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BXB.AX - Interim 2013 Brambles Limited Earnings Presentation

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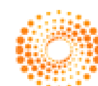

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PRESENTATION

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Good morning everyone. This is James Hall speaking from Brambles Investor Relations. Thanks for joining us on the call this morning, for the presentation of our half year results. I'm going to hand over to our CEO Tom Gorman to get started with the presentation.

Tom Gorman - *Brambles Limited - CEO*

Well thanks very much James and thank you all of you for joining us this morning. I greatly appreciate your time. I'm going to start today's presentation with an overview of the highlights of our 2013 first half results. Our CFO Zlatko Todorcevski will then walk you through the financials in a bit more detail, and then I'll close today's presentation with an update on our outlook and then of course as always, we'll open for questions.

I'd like to make a few key points to frame today's discussion. Firstly, we are on track to -- for a strong full-year result following a very solid first half. We've delivered a strong result in the Pallets business, in particular in the Americas, and we've continued sales revenue growth in our other pooling solution segments of RPCs and Containers.

The improved cost structure that we delivered in Recall last year has been maintained and across the entire business our efficiency focus is driving improvements in margins, improvements in cash flow and improvements in return on capital.

Secondly, we have continued momentum in delivering our growth strategy, which is about being the world's leading supply chain equipment pooling company, and it's about expanding the unique expertise that we have deeper into existing and new customer segments and regions.

In line with that strategy, we have announced today the further integration and consolidation of the organisation structure of our Pallet segment, under the single leadership of Peter Mackie. This change will enable greater synergy across our global operations.

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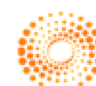

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The RPC segment is growing very profitably and the Pallecon acquisition that we completed at the start of January is an important step in the delivery of our global Container strategy.

Now I'll come back to these areas of discussion in a bit more detail later on.

Third, as we get closer to get year-end we are narrowing our full-year guidance for underlying profit from a range of between $1.01 billion and $1.07 billion to a tighter range of $1.03 billion to $1.06 billion. In effect we're lifting the mid-point by $5 million and this reflects the second half contribution that we expect from the Pallecon acquisition.

Our guidance remains at 30 June 2012 foreign exchange rate, but in our latest internal forecast at 31 January 2013 exchange, this guidance translates to $1.06 billion to $1.09 billion, which is in line with the brokers consensus.

Finally, we've increased our interim dividend to AUD0.135 per share.

I'll now use the next few slides to run through some of our results highlights, and please note that the data are shown at actual exchange rates.

I'm pleased to report that this is a very solid set of growth numbers across the entire P&L. Both return on capital and cash flow are also up. I won't detail every number on the slide but I'd like to highlight that underlying profit growth of 7% is stronger than sales revenue growth of 4%. Now this reflects the benefit of efficiency programs in our developed businesses as well as the achievement of scale benefits in our faster growing businesses. Now both of which are more than offsetting the increases that we have made this year in our business development cost, which we discussed with you previously.

After tax profit growth of 17% is stronger again, reflecting the benefit of our lower interest bill, and this comes mostly as a result of the rights issue last year. Our free cash flow improvement of $272 million is a result of our profit growth and a better capital performance. The Board as I mentioned previously has declared a dividend of AUD0.135 which is AUD0.05 higher than the preceding final and interim dividends.

Now the main driver of our sales and profit growth is, as we have seen over the past three years, our ability to keep winning new business largely irrespective of organic growth conditions. This respects -- this reflects really the sheer scale of our addressable opportunities and the strength of our value proposition that we offer to our customers.

The highlight on this page here is of course the Americas region of the Pallets business, which CHEP USA has been winning back large amounts of business from a key competitor over the last couple of years.

In the first half the win-back of Pepsi, which actually occurred in December 2011, was a major contributor to the period's result, while the win-back of General Mills in December 2012 was a major contributor to the net annualised value of business won in the period, and will contribute obviously to sales in the second half.

Wins also remain strong in the IFCO Pallet Management Services business in the US, CHEP Canada's strong, and CHEP Latin America as well as LeanLogistics showed strength in the top line.

In the EMEA region, new business growth in Europe has been strong -- has been strong, and this is offsetting the obvious weak economic conditions that we're all aware of.

Now new business from major brands such as Unilever, Orangina Schweppes, Lactogal and Sofidel, all contributed to our growth in CHEP Western Europe while the expansion with major customers in CHEP Central and Eastern Europe also continues. The Proctor and Gamble contract that we announced in October will be a sizeable contributor to the annualised value of new wins.

The Asia-Pacific new business performance reflects the relative maturity of the Australian operations, albeit we continue to win new business in Asia.

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In RPCs it's important to bear in mind that our methodology here, we actually count expansion into more product challenge -- channels with our existing retailers, for example such as growth with Waitrose in the UK or Loblaws in Canada, and the roll out of the Meat Crate in Europe, we really count this as organic growth. So this doesn't register as net new business despite the very strong sales growth in this segment. You'll see this more clearly later when Zlatko walks you through a few of the revenue bridges.

What is included in new wins, is when we sign up a new retailer in RPC such as the win during the period of Aldi in Australia.

The Containers growth is clearly skewed to the second half, and to next year. In particular some important wins in Aerospace such as Qatar Airways and American Airlines maintenance contracts and the Air Canada pooling contract, which really didn't begin until the November or December time period.

I'll now walk you through the result highlights in a bit more detail by each of our operating segments.

I'll start with the Americas. The Americas result was very strong with a 9% increase in sales revenue. A particular driver was the customer win-backs in CHEP USA as I mentioned a moment ago, but there was also profitable growth in all of our business in the Americas. We added more than 459 new contracts in the small to medium enterprise space in the US in the period. Although the rate of growth in this market segment peaked with the Costco mandate in previous years, opportunities do remain for continued expansion and the market remains very attractive from a financial return perspective.

Underlying profit was up 20% as we benefited from efficiency programs and cost synergies. We are making continued progress with asset management programs as well, driving improved asset efficiency and alongside our improved profitability we see a strong improvement on return on -- in return on capital invested.

Now moving to EMEA. In the Europe, Middle East, and Africa business we delivered a resilient result, and an improved performance on margins, particularly pleasing when one considers the ongoing economic malaise in this region.

The sales revenue decline of 1% really reflected the impact of a very weak Euro through the period. On a constant currency base the sales were actually up 5%, with solid growth coming out of the UK and Ireland, the mid-Europe region and modest growth in France. Albeit I must say that Spain continues to be a very challenging market for us. Middle East and Africa, and Central Eastern Europe continue to report very strong levels of growth.

Underlying profit was up 1% with efficiencies supporting improved returns. Return on capital invested remains strong and improved 1 percentage point compared with the prior corresponding period, and that now stands at 22%.

Moving onto Asia-Pacific, our business here delivered a mixed result, but a fair bit of the performance in fact relates to timing impacts. Sales revenue growth again was a solid at 6% on continued modest growth in Australia and New Zealand and our continued more rapid growth expansion in Asia. Underlying profit however was down 5%. Now this reduction reflects primarily higher plant costs and the timing of some compensations in Australia, as well as ongoing investment for the growth markets in Asia. I'm pleased to say that all of our operations in Asia, except India, are now profitable, and the reduction in return on capital was a reflection of the lower profit result. We do however expect a stronger performance in the second half.

Now on RPC business, we showed here a very strong profit improvement, but I must first cover off the sales performance, which has been slightly below our targets for this year. Sales growth of 5% was heavily impacted by a very weak euro in the period. On a constant currency basis we delivered a solid 10% growth. Now, this is below our stated objective for a full-year growth of 15% and this was result of a slightly lower growth than we frankly expected in the US, albeit growth there was, in fact, 15%. We also experienced some delays in new business growth in South America. We do expect a stronger second half and the ongoing growth profile for the RPC segment remains extremely promising.

Of particular significance, of course, is the profit performance, which was up 26% as we leverage our scale as this business continues to grow. The capital intensity of our growth is also dropping as the existing asset pool becomes more efficient in the growth markets and turn rates are improving.

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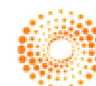

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We delivered a 2 percentage point increase in return on capital on the half which is, of course, after the goodwill impact of the IFCO acquisition. Excluding goodwill, this business delivers a return on capital well in excess of 20%, so incremental investment here is very profitable.

Now the results for our smallest pool in solution segment of containers, reflects the necessary upfront investment in our expansion of our newer and smaller businesses, as well as some of the challenges that the industry conditions are presenting to us in our more established operations in this business segment. Sales revenue growth of 2% or 6% at constant currency was really driven by CHEP AeroSpace Solutions via our US IBC business and by our US automotive operations.

We had forecast these businesses would double their combined sales revenue in the year, a target that we now recognise that we're unlikely to achieve, because really the conversion of major sales pipeline opportunities is taking us slightly longer than we had anticipated. However, combined these new businesses delivered sales growth of about 50.5% and this probably a more realistic growth rate for us for the full year. The sales outlook over the coming years for these businesses remains extremely healthy as we build scale and capability.

Now unfortunately the weak state of the European and the Australian automotive sectors, as well as the decisions that some of our customers in the catalyst and chemical container business are taking, whereby they are really stretching out the timing of their major refinery shutdown activities. These two factors combined are creating some top line pressure and downside operating leverage in the larger portions of the container business in the first half.

At the same time roughly half of the $25 million of incremental business development investment that we are expecting to spend in the full year is, in fact, occurring as we had indicated previously in the containers business. So combined with the weaker result of some of our established businesses, this did drive a reduction in both underlying profit and return on capital. Now the makeup of our containers business will change since the acquisition of Pallecon at the start of the second half and as we continue to expand. I'll talk a bit more about this later on but to be clear, there are no Pallecon results in the first half financials.

Now finally, I'd like to discuss Recalls result. All things considered we view this as a solid performance, with costs reductions maintained in line with our guidance and solid growth in revenue for the storage of cartons. Sales revenue overall was down 3% or 1% at constant currency. Now the bulk of this decline, or about 70%, was a reflection of the weaker selling prices for waste paper during the period, although softer customer activity also contributed somewhat to the decline. Now this is despite the growth in the annuity style sales that come from document storage. This softer project activity has been experienced throughout the industry as recent public comments from some of our competitors have shown.

The profit result was still however very positive, rising 2% as the business maintained the improved cost structure that we delivered during the 2012 financial year. Return on capital was also stable at 13%. Now long term followers of our Company will remember that earnings and margins in Recall generally skew favourably towards the second half and we expect that to happen this year as well.

So now it's my pleasure to handover to Zlatko for a bit more detailed discussion of the results, before I close with a few outlook comments. Thank you very much.

Zlatko Todorcevski - *Brambles - CFO*

Thank you, Tom. Good morning everyone. Let me first state by saying it's a pleasure to present my set of Brambles results to you this morning. I will start by providing an overview of the Group results and then providing a little bit more detail on each of the operating businesses.

We've included growth using constant currency and actual foreign exchange rates on these slides to link them back to Tom's. However, consistent with previous results presentations I will be talking about the constant currency comparisons, unless I state otherwise. I also remind you that in our 2012 half-year accounts we disclosed Recall as a discontinued operation because of the intention at that time to sell that business. As we have since retained Recall and consistent with the 2102 full-year accounts, it is now back and continuing operations and the corresponding period data has been restated.

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From this line you can see sales revenue from continuing operations for the period was up 6%. All regions delivered increased sales except for Recall, as Tom mentioned. Underlying profit, excluding significant items, was up 11%. This profit outcome reflects the contribution of the higher sales and the efficiencies and synergies achieved in the Pallet and RPCs businesses in particular. Profit after tax increased 30% and the effective tax rate of 29% was slightly higher than the prior corresponding period.

In addition, interest expense was $29 million lower after we paid down debt following the rights issue last year, reflects lower interest rates on drawn debt and the non-recurrence of one-off items from the prior period. We expect this strong interest performance to continue in the second half, giving us a full-year interest bill closer to $115 million than the $125 million we'd previously guided -- obviously our 20 June 2012 exchange rates.

Now looking at Group sales, this chart shows the components of sales revenue growth of 6%, which was driven primarily by a new business growth, as Tom outlined, but also by organic growth volumes and some pricing index benefits. The $81 million net new business swings contributed 3% of the half, or the half of the sales revenue growth. This was a pleasing improvement on $67 million net new business swings in the first half of 2012, demonstrating that we continue to win new business in challenging economic conditions.

Organic sales, by which we mean like-for-like sales from pre-existing customers as opposed to price increases in new business, these contributed 2% or $48 million of growth. This was primarily driven by the IFCO operations in the RPC business, which we have continued to expand, with existing customers in North America and Europe. Organic growth in our Pallet's market in the US was modest, while a resilient performance in most of Western Europe was offset by the ongoing weakness in Spain.

The price index rose a little over 1% and Recalls price contribution was impacted negatively by a decline in paper prices compared with the prior corresponding period. $20 million related to acquisitions on this chart, is the impact of including the full-year period results of the smaller acquisitions made during the last financial year, being Paramount Pallets and Driessen Services. Pallecon, as Tom mentioned, will contribute to sales growth in the second half.

Turning now to Pallets. Pallets sales revenue increased 8%, about 1% of which came from the inclusion in the Americas of Paramount Pallets, which we acquired late in the prior corresponding period. CHEP USA delivered 7% growth with strong new business wings, as Tom as discussed. PMS sales were up 12% and excluding Paramount, Canada delivered 5% sales growth, half-on-half. Latin America delivered a strong 14% growth and organic volumes in the Americas was up 2%, largely driven by the growth in PMS and Latin America.

In EMEA sales were up 5%. Within this result Western Europe was up 2%, Central and Eastern Europe was up 52% and Middle East and Africa was up 13%. Within Western Europe, UK and Ireland was up a pleasing 4%, France was up 2%, whilst Spain was down 4% because of the continued slowdown in its economy. The rest of Western Europe was up 3%, driven principally by growth in Italy. The EMEA organic volumes have flattened, as the Spain performance offset growth elsewhere. In the Asia-Pacific sales were up 5%, mainly as a result of continued in our Asian operations. Australia and New Zealand achieved 3% sales growth. The Pallets business as a whole improved its operating performance during the first half, both return on capital invested and underlying profit margin increased to 19%. I'll now review the profitability of each of the Pallet's regions in turn, starting with the Americas.

Overall in the Americas operating profit increased 23%. Volume price index improvement in the CHEP operations contributed $32 million of additional profit. We've shown a $4 million dollar profit impact of PMS sales improvement separately in this chart, because of the differing profile of the PMS business model to the pooling business. Efficiency programs across all of our operations delivered $19 million of net savings, including $6 million of CHEP and PMS integration benefits.

The $17 million of additional other direct costs in the Americas principally relate to higher lumber costs in the US and Latin America, our ongoing investment in asset recovery and the increased depreciation charges. There were $1 million of business development costs relating to investment in the LeanLogistics business to expand it globally. The $6 million of other costs relate primarily to the expansion of the business in Latin America and the inflationary pressures on overheads. Significant items primarily represents the costs of restructuring in a prior period.

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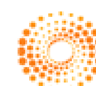

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In EMEA operating profits from pallets increased 11% compared with the prior corresponding period. Increased sales delivered $16 million of volume, price and mixed benefit. As we expected at last year end's results, the global pallets efficiencies program has started to deliver in Europe. In the period we achieved $7 million of savings in excess of cost inflation and a further $4 million of other direct cost savings, a result of timing of pallet repairs and relocations.

The business continues to invest in expansion into Central and Eastern Europe, as reflected in the $3 million of additional development costs. The $14 million of additional other components you'll see on this chart relates to a number of items, including timing aspects. I'll step you through each one of these individually.

Firstly, there was a higher overhead allocation related to the IFCO integration in the prior year, part of which is offset in the IFCO business and we'll see that in the RPC waterfall chart. There was a prior year one-off FX gain. There were lower compensation revenues in the period as a result of improved audit outcomes. There was a non-recurring write off of a small number of non-standard obsolete pallets in France and there was an increase in the IPEP provision, because we undertook more asset audits in the first half, compared to the prior corresponding period.

Nonetheless and despite that timing difference around IPEP, we expect the full-year IPEP across the Group to be broadly in line with recent years. The improvement in significant items largely reflects the costs and changes to the CHEP South Africa Pension Scheme in the prior period.

In Asia-Pacific Pallets we realised $6 million of growth in volume, price and mix. There was a $5 million increase in direct costs relating to additional repair and relocation costs, mainly in Australia, as we continue to optimise the pallet pool and balance capital expenditure against operating expenditure. There were also additional depreciation costs in Asia. The Australian and New Zealand business was unable to offset fully inflationary increases with efficiencies, albeit we were successful in this regard in Asia. We invested a further $1 million in Asia to support growth in that region.

The $2 million of other costs mainly relate to the timing of pallet compensations, which we expect to come through in the second half of the current financial year. As Tom has said, many of this additional costs in this period in Asia-Pacific were again timing related. We expect a margin performance in the second half at a similar level to 2012.

Moving now to RPCs, in the RPCs segment sales revenue increased 10%. IFCO continued to increase its penetration with existing customers, to convert new retailers from disposable solutions to RPCs and to expand the roll-out of newer products, such as egg and meat crates. IFCO South America's sales fell as a result of short-term price pressures. The CHEP Australia and New Zealand and CHEP South Africa RPC businesses continue to grow well. Underlying profit increase up 31% on the prior corresponding period. We continue to deliver improved operating leverage as the RPCs business grows. This resulted in a 3 percentage point increase in underlying profit margins to 17% and an increase in return on capital invested to 10%.

The 10% sales growth delivered $9.0 million of additional volume price and mixed benefit to the operating profit. Continued optimisation of transport lanes in IFCO and economies of scale efficiencies in wash plants delivered the direct cost savings. There was also a small saving in depreciation resulting from the timing of depreciation adjustments during the previous year while we were undertaking the integration of IFCO.

Other cost savings relate to overhead allocations which, as I mentioned, to some extent offset a negative impact from this issue in the EMEA pallets operations. Significant items in the period -- prior period related to the integration of the IFCO business with CHEP.

Turning now to Containers, containers sales revenue grew 6%. Although we continue to grow our automotive operations in North America and Asia, sales revenue from the sector globally was down 2% because of the weak industry conditions in Europe and Australia. The Aerospace Solutions operations again contributed positively to sales growth as a result of the inclusion of recent services for all of the period. The IBC operations in the USA, CAPS, was the main driver of growth in intermediate bulk containers. The recently acquired Pallecon business will contribute to further growth in the second half of the year and add scale to this sector.

Sales in CHEP catalyst and chemicals containers fell 10% with lower customer activity levels in the USA and Europe. Operating profit in Container segment was down 48%. Sales growth in US IBC, US Automotive and Aerospace businesses, which currently have lower profitability because they are in the early stages of growth, was unable to offset the decline in the more mature higher-margin CCC and Automotive businesses.

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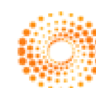

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Direct costs increased $2 million largely as a result of inflationary impacts. A further $5 million has been invested for future expansion of the Containers businesses. This included the cost of the new management team and business development cost in Automotive, Aerospace and Intercontinental.

Moving now to Recall where sales fell 1% mostly because of the decline in secure destruction services from lower paper prices and to a lesser extent, lower project activity, despite higher storage volumes. We've included a chart on paper prices in North America in the Appendix. Both the document management solutions and data protection services businesses achieve modest growth with an increase in carton volumes of 1%. Recall America sales were mostly impacted by the decline in secure destruction. The business reported a 2% sales decline in the period. Recall Europe, 7% decline included a significant reduction in activity volume in document management mostly driven by the economic environment in Europe. Growth in Recalls rest-of-the-world region, which is largely the Asia-Pacific, remains modest. Underlying profit improved 3% because of the cost of restructuring activities that occurred in the prior period, showing the sustainability of these cost savings.

The underlying profit margin was 1% point than the prior period and significant items include the cost of restructuring activity last year and the transaction costs associated with the unsuccessful divestment.

The next slide shows the components of Recall's operating profit. The primary moves being the non-recurrence of significant items incurred in the prior corresponding period and the savings that resulted from that restructuring effort. These savings are included within the other category cost savings this period. The negative impact in paper prices had a $4 million profit impact in the period. Modest sales growth elsewhere in Recall contributed $3 million of volume, price and mix benefits. Direct cost increases related mainly to increased labour costs.

Looking now at the Group's cash flow, I'll discuss these cash flows at actual foreign exchange rates. Operating cash flow from continuing operations at $358 million was up $209 million in the prior corresponding period. This reflected an increased EBITDA, the timing of CapEx payments across all business units and an $80 million improvement in working capital movements. The prior corresponding period included a one-off lowering of credit days outstanding in response to tough economic conditions for some key suppliers. The cash outflow in the provisions/other line is $32 million improved and reflects higher payments in the prior corresponding period on bonuses, software and litigation matters.

Tax paid fell $18 million because of the timing of payments, while interest paid fell $23 million because of the reduction in debt and lower interest rates on that debt. Dividend paid increased on the prior period following the increase in the number of shares on issue as a result of the rights issue in June 2012. We expect free cash flow in the second half to improve on this half's results and we expect to deliver sufficient full-year cash flow to cover the impact of dividends.

Looking now at capital expenditure, this slides shows capital expenditure over the past three halves on an accrual basis, excluding the impact of timing of payments I discussed on the previous slide. As shown in yellow, during the first half we incurred $130 million of CapEx associated with our program to invest in expanding our emerging pallets markets, RPCs and Containers operations over the 2012 and 2013 financial years. To date, we have incurred $370 million of CapEx in these growth areas and we expect to spend $500 million by the end of FY13, which is around $50 million less than the $550 million we previously anticipated. This is because of the longer than anticipated conversion time for sales opportunities in the Containers business. In the mean time, we have, of course, invested in accelerating Containers growth through acquisition by buying Pallecon. Pallets capital expenditure in the developed markets -- shown here in dark blue -- remains stable and is a solid result considering the growth we're delivering in those markets.

Turning now to our balance sheet, net debt at 31st December 2012 was $2.7 billion, broadly in line with June 2012. In July 2012, we received $118 million in proceeds from the retail component of the June rights issue. This was offset by the small negative free cash flow result in the period and the translation impact on our debt of the weaker US dollar at December 2012 foreign exchange rates compared to June 2012. Net debt to EBITDA was 1.7 times, down from 2.2 times for the prior corresponding period. While EBITDA interest covering increased to 14 times, reflecting underlying performance and significantly reduced interest charges.

The average duration of our debt portfolio was steady at 3.7 years. Our undrawn committed credit facilities were about $1.5 billion at 31st December, although this has obviously come down a little since we paid for Pallecon at the start of the current financial half.

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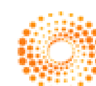

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With that, I'll now pass you back to Tom to discuss our outlook.

Tom Gorman - *Brambles Limited - CEO*

Well, thanks very much Zlatko and again, welcome and congratulations on delivering the first set of results.

Consistent with our recent presentations, what I'd like to do is to discuss some of our progress against our own publicly stated objectives and we'll use a score-card approach as clearly there are some areas where we have delivered very strongly and there are other areas where there is room for improvement. Firstly we forecast constant currency sales revenue growth in all of our segments in the 2013 financial year. We are definitely on track to deliver that target in Pallets, RPCs and the Containers business. Given the weak paper price environment, however -- which we've alluded to previously -- sales growth is going to be a bit more challenging in Recall on a full-year basis. We are now forecasting constant currency sales revenue growth of at least 15% in our emerging markets. And as you can see from this slide, we actually delivered 19% in the first half and we're definitely on track to deliver our full-year objectives.

Where we have fallen short on our full-year expectations is in achieving our RPC growth target. Although we expect an improved second half performance, the full-year outcome is likely to be between 10% and 15%, with the mid-point a more realistic target. Likewise, because of a longer than anticipated sales cycle, our Containers growth aspiration of doubling sales revenue in our new business will only be achieved with the inclusion of the Pallecon acquisition. We are on track, however, with our efficiency programs in terms of the IFCO integration and the global pallets program. And we're also on track in terms of the improved cost structure that we're delivering within Recall. And of course, we are confident of achieving our underlying profit guidance in a tightened band within our published range.

Now, on the next slide, I'd like to put some of our current actions in the context of delivering our overall strategy. Now I have presented slides similar to this in the past and the purpose being to demonstrate our strategy development over recent years. Three-and-a-half years ago, in addition to addressing particular legacy challenges, such as historic under-investment in the CHEP USA business, we at that time carried out a very rigorous process and put in place our growth strategy about building Brambles into a truly global pooling solutions company. I believe that we are now very much in an execution and delivery phase on that strategy.

Now we discussed our progress against the strategy in the context of four strategic themes. I think many of you have seen this before and will be familiar with these. But the themes are Diversification, Cost Leadership, Go To Market and People & Leadership. Now the initiatives that I'm going to discuss should be considered in that context. Our investment in building our Containers business over the long term, which includes the Pallecon acquisition as well as our emerging markets growth strategy in pallets and the expansion of our RPC operation, they're all about diversification and delivering that strategy.

Now on the Cost Leadership front, we have over the past six months, began implementing a program to centralise the delivery of services following an extensive and detailed review of our global finance processes. We have begun outsourcing certain functions to highly efficient centres around the world to simplify and improve delivery and reduce costs over time. Now leveraging our global scale in this way with an increasing emphasis on global standardisation and best practice transfer will enable us to build a better Brambles that is more efficient, more responsive and quite frankly simpler. It will also enable opportunities on the Go To Market front, not the least of which in terms of increasing opportunities of cross-selling of our products and for capitalising on and improving the strength of our global brands.

Now today's announcement about the simplification of our Pallets organisation under one global leader, in Peter Mackie, reflects our people and leadership focus. Along with the investment we have made in recent months in building our global Containers leadership structure under Jason Rabbino, we now have the right structure in our pooling solutions operations with three global segments and three very strong global leaders. Getting the right structure in place provides the platform to deliver on both growth and efficiency.

I'll now spend some time running through our short-term outlook. In Pallets, new business growth will continue to be the key driver of sales revenue. We have continued growth opportunities in our developed operations and we expect sales growth in all of our regions. In the emerging markets, we are very much on track, as I indicated earlier, to deliver our target for a constant currency sales growth in excess of 15%. We also expect continued efficiency gains to drive margin improvement, in particular in the Americas and the EMEA, where we expect second half margins to be stronger

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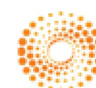

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than those in the first half and to achieve our forecast for a full-year margin improvement in 2013 and the 2014 financial year. In Asia Pacific, margin performance should normalise in the second half, after what has been, as we showed, a somewhat weaker first half.

In the emerging markets, our established operations are already very profitable and those that are in the development phase, clearly such as Central and Eastern Europe and Asia, are growing more profitable. We are also making encouraging progress with our global focus on asset efficiency. Predominately, thus far, in the US and we expect this progress to drive further incremental improvement in cash flow and ultimately, return on capital over the coming years, as our programs expand in scope and reach in this very important area. As we have announced today, we are emphasising further integration and simplification in the Pallets segment, with the unification of leadership under Peter Mackie and a continued focus on best practice deliver and operational efficiency.

On the RPC side, look, RPC has remained a great story of ongoing strong profitable growth. As I mentioned a couple of moments ago, we expect 10% to 15% constant currency sales revenue growth for the full year. We have no reason not to believe similar rates of growth are achievable in subsequent years. Our North American business is expanding strongly and in our businesses in Europe, Australia, New Zealand and South Africa, we are adding our broader range of products to deliver sales growth, well in excess of the rate of economic growth. The increased sales we are achieving will continue to drive improved profitability and improvements in return on capital. Now, looking forward, there are also considerable opportunities for cross selling with our Pallet operations, which to date, remain largely untapped.

What I'd like to do now is just take a few moments to talk to you about the Pallecon acquisition and our vision for our global IBC business. Pallecon is one of the world's leading IBC pooling and service businesses. It was founded in Australia in 1976 and operating mostly in this part of the world and Western Europe, with a very small Asian presence. It had sales revenue of approximately $70 million in 2012 financial year, making it just slightly larger than our own CHEP IBC operations. Now, these operations are well established and they have a very healthy profit margin. For Brambles, the acquisition of Pallecon enables us to build scale and generate profitable growth in a market that, as we outlined to many of you that joined us in Zurich in March of 2012, this area represents a very large global opportunity, which is at present highly fragmented.

We are creating a global CHEP IBC Solutions Business Unit, compromising the operations of Pallecon, CAPS in North America and the pre-existing CHEP IBC operations. Integration of Pallecon with CHEP operations is already progressing quite well and the IBC operations are strongly profitable. It's worth noting that on a pro forma basis, prior to our recognition of goodwill on acquisitions, combined FY12 pre-tax return on capital exceeded 20%. Even after adjusting for acquired goodwill, they return a level of profitability broadly equal to our own cost of capital today. Initially, we are targeting a 10% share of what we see as a $3 billion global opportunity. We're targeting that over five years, in sectors in the industries in which we already operate with IBCs and for example, these include fresh and dry food and certain manufacturing segments. Growth in the IBC operations will be complemented by growth in other channels. These channels include pooling and maintenance services in aerospace solutions, the expansion of our North American and emerging markets automotive businesses and growth into intercontinental container pooling channels, for which we now have appointed a global leader for business development.

Again, as we discussed in Zurich of last year, the opportunities in these sectors are considerable, but they will take time to develop. At scale, based on our experience in our existing operations, we envision it would be three to four years before a new dollar invested in a new business would generate a return over and above the cost of capital. In the short term, however, some challenges do exist. The conversion of sales opportunities in aerospace and US auto have been slower than we anticipated and tough conditions in the catalyst and chemical containers corporation, as well as European and here in Australia, our automotive market, those challenges are going to continue in the near term. Now, combined with ongoing investment in this business, we expect a negative full-year profit movement from the container segment.

Nevertheless, however, the long term opportunities for profitable growth are compelling in the sector and we are making great progress with execution of our strategy. Now, for a few words on Recall before I wrap up. Our focus remains on stabilising the operations after the experiences of last year and we are satisfied that is, in fact, occurring. We will continue to maintain the cost reductions that we put in place last year. Paper prices, however, make our target of achieving a modest full-year sales revenue growth, it makes it a bit of a challenge. Given the impact of reduced paper prices on profit, we expect this to have an impact on our ability to achieve full-year underlying profit margin equal to the very strong improvement that we achieved in 2012.

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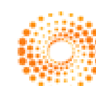

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So to close out today's results presentation, there are some comments on guidance, which is subject, as always, to the usual caveats about unforeseen circumstances. Having said that, we expect continued constant currency sales revenue growth in all of our pooling solution segments. The beneficial impact of FX movements since we gave our guidance means that the first half result would have been $480 million at 30 June 2012 rates. At those rates, we are on track to deliver a full-year underlying profit within a tightened guidance range of $1.03 billion to $1.06 billion. Again, that is at 30 June 2012 rates. Now, that range translates to $1.06 billion to $1.09 billion, if we were to apply the January 2013 exchange rates to our second half outlook and combine that, which what we've already reported as our first half result.

Now, this range appears to be in line with analyst consensus coming into this result. We do expect net interest expense $10 million lower than we had foreshadowed in August, at about $115 million. Again, that number is at 30 June FX, while our tax rates should be fairly stable at about 28%. As we stated in August, we have an expectation of ongoing sales and profit growth and improving Group margins in FY14. I'll close with a restatement of the key points with which I opened. We're on track for a strong full-year result, following a very solid first half, with robust sales growth, the delivery of efficiencies and a disciplined capital deployment. We have continued momentum with strategy delivery, further integrating our Pallets business, growing our RPC business strongly and profitably through the acquisition of Pallecon, having the opportunity to support growth in containers.

We have tightened our full-year profit guidance range within the original range, with an improved interest cost outlook and we're on track to deliver. Thank you very much for your taking your time to listen to us this morning. I'll now open the lines for any questions and I'll hand back to James to shepherd those questions. James.

QUESTIONS AND ANSWERS

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Thanks, Tom. (Operation Instructions). We have some questions already lined up and the first is from Matthew Spence from Merrill Lynch. Matt, please go ahead.

Matthew Spence - *Merrill Lynch - Analyst*

Hi. Hi, guys. So we hit (inaudible) sales growth constant currency in the first quarter of 8%, so that implies 4% in the second quarter and it looks RPC Recall in containers were really soft in the second quarter. Containers, you've made some comments about. Just how are RPC and Recall performing in the third quarter? Has there been any improvement in the sales growth there?

Tom Gorman - *Brambles Limited - CEO*

So you mean, yes, in the third quarter, than where we are now?

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

(Multiple speakers)third quarter today.

Tom Gorman - *Brambles Limited - CEO*

Yes. Look, let me take each one of those. I mean, I think we've been pretty clear on this. I'll start with the RPC business. If you look at RPC performance, I mean, our RPC performance is very strong in the half at 10%. It's a little bit below where we expected it to be, but it's still quite positive and it was very strong in the US. Our anticipation is that the growth rate in the US will continue and in fact, increase in the second half. So we have guided to performance overall in RPCs -- it will higher than 10% on a full-year basis and look, in order to deliver that, we have to deliver better growth than

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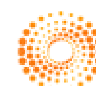

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we did in the first half. We're confident that we're going to see that in the US and we continue to monitor that closely. This is a very strong business position that we have in the United States and the market is definitely there.

It does take some time, as our customers convert from one produce type to another. Beyond boarding of that and the implementation of that does take some time. But we're confident that the growth is going to be strong and if you want us to specifically comment on the third quarter performance, look, you know, we're five or six weeks in. I think it would be inappropriate to give you any sight into that, in terms of the flow that we're seeing yet in the third quarter. As it relates to Recall, I mean, there are really two drivers there and as we identified, you know, about a little bit more than two-thirds of the impact is really our paper prices and the comp in that period was quite difficult for us. But we are also seeing a softness in activity and as we pointed out, look, we're not alone in this.

Our primary competitor has identified the same things and the Recall team is aggressively focused on continuing to grow their business. There are a number of contract wins that they're working on. There are a number that we have secured through the year, but I think, just given where paper prices are and they're going to continue to be in the second half, I think top line growth is going to be a challenge for Recall.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

The next question comes from Russell Shaw from Macquarie. Russell, are you there?

Russell Shaw - *Macquarie Group - Analyst*

Yes. I am. Good morning, guys. A couple of questions from me. Just firstly, I guess, the simplification of management structure within the Pallets business, Peter is obviously well qualified, given he has run most of those divisions, but how is it going to work, in terms of where's he's based and are you going to reinstate the old positions you used to have with separate heads of each region sitting beneath Peter? Could you just talk about that?

Tom Gorman - *Brambles Limited - CEO*

Yes. No. Look, I think it's going to run really well and first of all, thanks for identifying that. I think Peter is an enormously capable executive and I think we have the right guy in place to run the business. But nevertheless, it's a global business that he's going to be responsible for. We don't anticipate really putting any incremental overheads in place. In fact, what we're really doing is we're driving synergies here. We're taking a complete layer out of the organisation. Peter is going to be based in the UK, but he will be on the road a significant amount, as, frankly, most of our executives are that manage global businesses and the only thing that we're really going to do is we're going to make a slight consolidation of responsibilities. So James McCarthy, who is presently responsible for Western Europe, he will take responsibility for all of Europe, so Rod Francis, who runs Central and Eastern Europe, he's now going to report to James and the driver there is to drive synergies across that contiguous land mass.

In North America, Marianne Plumb will remain the president CHEP Canada and Dave Russell will continue to run the PMS business, but both of those seasoned executives will now report directly to him and again, the same idea here that we think there are synergies and opportunities that we can drive in that contiguous North America land mass. But our other key leaders, Jurie Welman running Middle East/Africa, Arturo Cabrera running Latin America, Phil Austin here in ANZ, Laura's in Asia, all of our key executives are in place and I might just mention that the average tenure of those reporting to Peter in the Pallets organisation is about 11 years, so we have a lot of seasoned guys that know the business very well and I think you're going to see his drive significantly improve performance across the Group.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

We've got Cameron McDonald from Deutsche Bank as the next questioner please. Cameron?

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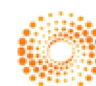

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Cameron McDonald - *Deutsche Bank - Analyst*

Yes, good morning guys. Just a follow on question to Russell's before I ask a different one. The -- do you -- I think you just said then Tom that you were going to take a layer out of the organisation with this new restructure? Can you put some quantification around the cost savings that will drive?

Tom Gorman - *Brambles Limited - CEO*

Yes look I think that at first I should have been more direct, I apologise. So Dolph Westerbos will be leaving the organisation. He's going to be with us over the next couple of months and to assist us with a smooth transition. That's really what I was referring to.

This is not about cost reduction, and this is not about take -- and ripping costs out of the business. What this is really about is driving efficiency and speed and decision and getting the benefits of global scale. I believe that the organisation is at a level of maturity today where it wasn't three or four years ago, where we can actually manage quite successfully in a leaner and more focused leadership structure. So this is not about a major cost reduction, it really is about better clarity on roles and responsibilities, and in a way this gives me much better visibility into the business.

So I think you guys are all familiar with the cadence with which we manage the business. I'll now have a much more direct line of sight into each one of the businesses, so when we review what will now be Peter's businesses going forward, we'll get much better access to the actual guys on the ground and really stay much closer to the market, and I think we're going to speed up decision making here and -- with a strong focus on delivering efficiencies and the synergies that we should be getting from our scale. So it's not about cost, it's really about delivering a more efficient organisation.

Cameron McDonald - *Deutsche Bank - Analyst*

Yes, and my other question is just on EMEA. You'd previously identified that you were going to invest around $25 million worth of business development costs into EMEA, how much have you spent in -- to date in the first half, and are you still targeting the $25 million? Secondly just on the EMEA margin, that's flat on the PCP, and actually down one percentage point from the full year. Are you still sticking to the 200 basis points to 300 basis points of margin expansion between FY12 and FY14 in that division?

Tom Gorman - *Brambles Limited - CEO*

So you've asked a number of questions, so well done. So the first bit, I think you might have just misinterpreted a little bit. The $25 million of business development expense, we are still committed to delivering that. We believe strongly in growth in the business. However, that's not all EMEA. So it's $25 million across the entire organisation, and as we identified I think the number was just $5 million alone in the Containers business in the half, so that -- we are committed to spending that but it's not just in EMEA. A lot of that is going into Containers and then of course there's a bulk of it into the emerging markets which we've identified, an amount of that went into Asia for example, there was $1 million in Asia in the half. So we're committed to doing that.

The second point that you raised around margins, I think we've been pretty clear on this. We said that we are guiding towards improved margins in EMEA, but the -- but that was really come in FY14, and we've not changed our view on that. We've seen a slight improvement in margins but the bulk of that is going to come in the second half -- I'm sorry, in FY14.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Thanks Cameron. The next question's from Scott Kelly from Morgan Stanley, but Scott before you go on, just to remind everyone we've got quite a lot of questioners on the line so if we can stick to one question each for now and then if we have time we'll go back round again.

Thanks Scott, please go ahead.

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Scott Kelly - *Morgan Stanley - Analyst*

Okay, let me see. I shall pick my question about Europe. You've seen Iberia down 10%, France down 6%, obviously that's where LPR is most competitive, and I'm just wondering if you can make some comments about the competitive environment in Europe?

Tom Gorman - *Brambles Limited - CEO*

I might just correct your numbers first and then -- our French results are actually up, so -- and we indicated that Spain and Iberia definitely there's downward pressure there driven by very, very difficult economic headwinds.

But let me just comment on the competitive set. Look, the big change that we know is that the combination of LPR and EPS, and we think we, and we've been pretty open about this, we think we understand what the strategy is there. EPS has relationships with retailers and they're trying to strengthen those relationships and then introduce LPR through that.

LPR has always been an aggressive price competitor in Europe, and that hasn't changed, and we really have seen the competitive landscape in essence unchanged, in that it is very competitive. Particularly in a market where organic growth is difficult to achieve, we are seeing continued pricing pressure and competitive pressure. But it hasn't changed significantly since the combination of those two.

Scott Kelly - *Morgan Stanley - Analyst*

Okay, thank you.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Thanks Scott. The next question comes from Simon Mitchell at UBS.

Simon Mitchell - *UBS - Analyst*

Oh good morning. Tom, could you just go into a bit more detail on the new wins in Americas. I think it's -- just trying to find the number, I think it's about $60 million -- I think it's about $68 million that you reported. Is that -- how much of that -- or I suppose I guess it's evident that relates to General Mills, but is there any of that relates to smaller customers and perhaps give us some more colour on that?

Tom Gorman - *Brambles Limited - CEO*

Yes look, I think there is two things there. Clearly General Mills is a big win for us, and look we -- again, we've been very transparent here that there were a number of large accounts that IGPS, one of our competitors -- it might be the one that I was alluding to in my comments -- that they had, and we were going to aggressively try to return those customers back to the CHEP brand. Pepsi was a very big win for us some time ago, which I have alluded to here, and then also now secondly General Mills, which you're really going to see the large benefit of that in the second half. There are still other large customers out there that, you know, that we are in conversation with but at the end of the day we want to win them and we also said very clearly that this is an environment where it has to make economic sense for us. So this is good business for us and it is good business for our customers. So that is the mindset that the USA Team has and thus far -- I mean, they have really been executing brilliantly against that plan.

Your second question about the SME play. You might recall it was probably about two years ago now that the Costco mandate, in inverted commas, came out where Costco was really forcing a four way entry palette in to the market of a high quality. That did drive a considerable amount of business in SME growth to the CHEP brand.

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At the time we estimated that it was about 20% of the total year on year growth in contracts. That has now really sort of come back to a more normal layer or more normal level. We are still achieving good SME contract growth but the benefit of the Costco mandate really has run through the system. So I think in total we had about 540 new contracts or -- about 500 new contracts in the period.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Thanks, Simon. Andrew Gibson, Goldman Sachs, is the next in the queue. Andrew, do you want to ask your question, please?

Andrew Gibson - *Goldman Sachs - Analyst*

Sure. I'll ask my first then I'll circle back with another lot on the [MUNs]. But just on Pallets-Americas, can you tell us what the margin performance was in Pallets, excluding PMS? Would I be right in saying that...

Tom Gorman - *Brambles Limited - CEO*

It is about 200 basis points, to just make the adjustment and that is sort of unchanged with where we have spoken in the past.

Andrew Gibson - *Goldman Sachs - Analyst*

Okay. So the PMS EBIT sort of circa 12.5%?

Tom Gorman - *Brambles Limited - CEO*

Yes. In directionally, yes. (technical difficulty) your time in the queue with an easy question, you are going to have to get back in the line now.

Andrew Gibson - *Goldman Sachs - Analyst*

I can squeeze that other one in now.

Tom Gorman - *Brambles Limited - CEO*

(Technical difficulty) Andrew.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

No, Andrew?

Andrew Gibson - *Goldman Sachs - Analyst*

Oh, sorry. Okay. Just again on that new wins can you just clarify the comments you made during the presentation on the drivers being organic versus CapEx? It sounded like you were suggesting outside of Pallets it was mainly organic but within Pallets it was a mix of organic and CapEx.

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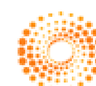

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Tom Gorman - *Brambles Limited - CEO*

Yes. So I think -- and this is a little confusing so I appreciate you raising this question. It really is on how we exhibit the RPC growth here because the way we treat the RPC business, for example, once Kroger becomes a customer or Safeway is a customer or Wal Mart or Tesco or Carrefour, as we grow with those customers of ours, what often happens is you move from one produce type to another.

So let us say that we are doing sort of leafy vegetables and then we get the opportunity to launch the egg crate with them or a meat tray or we move into bananas or something different, we count that as organic in our RPC numbers. We run the risk of creating a little bit of confusion here. So when you come back and you see the bridge that Zlatko took you through, you will see a stronger organic number in the RPC space and that is reflecting the growth with those customers.

When we add an all new customer, and the example we have given here is Aldi in Australia, that is what we count as net new wins whereas on the pallet and the other pooling side, as we expand into new lanes, we count that as a net new win. So we need to give some thought to how we present this because the intent is not to confuse you. It is really focused on overall growth and then I think when we take each one of our business units we can really dig in to the growth in each of those business units.

So you are seeing slightly higher organic in RPC but frankly that is because we are expanding with our strong customers.

Andrew Gibson - *Goldman Sachs - Analyst*

Thank you.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Scott Carroll, JP Morgan, please go ahead with your question -- sorry, we have got Anthony Moulder from Citi actually. I think Scott might have dropped off.

Anthony Moulder - *Citi - Analyst*

Good morning, all. Just a quick question regarding how you're exiting the fourth quarter of last calendar year in volume terms. Obviously you've given volume and price mix but just commenting on how you're seeing volume in that fourth quarter exit across key markets, Europe, North America, please, for Pallets.

Tom Gorman - *Brambles Limited - CEO*

Yes. It is good to hear you again, Anthony. I think you are trying to get to the same issue as what is the third quarter looking like, based on the run rate coming out of December. I think in simple terms, in terms of underlying organic growth, we still do not see any sort of consistent signs of a substantive recovery in our key markets.

I mean, if you step back and look in the pooling business in total, some 42% of our total revenue comes from Pallets Americas. That market, albeit there are some bright lights, particularly when you look at some of the macroeconomic indicators, we are not yet seeing sustained organic growth.

Then when you look at Europe and you say well, you know, that as a percentage of the total, that is 25% of our total business comes out of EMEA and even though we are very pleased with the growth that we delivered in the UK, for example, the growth that we delivered in Italy, for example. Iberia still remains a challenge for us and nothing has changed since the start of this year. Even though the UK is positive, we are talking low single digits.

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So the economic head winds in the major markets are still there. What I would comment on is that we have been managing our business with that as our view for quite some time. So we are aggressively making our business more efficient and we are driving growth in the areas where pooling has an opportunity to expand. The growth that we are getting in central and eastern Europe is really outstanding and that is a big part of the growth story overall in EMEA.

Anthony Moulder - *Citi - Analyst*

And the same -- just on Scott's question, the restructure of the Pallets business, can you talk to us that the change from a customer perspective? It seems like a lot of customers are centralising their control of pallet pools into a particular region. Is that partially behind this restructure around Peter's role?

Tom Gorman - *Brambles Limited - CEO*

Yes, I think there is a -- you know, again coming back to this context of go to market, I mean, what we really want to do is improve how we go to market and you are absolutely correct that major customers like Unilever, for example, they centralise their management of pallets and they want to talk to us with one voice.

So within Toby Black's area -- I mean, today we have global account managers. It is a relatively small number of customers but even if we do not shift, Anthony, to a larger number of global accounts, what we are going to do here is have much better communication on that account. This does not just go to the manufacturer. It goes to the retailer as well.

So we have a relationship with Wal Mart all over the world. We have a relationship with Carrefour around the world. We have a relationship with Tesco around the world. Those major retailers, Costco another one that we are developing everywhere that they want us to partner with them. So I think it gives us much, much better insight and efficiency in managing those relationships.

Ultimately this has to extend, as I indicated, across now the platform types. We have good relationships -- I mean, just a couple of weeks ago I joined Karl and his team to call on Wal Mart in Bentonville and then we went up to Cincinnati to see Kroger. So we have a relationship on the pallet side. We have a relationship on the RPC side. It is really bringing those two together and I am really pleased to say that we are starting to get some real good signs of cooperation within the organisation and streamlining our leadership is going to make that a lot easier. It is that simple.

Anthony Moulder - *Citi - Analyst*

Very good. Thank you.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Scott Carroll, sorry you dropped off before. You are actually now back at the front of the queue. Please go ahead.

Scott Carroll - *JP Morgan - Analyst*

Thanks, guys. Anthony actually did ask my second question there but I'll just ask another one. Just on the Containers division and the development costs there. Are they coming through as quickly as you anticipated? You obviously flagged the growth probably not what you'd hoped. So is there some scope for those to continue for a little longer than you thought?

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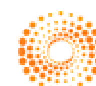

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Tom Gorman - *Brambles Limited - CEO*

Yes. We fundamentally believe very, very strongly in the Containers business and this is not the flavour of the month. This is one of our key growth platforms going forward. So we are remaining committed to that and, in fact, we spent $5 million of this $25 million on a full-year basis in the half in the container space and that is about building capability. So we are absolutely putting capability slightly ahead and I only mean slightly ahead of where the volume is.

But we have now put a structure in place to talk to our customers about intercontinental flows. We have never had that before so there is a key executive that is responsible for connecting the dots for our customers. We are going to continue to build out the IBC space. We think that is an enormous market opportunity and the Pallecon acquisition really helps us accelerate that and helps us build out that platform, particularly strengthening the platform for us in Europe.

So we are absolutely committed to it but our view of doubling that business, we would get there if we count the Pallecon acquisition but ex-Pallecon, we are going to grow probably more like 50%. We took the CapEx and we spent it on an acquisition here and we are really pleased with what we have done with Pallecon and that is going to accelerate the growth. So the growth is definitely there.

The slower part of this is really the gestation period on some of the bigger initiatives. I mean, we continue to grow US Automotive but the discussions with a major OE in the United States, they take longer than we anticipated earlier and also getting some of the airline contracts on board, we are in deep discussions with them but we are little bit slower in terms of closing those. We are not losing them to competitors, by the way. It is just taking a longer time to get a decision out of some of our customers.

So that is what is pushing the growth back but we absolutely believe it is there and we are committed to developing it.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

The other Scott is next. Scott Ryall from CLSA. You are up next, please.

Scott Ryall - *CLSA - Analyst*

Thank you. Mine is very quick. You've got a pretty coherence strategy, Tom, for the pooling business that is right across the board. So there's obviously one business that doesn't fit in that. You've tried to sell it. You don't have the balance sheet pressure that dictates you need a sale and the mergers are something that would incentivise management quite well, I would've thought, and I know you'd be cautious on making comments about sales, given the disruptive nature it can have on management and those sorts of things. But would you consider a de-merger?

Tom Gorman - *Brambles Limited - CEO*

I think you have both asked and answered your question. So we greatly appreciate that. We are not going to comment on it. I think what I can say is that there is no question that going through a sale process is disruptive. We have been very open about that. The important thing for us was to prove the validity of the margin improvements that we achieved last year and I think we have done that in the first half of the year.

But we still need to -- it is a year on now but we still need to pull that team together, get them focused on delivering a positive outcome for their customers while growing the business profitably which we think we can do. But overall, we are pretty pleased with where we are. There are some external factors that worked against us in the first half, which is paper price, but that is not the only reason.

I mean, the disruption, we have to refocus on growing and particularly some of the activity work in the DMSP space but I can tell you that the management team is committed. Personally, Zlatko and I have been on the road quite a bit over the last number of months. We have met with the teams and they are committed to growth and I believe they have their heads screwed on and are heading in the right direction at the operating level. We feel good about that.

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Scott Ryall - *CLSA - Analyst*

All right. Thank you.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Thanks, Scott. (Operator instructions). We will go back to Russell Shaw from Macquarie. I think, Russell, you have a couple more questions?

Russell Shaw - *Macquarie Group - Analyst*

Yes. I didn't realise I was limited to one in the first place but that's fine, a few have been on. So just, I guess, on the Asia Pacific business in Pallets. The net new customer wins were pretty flat. You're still investing in business development costs in Asia. Is this a timing issue as well in terms of when you start to see that pick up or you think the market share loss is in Australia which are all sitting in the Asian contract wins?

Tom Gorman - *Brambles Limited - CEO*

No. Well, I think there is a couple of things going on here. I mean, we are absolutely committed to growth in the market but again I think we have been very transparent here, particularly in the emerging markets in India and China. We cannot force the modernisation of the supply chain. We can be there as it modernises and that's what we're doing, building a strong brand position, working hard on developing the standards both platform and process standards. All of that we're doing. But we do want to be responsible with our capital and we do want to drive a positive economic outcome while keeping a seat at a table. That's really what you're seeing.

You're seeing growth slow, for us a little bit in China, because simply being there and continuing to have a static or a rental model, you know that's not our core business, that's not really where we want to be long term. So we continue to grow that business, but at a more measured pace. The growth in India, were coming from a much lower base. So the growth there is very, very strong and the automotive sector in India for us is a very strong portion of that total.

So, we're absolutely committed to that market and we're getting good growth in South East Asia. So, we're not going to stop that and we'll continue to invest in terms of business development because we believe the opportunity is there. But as we said repeatedly, we can't force the opportunity. We can be there to build the standards as the opportunity emerges and we're extremely well positioned to do that.

I have to say that here, still in Asia Pac, it is skewed heavily toward what happens in Australia because that's the big, the largest component of it. There that is a timing difference. I mean, we are focusing intently on return on capital and we did trade a little bit of OpEx for CapEx in the first half. We did knowingly spend a little bit more money on repairs. But that helped us avoid the need to buy the capital and we're keenly focused on improving our return on capital here and ultimately that's what the shareholder wants us to do. As I think Zlatko indicated clearly, that is a timing difference. We expect that to normalise in the second half.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Thanks Russell. The next question is Paul Ryan. Paul from Evans and Partners, please go ahead.

Paul Ryan - *Evans and Partners - Analyst*

Morning guys. Tom can you circle back on EMEA margins and that uplift in F14, it's sort of $25 million to $40 million in rough terms at top -- bottom end of the range. What costs are associated with delivering that are you anticipating taking some restructuring charges in the back half and what are the drivers of that range in terms of organic growth to get to the top end of it?

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Tom Gorman - *Brambles Limited - CEO*

Yes look as I've indicated again previously that the margin improvement in the US was going to be operating efficiencies, right. It was a lot around network optimisation and delivering the benefits of the combined, you know the IFCO PMS business with the CHEP business. So I feel good that that's the delivery there. The second issue is -- and then the second component of that was EMEA, that was going to be a lot around overheads. That process is starting. There's a separate project underway to drive efficiencies, particularly in Europe. It's not really EMEA, it's more Europe that we're focusing on. And as we've indicated, part of this centralisation of a lot of our finance processes is going to be a component of that savings.

And that work we've said all along that we want to do it at a measured pace, so it has no adverse impact on our business or our customers and that work is well and truly underway. We anticipate delivery of that in FY14.

Paul Ryan - *Evans and Partners - Analyst*

Okay so just to be clear, you're not expecting restructuring costs as part of that?

Tom Gorman - *Brambles Limited - CEO*

Look I think that we're still evaluating all of this and in due course we will disclose that as appropriate. But rather than you know announce a number to you today, where we really haven't completed all of the work and all the internal communications, it's probably inappropriate for us to do that.

Paul Ryan - *Evans and Partners - Analyst*

But I think--

Tom Gorman - *Brambles Limited - CEO*

Look I know what you're looking for and I think it's safe to say that it's not hugely material. So I think in terms of taking some of that cost out, it's not hugely material.

Paul Ryan - *Evans and Partners - Analyst*

Okay thank you.

Tom Gorman - *Brambles Limited - CEO*

If you look at the first half of our numbers, just to point that out in total, our significant items in total were around $8 million or $9 million and in EMEA it was $1.5 million and that was for restructuring.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Thanks Paul. We've got another question from Andrew Gibson. Andrew.

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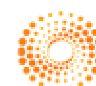

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Andrew Gibson - *Goldman Sachs - Analyst*

Thanks guys, I'll slip in with two. Just to ask for clarification on the business development costs. So you said the bulk will be in Containers and $5 million was booked in the first half. So can you just provide a bit of a feel as to what you think you'll incur in the second half?

Tom Gorman - *Brambles Limited - CEO*

Well I think that what we've said is that in total the $25 million is still a good number. I think what we've identified for you is $5 million in Containers. We said there was about a $1 million in Asia. So we can give you the detail of that, but the commitment is still to deliver $5 million. I'm sorry, $25 million in total. Look as a guide the simple thing is just take the first half and double it and you'll get there.

But I think the key thing for us is look, the underlying business for us, the core business, the pallet business in Europe and the US is fundamentally a stronger business than it was a number of years ago. We believe that we still have to identify and deliver the growth initiatives that we've articulated clearly in our strategy and we're not going to pull back from that. But we're going to do it in a responsible way and $25 million of incremental spend is not irresponsible. Some of that cost is going in ahead of revenue, there's no question. But we believe the opportunities are there to deliver outstanding growth at very good returns on capital and we're not going to stop that.

Andrew Gibson - *Goldman Sachs - Analyst*

And the step up in RPC margins in the first half, can we expect a similar step up in the second half versus PCP?

Tom Gorman - *Brambles Limited - CEO*

No I don't think you should assume the same level of step up in the second half.

Andrew Gibson - *Goldman Sachs - Analyst*

Thanks.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

(Operator instructions) We will be wrapping up. We do have one question come on the line from Nick Sladen from Perennial. Nick, please go ahead with your question.

Nick Sladen - *Perennial Growth Management - Analyst*

Tom you mentioned in terms of cross selling the RPC business into the pallets was a large opportunity, but is largely untapped. When is the time right to start to tap that market?

Tom Gorman - *Brambles Limited - CEO*

Yes that's a great question. I mean you know we're seeing real opportunities and not just between Pallets and RPCs, but I have to say even within the Containers business. And the opportunities manifest itself in many ways. One is with the customer. But I have to say also at source, you know with the supply base. You know what we're able to do with our major suppliers in RPCs and how that relates to us, getting deeper and stronger relationship on the IBC side is very important.

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We haven't made any commitment in terms of the overall synergies that we can drive. But this is a big focus area for the team, particularly in the new structure. We've simplified sort of how we go to market in Pallets and I think the combination of Jason, Peter and Karl working together to deliver this, it definitely exists. We just haven't gone public with what we think a number will be. That's really because we haven't driven a quantification of it ourselves internally. But it's there.

Look I could give you a couple of anecdotal stories on where we've had some improvement but I think we have to come back with a legitimate program and say look we think we can do the following and the team is focused on that. I think there will be more on this down the road when we start to show some success.

Nick Sladen - *Perennial Growth Management - Analyst*

Okay thanks.

James Hall - *Brambles Limited - Senior Director, Investor Relations & Corporate Affairs*

Thank you Nick. That would appear to be the last question. So thanks everyone for joining us this morning and we look forward to speaking with you all over coming days. Thank you.

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