10% on performance against personal objectives.

Sir CK Chow's personal objectives cover people development and management succession, employee satisfaction and leadership effectiveness, risk management, and corporate social responsibility issues.

Mr Turner's personal objectives cover treasury and group funding structure, investor relations, financial control improvements in the businesses, and risk management issues.

For on-target performance, payments will be approximately 50% of a Director's TFR. For outstanding performance, payment might reach a maximum of 100% of TFR.

Sir CK Chow and Mr Turner received 8% and 7% of TFR respectively for performance under the STI Plan in 2003.

The Remuneration Committee has absolute discretion to alter targets to reflect changed circumstances such as material changes in accounting standards or changes in the structure of Brambles.

##### **Long Term Incentive Plans**

Details of Brambles' Long Term Incentive (LTI) Plans are set out below. The purpose of these Plans is to attract, retain, motivate and reward key executives who enhance shareholder value. The Remuneration Committee believes that the provision of performance related long

term incentives is an important part of the overall approach to executive remuneration, provided that the potential for executives to benefit from those incentives is closely aligned with shareholders' interests.

Since December 2001, long term incentives have been provided to the Executive Directors and other senior executives under the Brambles 2001 Executive Share Option Plan (Option Plan) and the Brambles 2001 Executive Performance Share Plan (Share Plan), which were approved by shareholders at the November 2001 Annual General Meetings. The Plans are operated in parallel – that is, senior executives may be granted awards under either one or both Plans in any given year. The performance conditions currently applied differ between the two Plans, being directed at different shareholder considerations. In the case of the Option Plan, the performance condition is based on total shareholder return, relative to peer group companies. In the case of the Share Plan, the performance condition is based on earnings per share growth.

The Remuneration Committee believes that operating the two Plans in parallel provides an appropriate balance between shareholders' interests and the provision of an appropriate incentive and potential benefit for the executives concerned, consistent with relevant market conditions.

##### **Brambles 2001 Executive Share Option Plan (Option Plan)**

Under the Option Plan, senior executives may be granted annual awards of options to acquire shares in BIL and/or BIP at a future date, for an exercise price fixed at the time of grant.

The exercise price for options under the Option Plan is based on the average market price for a period of up to five business days up to the date of grant.

The Remuneration Committee sets a performance condition on the exercise of options under the Option Plan. The performance condition which has been applied to all options granted under the Option Plan to date is based on relative total shareholder return (TSR), measured over the period from the end of the financial year before the date of grant to the third anniversary of that date (Performance Period) against a peer group of companies consisting of the top 50 Australian companies (by market value) and the

FTSE100. The TSR calculation uses share prices measured over a three month period to determine the base measurement point and subsequent performance. However, for the first performance period the BIP share price was averaged over the period from 7 August 2001 to 31 August 2001 to give the base point, rather than taking the average over the period from 1 April 2001 to 30 June 2001, as BIP was not quoted at that time. BIL's performance is ranked to the ASX top 50 and BIP's to the FTSE100. These rankings are then averaged to give an overall ranking.

The Remuneration Committee considers relative TSR to be an appropriate performance measure, given that it ensures options deliver benefits to executives only if the investment return actually received by Brambles' shareholders over the measurement period is sufficiently high, relative to the return they could have received by investing in a portfolio of alternative stocks over the same period. This target is therefore less affected by changes in economic conditions and short term stock market sentiment than others. TSR data and ranking calculations are carried out by an external adviser which ensures their independent verification.

The table below shows the relationship between the level of relative TSR performance and the number of options that a participant can exercise:

	TSR percentile	% vesting of shares under option
Threshold	Below 50	No vesting
	50	38% vesting
	50-75	Pro rata straight-line vesting
Maximum	75 and above	100% vesting

If all the options do not become exercisable after the Performance Period, the performance condition will be re-assessed after four and five years (and also after six years in the case of options granted to Sir CK Chow and Mr Turner), in each case measured from the start of the Performance Period. All options which have not become exercisable following such re-assessment will lapse. If the performance target is met and the options become exercisable, they must be exercised within six years of their grant; otherwise, they will lapse.

The Remuneration Committee has considered the case for performance testing beyond the first three year period, in view of UK institutional shareholders' views on this matter. Brambles has few direct sector comparators because of the diversity of its main businesses. Ranking against broader indices may be influenced strongly by environmental factors which impact comparator companies to a lesser or greater degree. In order to minimise the impact of this, the Remuneration Committee believes that it is appropriate to have limited re-testing from a fixed starting point for the performance measurement. The value of the performance re-testing is taken into account when setting the policy for granting awards under the Option Plan.

The Option Plan is supervised by the Remuneration Committee, which approves any option grants made to Executive Directors (apart from those awards already agreed to be made to Sir CK Chow and Mr Turner under their service contracts and approved by shareholders). All other option awards made to executives under the Option Plan are reported to the Remuneration Committee, and the total value of those awards is approved by the Committee.

The number of options to be granted to a participant in the Option Plan each year is determined by applying a multiple (LTIP Multiple) to the participant's TFR (or basic salary, as appropriate), and dividing the result by the value of an option under the Option Plan, calculated using a Black Scholes method determined by external advisers. This value, which does not take account of the existence of performance conditions, is higher than that calculated in accordance with the requirements of the Australian Securities & Investments Commission (ASIC) (see page 60 for further details). The maximum LTIP Multiple is 75%. This is subject to an overriding limit of three times TFR based on the value of the options when calculated by reference to the market price of the shares at the time of grant.

The LTIP Multiple for Sir CK Chow is 75% of TFR, and for Mr Turner is 60% of TFR. Details of Sir CK's and Mr Turner's awards under the Option Plan are shown in the table on page 59.

### **Brambles 2001 Executive Performance Share Plan (Share Plan)**

Under the Share Plan, senior executives may be granted annual awards, consisting of a right to acquire shares in BIL and/or BIP at a future date, for no payment. The Share Plan was approved by shareholders at the 2001 Annual General Meetings.

The vesting of awards under the Share Plan is subject to a performance condition. The performance condition which has been applied to all awards under the Share Plan to date is based on compound earnings per share (EPS) growth of both BIL and BIP over a performance period from the end of the financial year before the date of award to the third anniversary of that date (Performance Period).

The Remuneration Committee considers that EPS as a measure of the underlying profitability of a company, is a key factor for investors when they make their investment decisions. Compound EPS growth of between 7% and 15% each year represents a stretching target of direct relevance to shareholders. The Remuneration Committee therefore believes it to be an appropriate means of linking executive rewards with shareholders' interests. Brambles' EPS for this purpose is as disclosed in the audited annual accounts.

The table below shows the relationship between the level of compound EPS growth and the number of shares in an award which a participant can receive:

	Compound EPS growth	% vesting of shares
Threshold	Below 7% pa	No vesting
	7% pa	25% vesting
	7-15% pa	Pro rata straight-line vesting
Maximum	15% or above pa	100% vesting

EPS calculations will exclude all exceptional items and goodwill amortisation as defined under UK GAAP.

As noted above, the Remuneration Committee has considered the case for performance re-assessment and concluded that limited re-testing from a fixed starting point is appropriate for the long term incentive plans. Therefore, if not all the shares in an award vest after the Performance Period, the performance condition will be

re-assessed after four and five years (and also after six years in the case of awards granted to Sir CK Chow and Mr Turner) in each case measured from the start of the Performance Period. All awards which have not vested following such re-assessment will lapse. Participants must elect to receive the shares from any awards which have vested within six years of their grant; otherwise, they will lapse.

The Share Plan is also supervised by the Remuneration Committee.

As in the case of the Option Plan, the number of awards to be granted to a participant in the Share Plan each year is determined by applying the LTIP Multiple to the participant's TFR (or basic salary, as appropriate), and dividing the result by the market value of a share at the time of grant. This value, which does not take account of the existence of performance conditions, is higher than that calculated in accordance with the requirements of ASIC (see page 60 for further details). The maximum LTIP multiple currently used for making awards is 75% of TFR. The maximum LTIP Multiple permitted under the Plan is 100% of TFR. The LTIP Multiple for the purposes of the Share Plan for Sir CK Chow is 75% of TFR and for Mr Turner is 60% of TFR. Details of Sir CK's and Mr Turner's awards under the Share Plan are shown in the table on page 60.

#### **Variations to Option and Share Plan rules**

As outlined in the Notice of Meeting sent to shareholders for the 2001 Annual General Meeting, at which approval was obtained to establish the Option Plan and the Share Plan, grants under those plans to Sir CK Chow and Mr Turner, who are Executive Directors, follow their usual terms, except for the differences noted below:

- the date of grant for awards under the Option Plan and the Share Plan in 2001 is taken to be the date of commencement of their employment, being 7 August 2001;
- the Performance Period for measuring whether performance targets have been met will run from the date of grant (that is, 7 August 2001) and not the end of the preceding financial year. For practical purposes, it has been agreed that the period for measuring whether performance targets have been met will run from the end of the previous financial year;
- the performance condition will be

re-assessed on the sixth anniversary of the date of grant, if the awards have not already vested, in addition to re-assessment on the fourth and fifth anniversaries; and

- the terms on which awards under the Plans may be exercised or vest early are described below in the Executive Directors' terms of appointment section.

In addition to the above, the Board has agreed with the Executive Directors that Rule 6.8 of the Option Plan and Share Plan is inconsistent with the terms of their service contracts. As such, if any of the circumstances envisaged by Rule 6.8 were to occur and, as a result, any awards granted to the Executive Directors under the Option Plan and Share Plan were automatically to lapse, BIL will be obliged to compensate the Executive Directors (either in cash or by delivering shares purchased in the market on their behalf).

Rule 6.8 provides in effect that awards under the Option Plan and the Share Plan lapse if certain events occur within 12 months after they are granted. The events referred to in Rule 6.8 are, in broad terms, takeovers, reconstructions/winding-up and compulsory acquisitions affecting either BIL or BIP.

#### **Brambles Employee Option Plans**

The Executive Directors do not participate in these plans but details are provided to give shareholders an indication of the share incentive plans in operation across Brambles. The Remuneration Committee approves the total level of awards under all of these plans.

The Brambles Employee Option Plan was approved by BIL shareholders at its 1998 Annual General Meeting. Under the plan, employees with more than two years' service may be granted awards of options to acquire shares in BIL at a future date, for an exercise price fixed at the time of grant. The exercise price is equal to the market price for BIL shares during the week up to and including the date of grant. Three schemes were established within the plan:

- the Standard Scheme, for employees in Australia and New Zealand, Asia and Europe;
- the International Trust Scheme, for North American employees; and
- the Qualifying Scheme, for Australian

employees, under which grants are limited to A\$1,000 in option value per employee each year.

Participants in the Executive Share Option Plan and the Executive Performance Share Plan, approved at the 2001 Annual General Meetings, are not eligible to participate in these schemes.

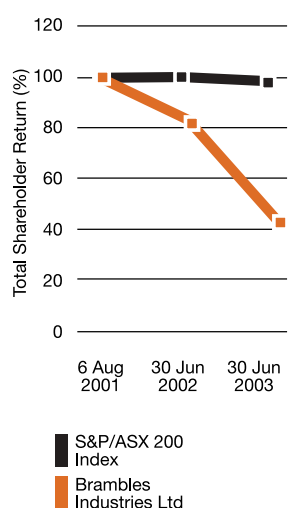
Options will no longer be granted in any country under the International Trust Scheme. Options were granted under the Standard Scheme in Australia and New Zealand in June 2003. There is no current intention to make any further grants under this scheme. For the present, grants will continue to be made under the Qualifying Scheme.

## **Total Shareholder Return performance**

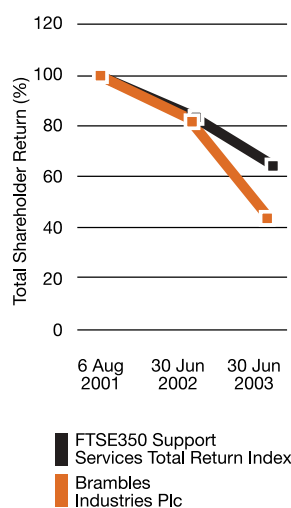
The following charts illustrate the TSR performance of BIL and BIP ordinary shares. For the year to 30 June 2002, this was measured from the date of formation of the DLC until the end of that year (on an annualised basis). This is compared to the TSR that would have been obtained from a hypothetical investment in the companies making up the FTSE350 Support Services Total Return Index for BIP and the S&P/ASX 200 index for BIL. As BIP was incorporated during the course of 2001, in accordance with the relevant disclosure regulations, only the comparative TSR performance of its shares since 7 August 2001 when BIP was listed has been shown, to provide comparison on a consistent basis.

The above indices were chosen, against which to represent Brambles' TSR performance for the purpose of the following charts, as they are readily available broad equity market indices (as required by the relevant disclosure regulations) and reflect the dual listed nature of Brambles.

### Brambles Industries Limited TSR vs S&P/ASX 200 Index



### Brambles Industries plc TSR vs FTSE350 Support Services Total Return Index



## Executive Directors' terms of appointment

The Executive Directors both have service contracts with BIL. The Board's policy on Executive Directors' service contracts is outlined in the Executive remuneration policy section on page 52.

In the context of the formation of the DLC in mid 2001 and the significant changes faced by Brambles, the Board considered it appropriate for Sir CK Chow's service contract (dated 26 July 2001) to be terminable by BIL at any time without cause on giving at least 24 months' notice. Shorter notice periods may apply in certain circumstances.

On 28 August 2003, it was announced that, in recognition of the time which had elapsed since the formation of the DLC and developments in the corporate governance area in relation to executive directors' notice periods, Sir CK had agreed with the Board to reduce the notice period under his contract from 24 months to 12 months, with effect from 1 December 2003, bringing it into line with the requirements of the Combined Code.

Under the original terms of Sir CK's contract, as outlined in the documentation sent to shareholders for approval of the DLC, where Brambles gives notice to terminate Sir CK's contract, Brambles may elect to waive the notice period and bring forward the date of termination. In this situation, Sir CK would have been entitled to receive a payment in lieu equal to two times his annual TFR and two times his average annual short term incentive; the rights to 443,012 BIL shares comprising his sign-on grant (referred to in Note (a) on page 60) would vest irrespective of performance hurdles; and his options and performance shares would vest in accordance with their terms of issue.

Under the amended terms of Sir CK's contract, the amount payable to Sir CK in such a situation will be reduced to one times his annual TFR and one times his average annual short term incentive. The treatment of his options, performance shares and sign-on grant will remain as outlined in the previous paragraph. If, instead of bringing forward the termination date, Brambles requires Sir CK to serve all of the notice period, there will be no payment in lieu; the treatment of Sir CK's options and performance shares will be as outlined in the preceding paragraph and below, and his sign-on grant will lapse.

Under the original and amended terms of his service contract, Sir CK is entitled at any time to terminate his employment on giving six months' notice. The Board considered it desirable to have greater certainty and more than six months to plan for an orderly succession if Sir CK should decide to leave Brambles. The Board therefore also agreed on 28 August 2003 to add a new provision to Sir CK's contract under which, at any time from 1 January 2005, Sir CK will be entitled to give Brambles 12 months' notice of his intention to terminate his employment. If Sir CK serves that notice period in full, or any shorter period the Board may

determine, on termination the following will apply:

- Sir CK will surrender his sign-on grant, with no compensation.
- Brambles will pay Sir CK a severance payment equal to one half of his then current annual TFR and one half of the average annual short term incentive paid to him over the three years prior to termination. Consistent with the TFR principles underlying his contract, Sir CK will be able to elect the manner in which that benefit is provided, which may include the payment of additional superannuation contributions on his behalf during the notice period.
- Subject to the Board, acting reasonably and in good faith, forming the view that Sir CK had performed his duties satisfactorily during the notice period, in the event of any termination under the amended provisions detailed above (ie where Brambles terminates the contract without cause or Sir CK gives 12 months' notice at any time from 1 January 2005), the Board will exercise its discretion to permit Sir CK to exercise all options granted to him under Option Plan within 12 months of the date of termination or 42 months after the grant date, whichever ends later; and will permit all awards granted to him under the Share Plan to vest, subject to satisfaction of the relevant performance hurdles at the next testing date, on the basis that they will not be subject to pro-rating for the period served.

The above changes to Sir CK's contract are subject to his re-election as a Director at the 2003 Annual General Meetings.

Under the original terms of Sir CK's contract, there are also certain circumstances under which Sir CK may give notice to Brambles including if there is a material change to his role. The notice period in these circumstances is three months, and the termination payments would be as outlined above for termination of the contract by Brambles without notice.

Under the terms of his original contract (dated 26 July 2001), Mr Turner was entitled to give notice to terminate his employment with Brambles with effect from 6 August 2003. These terms were agreed at the time of formation of the DLC and recognised the commitment made by Mr Turner in re-locating

to Australia to take up this significant position, at such a critical stage in Brambles' development. Under those original terms, if Mr Turner had exercised the termination right described above, he would have been entitled to receive up to two times his annual TFR and one times his average annual cash bonus. Full details of these arrangements and how Mr Turner's options and performance shares would have vested in these circumstances, were included in the documentation sent to shareholders for approval of the DLC in June 2001.

As previously announced, to give greater certainty about the duration of his service, new arrangements were agreed with Mr Turner in a letter dated 13 March 2003 by which he agreed to forgo his ability to give the notice and receive the payments and benefits described above and to remain as Chief Financial Officer of Brambles until 31 December 2004. At the end of 2004, Mr Turner will be engaged by Brambles to provide consulting services for a further year. The cost to Brambles of this consulting service is likely to be equivalent to Mr Turner's TFR for one year.

Brambles has agreed that Mr Turner will be granted awards under the Option Plan and Share Plan in September 2003, but not 2004.

The Board has determined that it will exercise its discretion under the terms of the Option Plan to permit Mr Turner, on termination of his employment, to exercise all options granted to him up to and including the September 2003 grant within the relevant exercise periods to the extent that the performance conditions relating to those options have been met.

The Board has also determined that it will exercise its discretion under the Share Plan so that on termination of his employment:

- all awards up to and including the 2002 award will vest to the extent that the performance conditions for those awards have been met but will be subject to prorating by reference to the proportion of the performance period during which he has been employed; and
- his 2003 award will vest to the extent that the performance condition for that award has been met.

Under the terms of his original service contract, Sir CK Chow has been permitted to remain a non-executive director of Standard Chartered plc. Sir CK Chow retains

his fees in relation to that appointment, which amounted to £45,000 for the year. On a similar basis, Mr Turner has been permitted to remain a non-executive director of Whitbread PLC. Mr Turner retains his fees in relation to that appointment, which amounted to £30,333 for the year.

## Non-executive Directors

### Terms of appointment

All Directors are subject to retirement and re-election by shareholders from time to time as required by the Constitution of BIL and the Articles of Association of BIP. The Non-executive Directors do not have service contracts with Brambles, although letters of appointment (which are contracts for service but not contracts of employment) will be put into place in the near future.

The Non-executive Directors do not participate in Brambles' short or long-term incentive plans, and do not receive benefits in kind. With the exception of the retirement benefit contracts of certain Directors outlined below, the Non-executive Directors do not participate in Brambles' pension schemes.

Details of the Non-executive Directors' dates of appointment and the year in which they are next expected to be subject to re-election by shareholders are shown on page 46.

### Fees

Non-executive Directors' fees are determined by the whole Board, with the Non-executive Directors taking no part in the discussion or decision relating to their own fees. In setting the fees, consideration is given to the responsibilities of Directors in dealing with the complexity and global nature of Brambles' affairs and the level of fees paid to Non-executive Directors in comparable companies. From 1 July 2002, Chairmen of Board committees, other than the Board Chairman or Deputy Chairmen, received an additional allowance of 15% of their annual fees.

Mr Milne and Mr McDonald were employer-nominated members of the Board of Trustees of the Brambles Superannuation Fund (BSF) in Australia, with Mr Milne also being its Chairman. In these roles, they received fees as disclosed in the table on page 58. No further fees were paid after 31 March 2003, and the administration of the BSF has since been outsourced.

### Retirement benefits

Under Australian law and corporate practice, it is permissible for public companies to pay retirement benefits to non-executive directors, subject to certain financial limits.

In the UK, such payments are generally not accepted practice.

Over several years before the DLC was formed, BIL entered into retirement benefit contracts in Australia with its non-executive directors. Under these contracts, BIL agreed on certain conditions to pay a retirement benefit to those non-executive directors, up to the maximum amount allowed under Australian law – that is, an amount equal to the total remuneration paid to the non-executive director for the three years before they retire. Messrs Argus, Burrows, McDonald and Milne are party to such contracts.

After the DLC was formed, creating a new Brambles, in recognition of the corporate governance requirements in the UK, a decision was taken not to enter into any more retirement benefit contracts with Brambles' other Non-executive Directors, although the retirement benefits contracts already in existence had to be honoured.

Because of the increase in fees payable to the Non-executive Directors when the DLC was formed, the basis on which the retirement benefits would be calculated had to be clarified. The Board determined that the amount of the retirement benefit would be calculated by reference to the lower pre-DLC fees paid by BIL to the Non-executive Directors concerned, rather than to the new increased fee level. This was confirmed by amendments to the existing retirement contracts in early 2002, with the agreement of the relevant Non-executive Directors.

Under the revised arrangements, for the purposes of the calculation of the retirement benefits, the following provisions apply:

- if the calculation requires the inclusion of an amount relating to the year to 30 June 2001, the remuneration for that year will be taken to be the actual pre-DLC fees paid by BIL to the Non-executive Directors during that year;
- if the calculation requires the inclusion of an amount relating to the year to 30 June 2002, the remuneration for that year will be taken to be the actual pre-DLC fees referred to in the previous paragraph, increased by 5%; and
- the remuneration for any subsequent years will be the amount deemed to have been received in the previous year, increased by the same percentage by which the actual fees for the Non-executive Directors concerned are increased in that year.

The contents of this Remuneration Report up to this point have not been audited. The contents of the remainder of this report, with the exception of the Shareholding expectation section and the values of equity based awards, have been audited.

## Executive Directors' remuneration

The following table contains details of the remuneration and benefits (excluding long term incentive awards) provided to Executive Directors for the year.

	TFR/Salary A\$'000		Performance related bonus A\$'000		Relocation and expenses A\$'000		Total cash A\$'000	
	2003	2002	2003	2002	2003	2002	2003	2002
Sir CK Chow (a)	2,726	2,558	227	540	201	195	3,154	3,293
D J Turner (a)	1,567	1,469	114	310	333	290	2,014	2,069

Notes:

(a) Sir CK Chow and D J Turner are employed by BIL. The amounts disclosed above are deemed to be remuneration in respect of both BIL and BIP. Their remuneration is based on the concept of Total Fixed Remuneration (TFR), as described on pages 52 to 53. The amounts shown for them under the heading "TFR/Salary" are the TFR amounts to which they were entitled during the year, which they elected to receive in the form of cash salary payments, Directors' fees, pension contributions and motor vehicle benefits. The Executive Directors were also entitled to be paid the costs of relocation and accommodation and to be reimbursed for certain additional tax burdens incurred as a result of Australian residency.

(b) No compensation or termination payments or other non-cash benefits were provided to the Executive Directors for the year.

	Total cash A\$'000 2003	Equity based awards (a) A\$'000 2003	Total A\$'000 2003
Sir CK Chow	3,154	892	4,046
D J Turner	2,014	698	2,712

Notes:

(a) The values of equity based awards have been calculated in line with ASIC's requirements, as detailed in note (c) to the table on Remuneration of highest paid executives on page 60.

(b) As noted on page 56, Mr Turner will leave Brambles before the end of the normal vesting period of his equity based awards. The value of these awards has therefore been allocated equally across the shortened vesting period in accordance with ASIC's requirements.

## Non-executive Directors' remuneration

The fees and other benefits provided to Non-executive Directors during the year were as follows:

	Fees (b) A\$'000		Superannuation contributions (c) A\$'000		Change in provision for potential future retirement benefits (f) A\$'000		Total A\$'000	
	2003	2002	2003	2002	2003	2002	2003	2002
D R Argus AO	479	465	11	9	257	257	747	731
R D Brown	123	112	–	–	–	–	123	112
M D I Burrows	218	211	–	5	1	(42)	219	174
G J Kraehe AO	117	116	5	5	–	–	122	121
Sir David Lees	219	199	–	–	–	–	219	199
F A McDonald (d)	141	116	6	5	25	16	172	137
R C Milne (d)	134	116	7	6	11	17	152	139
Sir John Parker	123	112	–	–	–	–	123	112

Notes:

(a) From 7 August 2001, the date of formation of the DLC, fees were paid to the Non-executive Directors for their directorships of both BIL and BIP. Prior to that date, no fees were paid to the Directors of BIP. The total fees to be paid to the Non-executive Directors for their directorships of both BIL and BIP are denominated in pounds sterling.

(b) Fees paid to the Australian Non-executive Directors in 2002 which relate solely to their previous arrangements with BIL (that is, payments made for the period from 1 July 2001 to 6 August 2001) are included in the figures in the table above and were as follows: D R Argus – A\$24,244 (£8,759); M D I Burrows – A\$16,163 (£5,840); G J Kraehe – A\$8,081 (£2,920); F A McDonald – A\$8,510 (£3,075); and R C Milne – A\$9,198 (£3,323). Similarly, during 2002, R D Brown, Sir David Lees and Sir John Parker received fees only from the formation of the DLC (that is, for the period 7 August 2001 to 30 June 2002). Their fees for 2002 were therefore proportionally lower than in 2003, in which they held office for the full year.

(c) Superannuation contributions provided to the Australian Non-executive Directors from 7 August 2001 were charged against (that is reduced) their overall fee entitlement.

(d) The figures for the 2003 financial year include amounts of A\$7,101 and A\$18,483 paid to F A McDonald and R C Milne respectively for their services as members of the Board of Trustees of the Brambles Superannuation Fund for the period from 7 August 2001 to 31 March 2003.

(e) No compensation or termination payments or other non-cash benefits were provided to the Non-Executive Directors for the year.

- (f) No retirement benefits were actually paid to Non-executive Directors during the year. The amounts in this column have been included in accordance with the new ASX Corporate Council's Principles of Good Corporate Governance and Best Practice Recommendations. The amounts shown represent movements during the relevant year in the provision for potential future payments under retirement benefit contracts, details of which are described on page 57. The total amount of those provisions as at the end of the year were: D R Argus – A\$514,500; M D I Burrows – A\$514,600; F A McDonald – A\$293,175; R C Milne – A\$300,700.
- (g) The total remuneration for all Directors for the year ended 30 June 2003 was A\$7.1 million (2002: A\$16.1 million).

## Directors' interests in shares and options

### Interests in shares

The Directors' interests in Brambles' shares, share options and performance shares are shown in the following tables. All these interests are beneficial except as noted.

### Shareholding expectation

Executive Directors are expected to hold shares in Brambles (either BIL or BIP) equal to one times basic salary after tax, within three years of the first vesting of any LTIP

awards. Non-executive Directors are expected to hold shares in Brambles equal to one times their annual fees after tax within three years of their appointment.

### Directors' interests in shares

	Ordinary shares in BIL		Ordinary 5p shares in BIP	
	at 30 June 2003	at 1 July 2002 (a)	at 30 June 2003	at 1 July 2002
D R Argus AO	106,129	76,129	–	–
R D Brown	–	–	2,018	2,018
M D I Burrows	340,319	340,319	–	–
Sir CK Chow	–	–	253,277	253,277
G J Kraehe AO	31,561	11,561	–	–
Sir David Lees	–	–	214,055	204,055
F A McDonald	143,259	143,259	–	–
R C Milne	185,793	185,793	–	–
Sir John Parker	–	–	3,354	3,354
D J Turner (a)	178,025	–	30,252	175,577

Notes:

- (a) On 28 November 2002, Mr Turner acquired a non-beneficial interest in 2,700 BIP shares. These are included in the figures in the table above as appropriate.
- (b) The beneficial and non-beneficial interests of the Directors in BIL and BIP shares have remained unchanged since the end of the year.

### Directors' interests in options

		Date of grant	Number	First date of exercise	Exercise price per share	Value at grant (c)
Sir CK Chow	Options over BIL shares (a)	As of 7 August 2001	605,700	7 August 2004 (b)	A\$11.24	A\$3.31
		5 September 2002	1,176,834	5 September 2005	A\$7.08	A\$1.93
	Options over BIP shares	None granted	–	–	–	–
	Total options		1,782,534			
D J Turner	Options over BIL shares (a)	As of 7 August 2001	278,300	7 August 2004 (b)	A\$11.24	A\$3.31
		5 September 2002	540,740	5 September 2005	A\$7.08	A\$1.93
	Options over BIP shares	None granted	–	–	–	–
	Total options		819,040			

Notes:

- (a) These options, granted under the Brambles 2001 Executive Share Option Plan, vest on the third anniversary of their date of grant, subject to meeting a TSR performance target. If not met, the performance condition may be re-assessed on the fourth, fifth and sixth anniversaries of the date of grant. The options expire on the sixth anniversary of the date of grant.
- (b) The first date of exercise will be 7 August 2004, or the earliest date afterwards when it can be established that the performance condition has been met.
- (c) The values of the options at grant were calculated using a Black Scholes method determined by external advisers, and have not been audited. This method does not take account of the existence of performance conditions or the likelihood of satisfying those conditions. The values at grant shown in this table are therefore higher than the values calculated by using the proposed new international accounting standard (IAS ED 2) and shown in the Executive Directors' remuneration table on page 58.
- (d) Nothing was payable on the grant of any of the above options.
- (e) For the purposes of calculating the value of the options at the end of the year, the BIL share price was A\$4.57. The BIP share price at the end of the year was 164.00 pence.
- (f) The highest and lowest Brambles' share prices during the financial year were A\$9.58 and A\$3.77 for BIL and 324.50 pence and 129.75 pence for BIP.

**Directors' interests in performance shares**

		Date of grant	Number	First date of exercise	Exercise price per share	Value at grant (d)
Sir CK Chow	BIL performance share rights (a)	As of 7 August 2001	443,012	7 August 2003 (c)	–	A\$11.06
	BIL performance share rights (b)	As of 7 August 2001	181,300	7 August 2004 (c)	–	A\$11.06
		5 September 2002	320,804	5 September 2005	–	A\$7.32
	BIP performance share rights	None granted	–	–	–	–
	Total performance share rights		945,116		–	
D J Turner	BIL performance share rights (a)	As of 7 August 2001	225,641	7 August 2003 (c)	–	A\$11.06
	BIL performance share rights (b)	As of 7 August 2001	83,300	7 August 2004 (c)	–	A\$11.06
		5 September 2002	147,406	5 September 2005	–	A\$7.32
	BIP performance share rights	None granted	–	–	–	–
	Total performance share rights		456,347		–	

## Notes:

- (a) These rights (which comprise sign-on grants) vest on the second anniversary of their date of grant, subject to meeting an EPS performance target. If not met, the performance condition may be re-assessed on the third, fourth and fifth anniversaries of the date of grant. The rights expire on the fifth anniversary of the date of grant.
- (b) These rights, granted under the Brambles 2001 Executive Performance Share Plan, vest on the third anniversary of their date of grant, subject to meeting an EPS performance target. If not met, the performance condition may be re-assessed on the fourth, fifth and sixth anniversaries of the date of grant. The rights expire on the sixth anniversary of the date of grant.
- (c) The first date of exercise will be 7 August in the indicated year, or the earliest date afterwards when it can be established that the performance condition has been met.
- (d) The values of the rights at grant are the values used for the purpose of determining grants, being the average market price over the week prior to the grant, and have not been audited. This does not take account of the existence of performance conditions or the likelihood of satisfying those conditions. The values at grant shown in this table are therefore higher than the values calculated in accordance with the requirements of ASIC, details of which are set out in the notes to the following table.
- (e) Nothing was payable on the grant of any of the above rights.
- (f) For the purposes of calculating the value of the rights at the end of the year, the BIL share price was A\$4.57. The BIP share price at the end of the year was 164.00 pence.
- (g) The highest and lowest Brambles' share prices during the year were A\$9.58 and A\$3.77 for BIL and 324.50 pence and 129.75 pence for BIP.

**Remuneration of highest paid executives**

Details of remuneration provided for the year ended 30 June 2003 to the Brambles' five most highly paid current executives, excluding the Executive Directors, are as follows:

	Salary/ TFR A\$'000	Performance related bonus A\$'000	Super- annuation contributions A\$'000	Other A\$'000	Total (excluding equity based awards) A\$'000	Equity based awards <sup>(b)(c)</sup> A\$'000	Total (including equity based awards) A\$'000
H V Mendes	994	729	88	74	1,885	283	2,168
G Westra	772	81	362	48	1,263	150	1,413
J-L Laurent	803	215	148	83	1,249	146	1,395
M B Luby	450	281	67	475	1,273	91	1,364
C A van der Laan de Vries	575	98	–	–	673	571	1,244

## Notes:

- (a) The above table excludes executives who terminated their employment before 30 June 2003. During the year then ended, G M Legtmann received total emoluments of A\$1,181,758 (including termination payments of A\$257,674). In addition, the value of his outstanding equity based awards was A\$298,797. In line with the requirements of ASIC, the calculated value was allocated over the shortened vesting period. It should be noted that most of the awards to which this number relates, lapsed upon the termination of his employment.
- (b) Equity based awards have been valued in accordance with the requirements of the ASIC, as detailed in its Media Release dated 30 June 2003, which makes reference to both the Australian Corporations Act and the proposed new international accounting standard (as outlined in IAS ED 2). These values have not been audited. See note (c) below for a general description of how Brambles calculated these values.
- (c) In line with ASIC's requirements, Brambles has adopted the following approach to the valuation of all outstanding, unvested equity based awards as at 1 July 2002:
- Options and share rights were valued using a Black Scholes model, under which:
    - share rights are valued as zero priced options;
    - options are granted at the money, share rights are granted with a share price equal to the option exercise price where granted concurrently, or the mid-market price on the day of grant where not;
    - the "expected life" of an option is assumed to be one year less than its "contracted life" (but never less than its vesting period); and
    - the risk-free rate of interest, expected dividend yield and expected volatility are those that were current as at the date of grant.
  - The value calculated using this model was discounted by 60% to reflect the expected probability at the time of grant of meeting the performance hurdles. The discounted value was then allocated equally across the vesting period (being the financial year in which an award is granted to the financial year in which the award must finally lapse if the performance conditions are not met).

		Date of grant	Number	First date of exercise	Exercise price per share	Value at grant (c)
H V Mendes	Options over BIL shares (a)	5 Sept 2002	151,690	5 Sept 2005	A\$7.08	A\$1.93
	Options over BIP shares (a)	5 Sept 2002	151,690	5 Sept 2005	£2.33	£0.74
	BIL performance share rights (b)	5 Sept 2002	47,890			A\$7.08
	BIP performance share rights (b)	5 Sept 2002	47,890			£2.33
G Westra	Options over BIL shares (a)	5 Sept 2002	128,467	5 Sept 2005	A\$7.08	A\$1.93
	Options over BIP shares (a)	5 Sept 2002	128,467	5 Sept 2005	£2.33	£0.74
	BIL performance share rights (b)	5 Sept 2002	40,558			A\$7.08
	BIP performance share rights (b)	5 Sept 2002	40,558			£2.33
J-L Laurent	Options over BIL shares (a) (d)	5 Sept 2002	141,622	5 Sept 2005	A\$7.08	A\$1.93
	Options over BIP shares (a) (d)	5 Sept 2002	141,622	5 Sept 2005	£2.33	£0.74
	BIL performance share rights (b) (d)	5 Sept 2002	38,606			A\$7.08
	BIP performance share rights (b) (d)	5 Sept 2002	38,606			£2.33
M B Luby	Options over BIL shares (a)	5 Sept 2002	139,896	5 Sept 2005	A\$7.08	A\$1.93
	Options over BIP shares (a)		-			
	BIL performance share rights (b)	5 Sept 2002	38,136			A\$7.08
	BIP performance share rights (b)		-			
C A van der Laan de Vries	Options over BIL shares (a)	5 Sept 2002	156,412	5 Sept 2005	A\$7.08	A\$1.93
	Options over BIP shares (a)		-			
	BIL performance share rights (b)	5 Sept 2002	42,638			A\$7.08
	BIP performance share rights (b)		-			

## Notes:

- (a) These options vest on the third anniversary of their date of grant, subject to meeting a TSR performance target. If not met, the performance condition may be reassessed on the fourth and fifth anniversaries of the date of grant.
- (b) These rights vest on the third anniversary of their date of grant, subject to meeting an EPS performance target. If not met, the performance condition may be reassessed on the fourth and fifth anniversaries of the date of grant.
- (c) The values at grant are the values used for the purpose of determining grants, and have not been audited. For the options, the value is calculated using a Black Scholes method determined by external advisers. For the rights, the value is the average market price over the week prior to the grant. These values do not take account of the performance conditions or the likelihood of satisfying those conditions. The values at grant shown in this table are therefore higher than the values calculated in accordance with the requirements of ASIC, details of which are set out in the notes to the previous table.
- (d) These are phantom options and rights. If phantom options or rights vest, the recipient will receive only a cash amount equivalent to their value (less the exercise price, in the case of the options). The recipient cannot obtain the underlying shares in any circumstances.

This Remuneration Report is made in accordance with a resolution of the Board.

**Sir David Lees**

Chairman of the Remuneration Committee

2 September 2003