

Business Reviews

CHEP

Underpinning all CHEP's activities during the past year has been a clear focus on building a sustainable growth platform for this business – one that will deliver the powerful combination of creating shareholder value and building enduring and mutually beneficial relationships with CHEP's customers.

In essence, CHEP's strategy to generate improved Brambles Value Added and customer satisfaction is to:

- tighten its focus on asset productivity, which is CHEP's core competence and driver of returns. Fundamental to this is CHEP's ability to track pallet and container movements accurately at all points of the cycle, maximising returns from its assets and thereby managing the level of capital investment needed to grow the business; and
- differentiate CHEP from its competitors through quality of service delivery, the application of technology, innovative products and the ability to offer a lower cost solution to customers. These factors will support CHEP's growth.

To deliver these objectives, CHEP is developing standard operating procedures and global best practice for its services, products and systems, setting a common foundation for the pooling business worldwide including standard terminology and key performance metrics.

This approach to improving asset productivity has involved the development of standard measures of the stocks and flows of pallets and containers – allowing CHEP to measure its control of assets, at any point in the supply chain. Introduced globally, this approach to asset productivity has been at the heart of CHEP's efforts in the USA and Europe restructuring programs.

Americas

In constant currency terms, revenue in CHEP Americas grew 12% on the previous year, although comparable operating profit was marginally lower than last year. On the same basis, there was continued strong growth in Latin America and Canada.

Benefits are emerging from the performance improvement program which has been underway in the United States since early 2002. Key areas of improvement to date in the United States include heightened management of the flows of pallets outside CHEP's participating distribution network. This can be measured by a decline in the number of pallets flowing to non-participating distributors (NPDs) from 5.1% of total pallet movements last year to 4.1%, and an

Salt Lake City, USA





A\$ millions	Year ended 30 June 2003	Year ended 30 June 2002	Change %
Sales	3,485	3,326	5
Comparable operating profit ¹ after ongoing harmonisation	543	627	(13)
One-off accounting harmonisation	-	(60)	-
Comparable operating profit ¹ after all accounting harmonisation	543	567	(4)

¹ Comparable operating profit is defined on page 81.

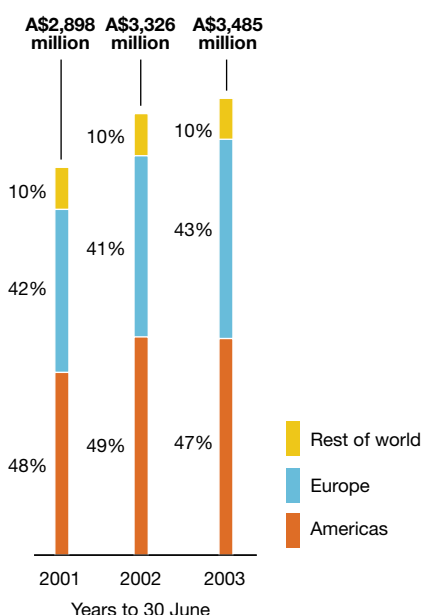
increase in the level of prompt recovery of pallets from these sources – from 56% to almost 78%.

The project to consolidate the service centre network in the United States is fundamentally complete, with 75 service centres in operation. This new service centre network assisted a 6.4% reduction in unit transport costs and is allowing CHEP to improve pallet quality, which will ultimately increase customer satisfaction levels. However, the need to bring stocks of pallets in the service centres up to CHEP's required quality standards and the increasing level of returns from NPDs resulted in an increase in inspection and repair costs. This occurred predominantly in the second half of the year, impacting the rate of improvement in CHEP USA's profitability.

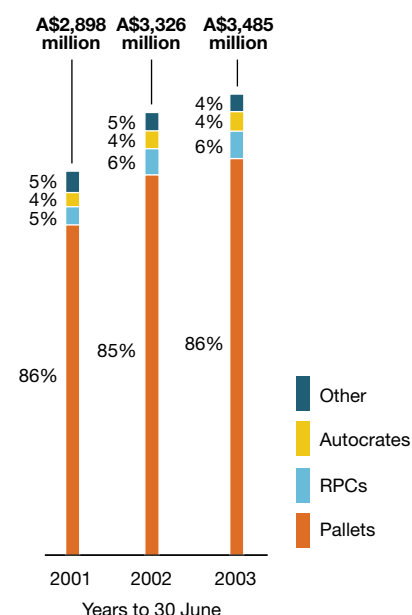
The next element of this segment of the performance improvement program is to reduce the levels of stock awaiting processing in the service centres.

CHEP has agreements with a number of key customers in relation to advocacy programs, which bring tangible benefits to both parties. Customers advocate the conversion by their suppliers to using CHEP's services and, for its part, CHEP supports the customer in enhancing their logistics operations through the application of CHEP's total pallet management systems.

Revenue segmentation by region



Revenue segmentation by product



Sydney, Australia



Ridderkerk, Netherlands



“CHEP offers an unprecedented combination of supply chain cost reduction, superior technology, scale and global reach to deliver significant value and efficiency to manufacturers and distributors.”

Victor Mendes
Chief Executive Officer, CHEP

The customer advocacy programs with Wal-Mart, and SYSCO, the largest food service company in the United States, are yielding results. Retailer The Home Depot also commenced an advocacy program during the year as has national supermarket chain Kroger, related to shipments for its produce department.

Europe

While revenue in CHEP Europe grew by 10% on the previous year, there was a 21% decline in comparable operating profits compared to 2001/02.

The priority for the new management team appointed to CHEP Europe at the beginning of the financial year was to comprehensively review the business to both quantify the issues and to determine the most appropriate course of action. This has resulted in a robust plan of action to restore performance in CHEP Europe. A number of elements of this plan are already in place, with all the elements being progressively implemented over the next 20 months.

The establishment of a more appropriate, pan-European organisational structure and the application of standard global processes and technology initiatives are resulting in lower overhead costs. By the end of the

financial year, the total CHEP Europe workforce had been reduced by 120 and we anticipate that the total reduction of 300–400 will be completed by the end of June 2004.

To streamline service offerings and pricing structures to better reflect customer activity and the costs associated with such activity, commercial initiatives are being introduced throughout CHEP Europe.

A detailed review and redesign of the European service centre network has been undertaken to ensure that it is both located and configured appropriately. The resulting reconfiguration will provide better asset control and customer fulfilment, and is expected to be completed in late 2003.

Through the stepped-up campaign to improve the collection, repair and reissue of pallets, CHEP Europe had increased its control ratio – that is, the ratio of pallets returned to CHEP of the total number issued – from 87% to 91% by the end of the financial year. A benefit of this is the commensurate reduction in capital expenditure as existing equipment is repatriated and reissued.

New contracts gained during the year included San Pelligrino and Nestlé Purina in Italy, Friskies in France, and Henkel in Germany, Italy and France.

Sao Paulo, Brazil



Memphis, USA



While encouraging progress was made in CHEP Europe during the year and the recovery program is on track, the benefits of the full implementation of the program are expected to be yielded in the 2004/05 year.

Rest of world

In Asia-Pacific and Africa, revenue grew by 13% and comparable operating profits recorded a slight increase.

In March, CHEP Asia-Pacific was awarded a place among the 'Best Employers' in Australia, in an awards program presented by Hewitt Associates, the Australian Graduate School of Management and *The Australian Financial Review*. Other highlights in Australia included major national retailer Woolworths rolling out reusable plastic containers (RPCs), and fresh food producer Lamattina issuing its one millionth RPC.

In these markets, where the CHEP model is already well established, the application of CHEP's global initiatives can only further improve the performance of the business. ○

Los Angeles, USA



Customer focus

The Home Depot, USA

The Home Depot is one of the world's largest retailers, with an emphasis on home improvement products. The company operates over 1,500 stores and 60 distribution centres across North America.

Each year, hundreds of manufacturers ship 1.5 million CHEP pallets under load to The Home Depot, who also rent an additional four million CHEP pallets to supply their stores with product.

CHEP's multi-year Total Pallet Management agreement with The Home Depot provides value in several ways: CHEP manages the full pallet fleet, reducing system cost and the level of

capital investment required by our customer. A reverse logistics program utilises CHEP personnel to pick up pallets at all Home Depot stores, thus reducing return shipping costs. Pooling and re-use of the pallet fleet also helps to protect the environment by diverting some 30 million pallets a year from landfill disposal.

Representatives of both companies are working to identify additional opportunities for supply chain savings.