Start of Transcript

Michael Roberts: Well good morning ladies and gentlemen and a warm welcome to everyone here in the room in Sydney and also we've got a lot of people online on the webcast as well as a few on the phone lines. There's still a few turning up here in the room in Sydney but I think we'll get started. Of course today's briefing is about helping you understand our CHEP business. I'm Michael Roberts, the Vice President Investor Relations and Corporate Affairs at Brambles and your host for today.

This is the first time probably that the company has run a session like this so we'll hope you'll find some useful insights here today. We're conscious that there are varying degrees of knowledge about CHEP and while today's briefing is particularly aimed at, geared to assist those relatively new to Brambles, especially the first introduction section that I'll run through. We also hope that the long term followers of the company will find it a useful refresher.

Now accordingly this, the outcome of today will help us plan for future briefings of this type. So you've got some, people in the room have got some questionnaires on the yellow form so we hope you'll fill that out at the end of the day to help us plan for future events.

Importantly, please note that the purpose of today's session is to educate about the CHEP business model and we will not be providing any material new information. Furthermore we will not be providing any trading commentary on either the CHEP or Recall businesses because we're in pre result blackout. So we'll give a trading update at our February 19 half year result.

Now the running order and speakers for today's session will be as follows. I'll give a brief introduction as I said to Brambles and the CHEP pooling. Then an overview of the main pallet pooling models in operation around the globe from Gino Sorrentino who is a Director of Commercial Services in our CHEP Australia operations

and who has also spent time in our US operations. Gino's just here, so welcome, Gino. Then we're going to have a run through some of the key financials relating to pallet accounting from Patrick Gibson, Brambles Group Financial Controller. Patrick's there. And finally a real life illustration showing practical ways to look at various elements of the CHEP business including cap ex and depreciation which I know some have found challenging to analyse, so a very useful session. That will be presented by Liz Doherty, Brambles CFO, who most of you already know.

I'd also like to welcome two senior executives from CHEP Asia Pacific who are here in the audience with us today. They're up the back there, Craig van der Laan, Group President, CHEP Australia. Craig's just stood up there, so you can talk to him after the session or Paul McGlone, President of CHEP Australia also here. So welcome, Paul.

Total presentation time should be around an hour and a quarter, perhaps to an hour and a half so that will leave plenty of time at the end for questions from the room and from those online and on the phones. So please hold those questions until the conclusion of Liz's presentation. Now depending on the number of questions we hopefully should finish by no later than 11:30am this morning. I may also build in a short break. If your eyes start glazing over and you need a break, we might do that as well.

Finally, to those of you in the room here with us today, could you please switch off your mobile phones or turn them to silent please.

Okay, let's get on with the presentation by turning to slide 3 which you can see on the screen where we see a brief company profile. Brambles is a leading provider of global supply chain services through its CHEP business and information management services through its Recall business. The group operates in around 45 countries and employs more than 12,000 people.

Brambles is the parent company and has a primary listing on the Australian Stock Exchange or Securities Exchange with a

secondary listing on the London Stock Exchange. Our market cap is about A$9 billion which ranks as about number 20 on the ASX. Total assets worth US$5.6 billion at the year end 2008 and the company is headquartered here in Australia.

Slide 4 summarises the CHEP and Recall businesses. Just a brief history. CHEP was established in 1958 when Brambles purchased the Commonwealth handling equipment pool from the Australian Federal Government which consisted of an assortment of industrial machinery and wooden cargo pallets. Now that small 1950s Australian focussed business has now grown into the unique operation it is today carrying on pooling services around the world, predominantly in pallets of course.

Brambles records management business first took shape in 1978 after a small business in vault and security storage grew strongly in records management services. In 1999 Brambles consolidated its various records management businesses under the Recall brand name.

Well today Brambles has industry leading positions in both CHEP and Recall. They have a widespread geographic reach and significant expertise in the services they provide to many of the world's leading companies.

Slide 5 shows that Brambles operations are managed in four business units, CHEP Americas, CHEP Europe Middle East Africa which we shorten to EMEA, CHEP Asia Pacific and Recall. Now you can see on the screen that each business is managed by a Group President and those people report directly to the Brambles Chief Executive Officer, Mike Ihlein, and these five people, together with Mike's other reports Jasper Judd, Senior VP in Strategic Development, Nick Smith, Senior VP Human Resources and Liz Doherty, the Chief Financial Officer comprise the Brambles executive leadership team.

Slide 6 shows the split of 2008 sales revenue by business unit. Solid sales revenue and comparable operating profit growth,

consistent cash flows, strong operating margins and return on capital invested all underpin Brambles robust financial performance.

CHEP Americas operates in eight countries with its most significant operations based in the USA. Now CHEP USA comprises more than 70 per cent of the total CHEP Americas sales revenue. CHEP EMEA operates in 30 countries with CHEP Europe made up of 23 of those countries, more than 90 per cent of total EMEA sales revenue with the UK representing approximately a third of Europe's revenue.

CHEP Asia Pacific operates in eight countries with Australia comprising more than 85 per cent of total sales revenue in Asia Pacific.

And, finally, Recall. It operates in over 20 countries with its most significant operations being in the USA, Europe and Australia which combined comprise more than 80 per cent of Recall's sales revenue.

A bit of a busy slide here but we turn now to the sales split by service for Brambles on Slide 7 and focus predominantly on the CHEP business. CHEP services are based on a unique combination of reliable and high quality products, sophisticated control systems, customer driven operating solutions and a flexible international service centre infrastructure. CHEP employs over 7,000 people worldwide.

So if we work clockwise starting at the top right of the slide, starting with pallets, they comprise the vast majority of CHEP sales and a focus mainly on fast moving consumer goods, FMCG industries, generally in regions with highly developed distribution and retailing infrastructures. CHEP has around 250 million pallets, actually 251 million as at June 2008.

Onto automotive containers, these are used by parts suppliers to distribute manufactured auto parts directly to the assembly lines of auto manufacturers. This avoids the double handling of parts

and of the total of 11 million auto containers, the largest pool is in Europe. But CHEP also has somewhat smaller pools in Australia and South Africa with a small but developing presence in China and South East Asia.

CHEP's 39 million or so reusable plastic containers, which we call RPCs for short, are mainly used in food growing and production industries, especially fruit and vegetables, and again predominantly in Europe with smaller pools in Australia and New Zealand. Using these contains helps reduce product damage in transit, avoids double handling of produce and eliminates the use of cardboard for packaging.

Intermediate bulk containers are for semi bulk packaging and transportation of liquid and dry products in the food, chemical and pharmaceutical industries. Catalyst and chemical containers are specialised intermediate bulk containers hired for the petro refining, gas processing and petro chemical industries.

And, finally, Recall. As discussed earlier Recall has homogeneous services throughout the world is storage, retrieval and destruction of physical and digital information with almost 5,000 employees in total.

Okay, we now move onto the main focus of today's briefing, the CHEP pallet pooling business. Now pallets comprise 72 per cent of Brambles overall sales revenue and 87 per cent of CHEP sales revenue. But before we discuss the CHEP pallets and pooling it's worthwhile spending just a few moments to consider the characteristics of the main alternative to pooling, known as whitewood which still comprises the vast majority of pallet movement around the world.

Whitewood is simply the industry term for non proprietary, unpainted pallets offered by non pooling companies either in a one way trip style in the USA or in an exchange type model in continental Europe. We'll look at these two models in a little more detail in Gino's presentation. Unlike pooled pallets, ownership of

whitewood pallet is generally transferred to each business as the pallet passes through the supply chain.

Now typically whitewood pallets are of a lower quality than CHEP pooled pallets although it's fair to say that some manufacturers will be satisfied with a whitewood pallet for the particular circumstances of their manufacturing operations and supply chain. So there is a place for whitewood as well as pooled pallets.

The cost of the whitewood solution, particularly in the exchange model, varies depending on the attributes of the supply chain such as distance, need for quality, complexity and the requirement for disciplined collaboration between retailers, transporters and manufacturers. Just the whitewood pallet ordering and control process alone can be sometimes costly and time consuming.

So, alternatively manufacturers can outsource their pallet requirements by returning, by turning to the CHEP business model which provides the customer value proposition shown here on slide 10. The CHEP pooling model delivers substantial benefits to its customers and others in the supply chain compared to the traditional one way or exchange systems using whitewood alternatives and this is demonstrated through the provision of pallets in standard sizes, weights and designs based on local requirements and customer needs.

In many instances CHEP pallets are of a higher quality than the whitewood alternative, therefore helping reduce product damage for customers. The widespread availability of CHEP pallets from strategically located service centres ensures that customers eliminate the need to incur potentially significant capital expenditure, very important point because of the cap ex they would have to otherwise spend. And they also save on the cost of ongoing pallet repairs and also very importantly, asset management of pallets.

The CHEP program offers pool participants improved efficiencies through reduced transportation and handling costs. Now

competitive pricing delivers cost savings to customers using CHEP pallets versus the whitewood alternative. However customers will typically not move from whitewood to CHEP pallets unless they achieve at least a reasonable cost saving, especially since pallets typically comprise such a small part of the customer's total costs.

Finally our pallets are generally more substantial construction and their regular inspection and repair not only reduces environmental waste but also provides greater employee and customer safety, especially in high bay warehouse environments.

Turning now to slide 11 for a snapshot of our global CHEP business. CHEP's longstanding presence in the regions in which it operates and its valuable and transferable knowhow has provided the company with first mover advantage around the world and also an unmatched infrastructure and asset base. This global presence combined with CHEP's best practices and experience provides significant competitive advantages and have also enabled CHEP to expand into emerging regions in recent years.

Let's also take the opportunity to look at growth prospects for CHEP on slide 12. Unlike other companies with significant operations in the USA and Continental Europe where these regions are often classified as mature, CHEP has exciting growth prospects in both these regions. In the USA where CHEP has approximately 40 per cent penetration in the FMCG segment, which we narrowly define as grocery only, there are also strong growth opportunities for CHEP and these include the beverages, food service and other segments such as home improvement and office supplies.

In Europe organic growth in countries like France and Italy is available along with geographic expansion in Germany and Central and Eastern Europe to drive future growth in the region. Other significant long term geographic growth opportunities are available in Latin America, China and India and the latter two of which are only in the very early stages of development.

I should also add that just because a handful of regions are shown as mature on the map, it doesn't mean that growth prospects are zero. There can still be reasonable organic growth available, particularly in FMCG, plus there are often good opportunities in auto containers and RPCs.

Finally onto, for my section, onto slide 13 which shows a sample of CHEP's customer base. As mentioned earlier CHEP delivers pallet and container supply chain solutions for customers in the consumer goods, produce, meat, beverage and raw materials industries with a focus on the FMCG sector.

While not immune from economic downturn, these sectors are generally less volatile in challenging economic conditions. Although the automotive segment is subject to greater economic variability it still offers good long term growth prospects for CHEP. CHEP enjoys strong long term relationships with a diverse base of customers which provides a recurring revenue streams that helps insulate CHEP from the loss of any single customer.

Just a couple of stats. CHEP's top 10 customers account for less than 20 per cent of total CHEP revenue with no single customer accounting for more than four per cent of revenue. On average the top 10 customers have been doing business with CHEP for over 15 years each.

Now I'd like to hand over to Gino Sorrentino who will give you an overview of the basics of pallet pooling. Gino.

Gino Sorrentino: Good morning everyone, and thank you Michael. I'll spend the next 15 minutes this morning giving an overview of the three basic pallet pooling models used across CHEP. I'll highlight the differences in terms of physical pallet flows, pricing architecture, and importantly, how we generate revenue.

At their most basic level, the CHEP pallet pooling models are conceptually simple to understand in terms of how equipment flows and revenue is generated.

We'll now look at the high level business model and some key principles on slide 15. This business model reflects the three key players in the supply chain. The manufacturer or an emitter in CHEP jargon, the retailer which we call the distributor, and the CHEP service centre network.

Under the CHEP system, pallets are issued to manufacturers who place their product onto CHEP pallets for delivery through the supply chain to retailers. When the products are removed for sale, the pallets are returned to CHEP.

Critical to the integrity of the system are the following three main principles which the CHEP pool operates under. One, the equipment is owned by CHEP at all times. Two, pricing reflects the supply chain's usage of the pallet, and CHEP's costs associated with that usage, including pallet depreciation, pallet recovery, transport, and the cost of repair. And three, customers are generally not under any obligation to use a minimum quantity of pallets, nor to hold the pallets for any minimum period of time.

The business model applied internally to manage the pool is the same as I have just described, but more sophisticated to ensure standardisation and the application of metrics across the business.

In 2002 CHEP developed a global standard pooling template known as the ABC model illustrated here, which is now used as the foundation for our operating metrics. The diagram illustrates the model for the flows between one manufacturer shown here as an E, one retailer shown as the D, and the CHEP service centre represented by A+B+C, where A represents pallets awaiting inspection, B, those to be repaired, and C, are repaired pallets known internally as conditioned.

In practice, complexity increases when you add multiple manufacturers, retailers, regions and flows.

The benefit of the ABC model is that it is a standardised model with common terminology. Prior to the introduction of the ABC model, the E, D and CHEP service centre would go under multiple

names creating unnecessary complexity for staff, systems and management in communicating and understanding.

The ABC model has allowed the direct comparison of all pallet pooling techniques and costs across CHEP's global operations. It enables sophisticated supply chain flows to be analysed and optimised, KPIs recorded and tracked, and consistent focus management reporting.

The implementation of the ABC model was integrated into CHEP's global SAP rollout. That was configured to reflect the model, including costs and revenue overlays.

We'll now look at the three business models used across CHEP regions in slide 17. We have three basic pooling models that are different, but which coexist in certain regions, particularly EMEA. These are the one way trip, exchange and transfer hire model.

The three business models are distinguished by the ways in which pallets physically flow, the pricing architecture applied to suit those models, and the derivation of revenue streams in each model.

I'll take you through the key characteristics of each model in a moment, but first I wanted to emphasise that this is an overview of the models, and in order to provide this common understanding rather than diving into detailed operational differences, or indeed specific commercial arrangements that may arise.

Let's look at the three models side by side on slide 18. This slide illustrates the differences in pallet flows between the three different pooling models. One, the one way trip model. Pallets are issued from a CHEP plant to the manufacturer. The pallets are used by the manufacturer to load goods and enable their transport through the supply chain. Once loaded with goods, the pallets are transported from the manufacturer to the retailer. Once emptied, they are returned to CHEP for inspection, repair and then reissue to a manufacturer. In effect, in a one way trip model, the pallet

generally moves through the supply chain once before returning to CHEP.

Secondly, the exchange model. In this model CHEP pallets may be exchanged between the manufacturer and the retailer multiple times before being returned to CHEP in order to maximise the use of those pallets. The pallet eventually moves back to a CHEP service centre when the manufacturer or retailer have surplus pallets, or they determine that the pallets require inspection and potential repair.

This pallet cycle is also evident in the third model in the chart, the transfer hire model. The main difference between the exchange and transfer hire models is that in a transfer hire model, responsibility for the pallets is transferred between manufacturers, transporters, and retailers as they physically move through the supply chain. In contrast in an exchange pool, responsibility for the pallets remains with the manufacturer.

The next area of distinction is in the pricing architecture applied in each model as shown on slide 19. In essence, CHEP operates a pooling model that generates a combination of fees to use the pallet. Generally the same overall pricing architecture applies to all three models, albeit to different extents driven by pool type, historical regional development, and various other behaviours.

The main fee types are shown in the slide and include the issue fee, the daily hire fee, transfer fee, movement fee, and administrative fee. I want to highlight the key differences in the matrix shown on the screen. Firstly movement fees are specific to the exchange model, and this is to deal with the cost of moving pallets around the supply chain. Secondly, despite the name similarity, transfer fees are generally not applied in the transfer hire model due to the fact that most participants in the supply chain are responsible for daily hire fees.

I'll now take you through the revenue streams for the three models. The one way trip model shown here in a simplified format

on slide 20 is used in the USA, Continental Europe, Canada, and Latin America. In this model, issue fees are the prime source of revenue. Therefore issue volume is the most appropriate proxy for revenue.

The company taking the issue pays. That is, the manufacturer. In aggregate, issue fees comprise approximately 60 per cent of the total fees excluding transport.

Let's now look at the exchange model on slide 21. Exchange model is used in the United Kingdom. In this model, movement fees are the prime source of revenue with daily hire and issue fees being secondary contributors. Therefore the number of movements and average volume of pallets in the field are the most appropriate proxies for revenue. In this model manufacturers and transporters are the primary fee payers. In aggregate, movement fees are approximately 70 per cent of the total fees, excluding transport.

The pure exchange model is a low cost option for the supply chain, because it utilises what would otherwise be empty, returned transport legs, provided that the customer is comfortable with trade quality pallets. Trade quality pallets are collected from authorised exchange locations in the field where the condition in the pallet varies due to the intensity of use. CHEP cannot guarantee the quality of these pallets, however the operating cost to the manufacturer is lower than in a one way trip model. This is due to the participants' willingness to use trade quality pallets.

Management recovery is a variation on the exchange service offer in the UK whereby CHEP collects empty pallets and returns them to the manufacturer, thereby facilitating retailer and manufacturer flows with an efficient transport infrastructure.

The benefits for the customer are that this retains the attractive economics of exchange, and for CHEP it increases visibility and asset control, as movements are declared and CHEP picks up the assets. This service can be used in conjunction with CHEP's

exchange and one way trip models in Europe to minimise supply chain costs for both manufacturer and retailer, while improving asset control.

The last model we use is the transfer hire model which we see on slide 22. The transfer hire model is used primarily in Australia, New Zealand, Asia and Africa. In this model, daily hire fees are the primary source of revenue, and the best proxy for revenue is the average volume of pallets in the field. All participants pay in the transfer hire model. In aggregate, daily hire fees comprise about 95 per cent of total fees, excluding transport.

We'll now have a look at total pallet management which is an additional variant, primarily in the one way trip model. Total pallet management, or as we refer to it as TPM, is a variation on the standard pooling models. It involves CHEP providing pallet management services such as reverse and inbound logistics at customer sites. CHEP has developed TPM programs for both manufacturer and retail relationships as illustrated on the slide. Where the TPM is located at the manufacturer's site, it's referred to as an ETPM, and at a retailer's site, a DTPM.

TPM benefits both the customer and CHEP by increasing the efficiency of the pallet usage, and reducing transportation costs, driving both cost savings and customer satisfaction. The TPM program serves multiple purposes. Firstly, by handling, inspecting and sorting all inbound pallets, CHEP frees up valuable resources at the customer. Secondly, undamaged pallets can be reissued directly from the TPM site, eliminating one leg of transportation. Thirdly, being collocated with the retailer and manufacturer promotes stronger relationships. It certainly can improve asset control, and allows CHEP to better respond to the supply chain needs.

TPM was initially piloted in the USA and has since been selectively adapted elsewhere such as Europe, Canada and Mexico.

I'll now hand over to Patrick Gibson.

Patrick Gibson: Thank you, Gino, and good morning. What I'd like to do in this section is to take you through how Brambles treats the various components inherent in the pooling models in its financials and to clarify where the key numbers can be found in the annual report.

Moving to slide 25. Gino explained how pallet pooling works and you will recall that Michael mentioned that CHEP has approximately 250 million pallets worldwide. These comprise over 90 per cent of CHEP's total pooling equipment book value of $US3.1 billion.

This slide illustrates the same pooling model you've seen previously but sets out from an accounting perspective what can happen in the course of the life of a pallet. That is during its life a pallet may be purchased new, recorded as capital expenditure and fixed assets and issued either directly to a manufacturer or via a CHEP service plant to a manufacturer.

Revenue is generated when the pallet is issued and this is recorded as sales revenue in the income statement. Depreciation is charged monthly in the books. At some point the pallet will return to a CHEP service plant where it will await inspection and if necessary, it will be repaired and then it will be reissued.

Inspection, storage and repair costs are recorded as plant costs and these are charged as incurred in the income statement. Alternatively if deemed beyond economic repair, the pallet may be scrapped and in this case, the net book value or NBV of the scrapped pallet is written off and this is done on a first in, first out or FIFO valuation basis.

Any gains from reuse of the lumber from tear downs and repairs or from sale of lumber to be used in garden mulch are recorded as part of other income in the income statement. Given the nature of a pool some pallets may be deemed to be irrecoverable. This means that at the time of a stocktake or an audit, as we call it, the pallets are unaccounted for within a discreet accounting period.

In this case, the irrecoverable pallets will either be charged to the contractually responsible party or alternatively they may be provided for. In the latter case, this is a general cost of pooling. I'll come back to this in later slides. I must emphasise however that CHEP maintains ownership of all its pallets and other pooling equipment, even when they're physically in the hands of manufacturers, retailers, pallet recyclers or others.

Although from an accounting perspective we're required to provide for pallets deemed irrecoverable, at no time do we forfeit our ownership rights and even if a pallet is deemed irrecoverable, CHEP continues to seek to recover those pallets through its asset recovery program.

Key factors which influence the major costs and capital required to service the pool are sales growth, asset turns, transport costs, plant and repair costs and asset management costs. Taking each of these five items in turn. Firstly, sales growth. This impacts how many pallets are required to service demand and hence how much capex will be required to purchase new pallets to meet the demand.

Secondly, asset turns. Asset turns are the number of times that a pallet completes a trip through the plant, the manufacturer and the retailer. It is a measure in a one way trip pool of how quickly or efficiently the pallet circulates around the pool and how many times pallets on average can be issued per year.

Asset turns depend on many factors including the type of pool and the type of industry. For example, in fast moving consumer goods supply chains, asset turns would generally be expected to be faster than in other industries. Transport costs will depend on a number of factors, including fuel prices but also the number of plants or nodes in the network and optimisation of the network.

Plant and repair costs will also impact costs within the network and that is how often a pallet needs to be repaired to maintain the required quality. And lastly, asset management costs include the

costs of the significant efforts that CHEP makes to recover its pallets whether or not deemed irrecoverable from an accounting perspective and also includes depreciation as well as costs incurred in the irrecoverable pooling equipment provision or IPEP.

In summary, the key drivers inherent in pooling are sales growth, asset turns, transport costs, plant and repair costs and asset management costs including recovery, depreciation and IPEP expense. I'll return to the main cost drivers in later slides.

Slide 27 summarises the main aspects related to the purchase of new pallets and in Brambles' accounts, pallets are included as part of property plant and equipment, i.e., as part of fixed assets not as part of inventory. The initial purchase price of around 16 to $21 per pallet, that's for wooden pallets, varies depending on the type of pallet and the region.

However, in all cases the purchase price is capitalised including the costs of the initial delivery to the manufacturer or customer. Wooden pallets are depreciated over ten years to a 25 per cent residual value which is equivalent to an effective useful life assumption of just over 13 years.

Slide 28 illustrates this. The depreciation policy is applied consistently and globally, since there are no sustained and significant differences between pallet pools which would suggest different lives by geography. The 25 per cent residual value is based on our scrap experience. A wooden pallet, after ten years, still has economic value and this is evidenced when we scrap pallets as we generally recover much of the lumber for repairs and maintenance.

A separate but related consideration is whether the pool is ageing and therefore by inference might require higher repair costs over time. The thing to note here is that the age of the pool has been broadly consistent over the last few years. The key reason for this is that we are continuously adding new pallets to the pool, not only to meet growth requirements but also to replace pallets that

are damaged beyond economic repair and scrapped or deemed irrecoverable from an accounting perspective.

Broadly speaking, the average age of the pool, including all pooling equipment, is around four and half years, although this does vary by region. The youngest pool is in the Americas at around four years and the oldest is in Asia-Pacific at around five years.

The important point to keep in mind is that the choice of depreciation life has no impact on the cash return of the business but merely reduces some of the volatility from the income statement. Pallets can also be scrapped if they're damaged beyond economic repair and to determine whether a pallet should be scrapped, CHEP applies strict criteria regarding the numbers of boards, bearers or blocks that need to be replaced to ensure that the pallet meets our quality specifications.

Some illustrations of pallet quality tolerances in this example from Europe are shown on the slide. As mentioned, if the pallet cannot be repaired in a cost effective manner, then it will normally be torn down with the lumber recycled and used to repair other pallets. Capex will also be incurred in the replacement of the scrapped pallet.

Moving now to slide 30 and asset management in more detail. Irrecoverable pallets are those pallets that cannot be accounted for at a particular location at a specific point in time and I emphasise at a particular point in time because pallets may be confirmed by subsequent audits and many pallets ultimately do return to the CHEP pool.

Over a 12 month accounting period, approximately 9 to 10 per cent of the pool each year will be deemed irrecoverable, which is equivalent to around 20 to 25 million pallets and this number includes pallets that are scrapped. There are two types of irrecoverable pallets; those that are compensatable by customers and those that are uncompensatable.

The commercial treatment varies by region and impacts the accounting entries. The important point to note is that pallets deemed irrecoverable are an inherent part of pooling and in both cases; the pallets have to be replaced. If the irrecoverable pallet is compensatable, as shown on the left-hand side of the chart, then Brambles' accounting policy is to recognise the income through the income statement, only when the cash is received.

At that time, the net book value of the pallets is written off and again at this time the number of pallets is also adjusted in the accounts. Alternatively, if it's not virtually certain that compensation will be received and it's an uncompensatable loss, then the net book value of the assets concerned is charged to the irrecoverable pooling equipment provision or IPEP, as it's also known.

The net book value is established on a FIFO basis. If the irrecoverable pallets were not originally provided or if the loss exceeds the amount previously provided, then the excess is expensed through the income statement. So just to recap, pallets that cannot be accounted for at a specific point in time are deemed irrecoverable.

The accounting entries vary, depending on whether the deemed or recoverable pallet is compensatable or uncompensatable. But in both cases, deemed irrecoverable pallets have to be replaced and capex needs to be incurred. Slide 31 elaborates on the irrecoverable pooling equipment provision or IPEP.

Where pallets are deemed irrecoverable at the balance sheet date, then in accordance with accounting requirements they are provided for. Given that it's impractical to count every pallet at a particular cut off point, the amount contained in the IPEP requires significant judgment and the amount is determined by a number of factors including audit completions, outcomes from CHEP's extensive asset management program, KPIs, analysis by region and channel and management estimates.

For the year ended 30th of June 2008 the amount charged to the IPEP expense was $91 million. This amount has been broadly consistent over the last few years. IPEP should be thought of in tandem with depreciation. I mentioned earlier that depreciation smooths or reduces volatility in the income statement.

That is, if depreciation was lower than the write off charge, or the expense to IPEP, would be higher which would introduce greater volatility into the income statement. Again as I've said before, importantly neither depreciation nor IPEP expense impact cash flow.

We touched earlier on the main drivers of revenue and cost in the pallet life cycle. Slide 32 brings these together and it illustrates a simplified management income statement or in other words, how internally we look at the CHEP business. The main cost and revenue items we referred to earlier can be found here.

Sales revenue is shown in the top black box. Transport and plant costs shown here in the green and red blocks are key determinants of direct profitability as indeed are the asset related costs coloured blue of depreciation, net gains on disposals of property, plant and equipment or in other words, the net proceeds from compensatable pallets and also the IPEP expense.

Broadly speaking transport costs can be considered as variable in nature while the plant costs and asset related items have characteristics of both fixed and variable costs. Other operating expenses are mostly fixed in nature and include key departments such as asset management and recovery as well as the more usual HR, finance and other functional expenses.

If I now overlay the percentage make up of the various elements for CHEP, this will give you an indication of the relative magnitude of the various cost components. As you can see, what can be termed broadly direct costs comprise 58 per cent of revenue with other operating expenses comprising 16 per cent of revenue.

Turning now to the statutory accounts or how externally you might look at the Brambles' income statement. The figures shown in note five are for total Brambles not CHEP. I've shown note five rather than the income statement itself as it contains greater details which may be helpful to you when modelling.

I'll now walk you through how the main items, shown in the management income statement structure on the left-hand side of the chart, broadly map to the figures reported in the statutory accounts shown on the right-hand side of the chart.

Firstly, taking transport costs. In the statutory accounts transport costs are shown under transport. However, fuel surcharges in the statutory accounts are reported as part of the other income item shown here partly boxed in green, partly since other income contains some other items. In the management income statement, we net transport costs and fuel surcharge together.

Plant operations. This comprises all maintenance and repair costs in the plants and service centres and these are expensed to the income statement as incurred. It includes items such as lumber for repairs, nails and rent, etc. In the statutory accounts plant costs are split across several items. These have been boxed in red. The main items are repairs and maintenance, third party service suppliers, raw materials and occupancy costs.

The asset related cost items shown in blue in the management income statement are broadly comprised by the amount shown in the blue boxes in the statutory accounts presentation on the right side of the chart. We take each of these in turn.

Net gains and disposals of property, plant and equipment predominantly relates to gains on irrecoverable pallets written off but it also contains any gains on scraps from recovery of lumber. Depreciation costs relate to capex, the bulk of which is explained by pallets. While the figure here is for Brambles, a split showing the amount for CHEP is published in the background information pack biannually.

The background pack is attached to our Stock Exchange releases and contains additional data. The irrecoverable pooling equipment provision or loss provision. At each balance sheet date, a provision is made for pooling equipment. This amount represents the charge to the provision in full year 2008 and the bulk of it relates to pallets.

We published appreciation and operating profit for CHEP in the background information pack. We also regularly disclose transport and plant cost ratios for two major regions. So it's fairly straight forward to approximate the ratios that I have indicated on the left-hand side of the chart in the management version of the income statement.

It's quite a busy chart so I'll briefly recap. In summary, there are four main buckets or cost levers. Firstly transport costs, then plant costs, asset related costs and then other operating expenses. And efficiency or optimisation of these will impact margins as will sales revenue.

For example, with respect to assets in a one way trip pool, as we utilise the pool more efficiently, that is, increase asset terms, then fewer pallets will be required in the pool or as we improve the efficiency in our plants, their costs will be minimised and as we optimise our network and the location of our service centres, transport costs will be minimised.

And finally, as we improve our asset recovery efforts, asset management costs and hence requirements for replacement capex will be reduced. Turning now to slide 33, which is an extract of note 20 and this gives details of property, plant and equipment and the balance sheet.

The main items worth noting are shaded on the slide. The first one is additions to property, plant and equipment and this includes all Brambles' PPE, that is, the value of asset purchases. The bulk of the expenditure is for new pallet additions. The background pack also contains details on cash capex for CHEP.

The second item which is disposals, while again a total Brambles number, in the main comprises the net book value of pallets deemed irrecoverable and these are written off on a FIFO basis. This value also includes scrap pallets.

Depreciation charge, also a Brambles number, again mostly relates to pallets. Then the final item is the irrecoverable pooling equipment provision expense which we discussed earlier. The balance of the irrecoverable pooling provision is contained within accumulated depreciation in the balance sheet.

That completes the short tour of the financials and where to find items within the financial statements. Hopefully it may also assist you in your modelling of CHEP. I'd like now to hand over to Liz who will take you through examples that will illustrate some of the items we have discussed and answer common questions that were raised following the full year 2008 results presentation. Thank you.

Liz Doherty: Thank you Patrick and good morning everyone.

For some of you, understanding our capex and how it relates to both pallet numbers and depreciation has been a key challenge. Hopefully the next few slides will go some way to remedying this.

So turning to slide 35, let's start with a capex figure you have already seen: the FY08 figure of $869 million. The first thing to note is that this is cash capex. Cash capex cannot be directly reconciled to the assets acquired during a period as there will always be differences in timing between purchasing an asset and paying for it. In other words, cash capex may include cash paid for assets received in a prior year, but my not include amounts, accruals, for pallets received but not yet paid for in the current period.

In FY08 the movement in accruals was $18 million. Eliminating this gives book capex of $851 million which does relate to assets purchased during the year. If we then exclude recall expenditure of $55 million and land, plant and equipment of $86 million and

this includes IT as well as expenditure on assets such as sorting equipment and repair tables, we are then left with $710 million. This is the amount that we spend on pooling equipment.

Pooling equipment capex can then be broken down between pallets, which is $620 million and other $90 million, the latter being mainly containers. In other words, don't just assume that all capex is pallets.

Given the importance of pallets, however, we hope to make things easier for you going forward by separately disclosing the book capex number for pallets, in addition to information already provided.

Before leaving this slide, there is one other element which is important to note, particularly when comparing year-on-year figures and that is foreign exchange. Reported numbers have shown that actual exchange rates for the year in question, so movements in foreign exchange between years will impact the US dollar amounts reported and may distort comparisons.

Because we are only looking at FY08 capex therefore, there is no foreign exchange impact. However if we were to be showing the movement between FY07 and FY08, for example, then there would be.

Okay, on slide 36 what do we actually spend pallet capex on? Well we need it for a number of reasons. Firstly, to enable growth; that's growth with existing customers, either as they grow or because we do more business with them, growth arising from new customer wins, growth from offering new products and services and growth from new regions.

The increase in pallet numbers is a reasonable proxy for growth or, put another way, if you assume growth to be, say, 5%, then all other things being equal, you would expect the pallet pool to grow by the same, that is, about 5%.

Secondly, we need to spend money to meet certain contractual obligations. Thirdly, we may need additional pallets if asset terms

decrease. For example, if assets turn three times per year, then you would need 30 million pallets to achieve 90 million issues. However if the terms were to drop to two asset terms per year, then you would need 45 million pallets for the same 90 million issues, that is, you'd need 50% more pallets.

Overall, asset terms across the globe have not changed much in recent years, so have not been a significant factor in year-on-year capex growth. However the variation in asset terms between regions does explain, or help explain, the differences in pool sizes between them.

Fourthly, you need capex to replace pallets; those that have been scrapped, written off or are deemed irrecoverable, irrespective of whether they are compensated or not. These will obviously not appear as additional pallets as they are essentially replacement pallets. As Patrick mentioned earlier, approximately 9% to 10% of pallets are scrapped or deemed irrecoverable per annum.

A word of warning: the figures in the charts are the figures published in the background pack; however some care does need to be taken, particularly when comparing reported pallets and the numbers on a year-by-year basis. This is because pallet numbers are gross numbers at a particular cut off date. Specifically, they are not reduced for those pallets provided for in [IPEP], but only for pallets which have actually been written off.

Again, as Patrick explained previously, the adjustment to the pallet numbers does not occur until completion of the audit which can be some time later. Replacement pallets will usually be required before the audit is completed. It is probably more sensible, therefore, to look at trends in pallet numbers rather than numbers solely at specific cut off dates.

So, having said all that, how could you use this information to reconcile pallet numbers to capex? Let's turn to the next slide. Given what I've said about the need for care when using pallet numbers, slide 37 is intended to be a rough reconciliation only. If

you were to look at the background pack that we issued at the year end, you would see the pallet numbers at the end of FY07 were 242 million and at the end of FY08 251 million. That is an increase of 9 million pallets or 3.7%.

Although we didn't give pallet volume growth for CHEP overall in our announcement, you could deduce from the information that we did provided that it would have been just under 4%. In other words, there is a reasonable correlation between volume and growth. It looks or feels about right.

Now looking at pallet capex, we said we spend $620 million and we will give you this figure going forward. Assuming an average of $18 per pallet and this will vary depending on costs, regional split and exchange rates; this would mean that approximately 34 million pallets were purchased. Nine million of these we've already said are for growth. Now we've also said that we need to replace approximately 9% to 10% of the pool each year, so that would make up the remaining 25 million pallets, or in terms of capex, about $450 million.

In this particular example, that leaves an unexplained balance of $8 which, given it's only a rough reconciliation, could be explained by timing differences, roundings, variations in cost. Hopefully this sort of analysis will help you understand our pallet capex.

Now if we turn to the next slide, you can see how you might use a similar analysis to estimate future capex. First, you need to make an assumption about the average pallet cost and we said this can be somewhere between $16 and $21 so in this example, let's take a midpoint, $18. Second, you need to make an assumption about growth. Again, taking FY08 as an example, this would be 3.7%. To meet this growth, there would need to be a similar increase in pallet numbers over FY07, that is, nine million pallets and at $18 per pallet, that would then need $162 million for growth.

Thirdly, you need to make an assumption about replacement pallets and we've said that this is around 9% to 10%. In this case

I've just taken 10% for simplicity. 10% of 251 million pallets is 25 million pallets, or in capex terms, 450. Now the sum of these two should then give you a rough indication of the pallet capex required.

Now what would happen if you assumed 0% growth for example? Well using this logic, then technically you wouldn't need any growth capex at all. However you would need to look at this on a region-by-region basis, as you may still have some regions showing growth, even if the overall picture is flat. With no growth, however, you still need to spend around about the same amount on replacement capex, that is, about 9% to 10% of the pool, because what you're replacing there is existing assets.

Turning to slide 39, we believe that the methodology we have just shown you is the best and easiest way of estimating future capital expenditure. However many of you are more comfortable with using some form of capex to depreciation ratio either to estimate maintenance capex or capex as a whole. Although this is often reasonable for typical manufacturing plants, we don't think it's quite so relevant for pooling equipment, particularly for calculating maintenance capex.

In a traditional manufacturing plant, depreciation is a reasonable proxy for the amount of capex you need to keep the plant going. In terms of individual pallet, however, this money is actually expensed as repairs and maintenance. It's worth noting that some of our competitors actually capitalise a significant proportion of repairs and maintenance.

For us then, maintenance capex is the amount that we need to keep the pool whole, that is, the amount we need to replace pallets which are scrapped, written off or deemed irrecoverable. A more meaningful ratio is therefore the one on the slide and the reason for adjusting the traditional formula is that you need to include the IPEP provision, plus the net book values of the scraps, write offs and compensatable pallets as well as traditional depreciation in the denominator of the calculation.

If you're wondering why include IPEP and net book value of assets written off, think about it this way: imagine we did not depreciate the pool, then clearly we would not have a depreciation figure and there wouldn't be a traditional capex to depreciation ratio. However, we would still have to replace scraps, written off assets and assets deemed to be irrecoverable.

The difference in this case is that both the IPEP and the net book value of the assets would be significantly larger figures as they would be a gross book value, rather than net book value and the year-on-year numbers could well be quite lumpy. In other words, depreciation for us is really just a way of smoothing out the costs of scraps, write offs and replacements over time.

Back to the calculation: if we make a simplifying assumption that all IPEP relates to pallets and that pallets comprise 83% of the net book values of disposals shown in the Brambles annual report, then the calculation can be approximated as shown on the following slide.

As you can see, for FY08, book capex was 1.3 times DIN, that is, depreciation plus IPEP plus net book value. Growth accounted for 0.3 of the 1.3 and replacement for one. The replacement capex ratio of approximately one times DIN has been reasonably consistent over time and should remain so where all other things remain equal, that is, such as stability of pallet costs, write offs and scraps, et cetera.

The reason for the apparent anomaly in FY06 is that this is the year in which the bulk of the US Stringer pallets were finally written off, so there was a higher than normal depreciation figure. Growth capex will of course vary over time and as a percentage of total capex, depending on overall growth and growth within regions. For developing regions, growth capex will tend to be a higher percentage of capex than would be true for more mature markets.

Now, moving on to asset management and control ratios: it should now be apparent to you all that replacement capex is a significant cash outflow for us. Therefore the more we can do to reduce the number of pallets which are deemed irrecoverable for accounting purposes the better. Most of the time CHEP's pallets remain within the CHEP network and the network of its customers, but it is inevitable in a dynamic pooling environment for some to be accounted for at a point in time.

We use a number of tools and strategies to try and minimise these, including a substantial asset recovery team focused on recovering CHEP assets, as well as monitoring KPIs, of which one of the most important is the control ratio.

The control ratio monitors our effectiveness in managing the return of our pallets and the basic calculation is no more complicated than the number of pallet returns plus recoveries divided by the total issues in a given period of time. It is expressed as a percentage. A high percentage usually indicates good control, that is, few pallets are deemed unaccounted for. Overall, over time, an improvement in the control ratio would mean lower replacement capex.

A decline in the control ratio over time, however, would normally give rise to higher replacement capex. Nevertheless, as with pallet numbers, whilst the control ratio is a good overall indicator of asset control, care does need to be taken in interpreting it at any particular point in time and you can see this in the following slide.

Variations in issue growth, unaccounted-for pallets within limited accounting periods, seasonality or changes in asset terms will all impact returns and recoveries and hence the control ratio. It's therefore best to look at trends over time and this slide illustrates the point.

Looking at the USA, you can see that overall there has been a gradual improvement over the last few years with a control ratio

moving from just under 96% to just over 98%. The outlier in FY07 and then apparent recovery in FY08 was primarily due to increased growth and issues in FY07, followed by a sudden slow-down in the second half of FY08.

A Europe chart shows improvement due to asset management and improved customer relationships. The dip in FY07 was due to volume growth in FY07 following a period of no growth in FY06. The important point to note is that a debt doesn't always automatically mean bad news as it may be due to other factors such as faster growth. Conversely, a sudden improvement doesn't necessarily mean an improvement in control. It could just signify a slow-down in business.

If we take a look at the next slide, you can see this illustrated more clearly. If you were to look at the control ratio just before and just after any Christmas period, for example, you would see a marked change in the control ratio. Before Christmas, the ratio will drop sharply as retailers start building stocks for the Christmas season and pallets get sucked into their systems. After Christmas the reverse happens and large numbers of pallets flow back into the CHEP network as retailers rapidly de-stock. At such times it's not unusual to see control ratios of more than 100%.

As a more general point, in a slowing economic environment for example, you would expect to see an improvement in control ratios. Further examples of the different impacts affecting the control ratio can be found in the appendices to this presentation.

Slide 44: another key tool is the pallet audit process. CHEP carries out a continuous and extensive program of audits at locations within the CHEP network in order to confirm pallet quantities at customer locations, adjust for surpluses and claim compensation for pallet losses. It is one way to help validate the location of the assets we have recorded in our books.

Once audit results have been reconciled and finalised, the resulting shortfall or surplus, compared to CHEP's inventory record, is

adjusted in CHEP's accounts either through write-down or through provisioning. As we've said before, it may be compensatable or uncompensatable.

Clearly, the more audits we carry out, the more certainty and control we have over our assets. Audit coverage therefore is one of the KPIs that are monitored internally. Over the last few years it has increased significantly and was over 80% in FY08 for both Europe and the USA.

We expend a lot of effort not only trying to prevent pallet losses, but also to retrieving them. To ensure continuous improvement, therefore, we set targets for the businesses and monitor their performance against them.

As Patrick said earlier, we have four main buckets of cost - asset costs, transport costs, plank costs and other operating expenses. I have just talked to you about two KPIs we use in asset management. It's also worth touching on two other KPIs we use: the plank cost ratio and the transport ratio, which we use to help us manage, unsurprisingly, plank costs and transport costs. As Patrick said, we periodically publish this information.

Turning to slide 46, the plank cost ratio is simply plank costs divided by sales expressed as a percentage and just to remind you, plank costs include inspection and repair costs and materials such as lumbar and nails. In general, you would be looking for the plank cost ratio to decrease over time as this would normally indicate increasing efficiencies.

In the example shown in slide 46 you can see the trend was positive FY03 through FY07 although it increased slightly in FY08. The reason for the latter was the result of CHEP USA's investment in quality of $26 million and the $10.9 million associated with Wal-Mart's decision to modify its management of pallet flows within its network.

Another key factor that will affect plant ratio is the overall optimisation of CHEP's own network. In a time of high fuel costs,

for example, it may be more efficient to reduce transport costs and open more service centres. This would tend to give rise to an increase in the plant cost ratio. Lower fuel costs could well result in fewer service centres and a lower plank cost ratio.

So when looking at this ratio, it's also useful to look at the gross transportation ratio which is covered in the next slide. This ratio is a little bit more complicated. Transport, as shown in note five in our annual accounts, does not include any fuel surcharge. As Patrick explained, that is included as part of other income. Neither does transport include the cost of transport related to the initial delivery of a new pallet. That, if you recall, is capitalised and is included in fixed assets.

Transport costs in the gross transportation ratio, however, include both capitalised transport and the fuel surcharge. As for the plank cost ratio, we would be looking for a decreasing trend in the ratio over time as this should reflect increasing efficiencies.

Managing transport and the service centre infrastructure is a key element of successful pooling. Our network has been continuously optimised to respond to our customer and supply chain partner's needs as well as changes in economic factors. This flexibility enables us to respond quickly to changing circumstances.

That concludes the formal presentation. As Michael said, the main objective of this session was to provide an introduction to pallet pooling for those of you who are relatively new to the stock and we hope that we've done this. We've given you a brief introduction to CHEP and a high level view of the three main pooling models. We've shown you where to find key information in our annual report and how, using this together with information we provide in our background pack, you can start to understand capex.

We also hope it provided a refresher for the long term followers in the room and that all of you have found something of use in what you've heard.

Finally, I'd now like to hand back to Michael for Q&A.

Mike Ihlein: Thanks Liz. How are we going in the room, all going okay? Not asleep yet with the accounting? Hopefully that's helped you all. If you want to grab a coffee, or tea or coffee, there is some outside. There's also water in the room here.

Let's get going to the Q&A. Just a couple of housekeeping matters first. Please state your name and organisation before you ask a question, particularly for those in the room. If you're online or on the phone, I can see your details there.

In the interests of getting through as many questions as possible, perhaps just for the first instance, try and stick to one question so that everyone has an opportunity, especially if we get into detailed accounting stuff. Please deliver all the questions in the first instance to Liz or myself and we'll answer or redirect as required to Patrick or Gino.

Okay, look people online, we'll come to you in a moment. Perhaps we'll start in the room first. Are there any questions? There's one over here.

Question: (Kevin O'Connor, Merrill Lynch/Bank of America) Just on slide 25 and we're talking about the financials, I may not have been listening properly, but you said that I think total pallet - of the total rental equipment that the pallets were over 90%? Maybe that was me mishearing. Then on slide 39 I think Liz, you've got it being around 83%. Can you just clarify that for me please?

Liz Doherty: On this particular one I believe that what on slide 25 is referring to pallets to CHEP and in the 83% of net book value of assets would have actually been for Brambles as a whole.

Question: (Cassandra Meagher, CommSec) Just a question on managed recovery, can you run through the managed recovery model and how that might result in uplifting revenues, just the implications financially?

Mike Ihlein: I don't know how much detail you want to go into, but I mean the managed recovery just increases efficiencies by our involvement in collection because we see the whole supply chain, so our involvement there is facilitating efficient transport movements between manufacturers and retailers throughout the system, so we tend to see the whole picture there. It also makes sure that we're seeing what's going on out there in the market and making sure that movement fees are appropriately being charged.

Anything else you'd like to add there Liz?

Liz Doherty: No, I think that's about right, I mean the advantage to us of managed recoveries, we are able to control real time what's happened to the assets and that improves our control and therefore, at the end of the day, our revenue.

Question: (Cassandra Meagher, CommSec) [inaudible] asset turns?

Mike Ihlein: Look one of the things I should say up front here about both the exchange system and the transfer hire system, people often ask me, or ask us, why we don't show some of the ratios like we do for the USA and Europe. It's just that these pallets stay out in the field in these two models, so it's not as easy to analyse it like it is for a one-way trip in the US and continental Europe.

So with pallets out in the field, it's not as clear cut to you trying to look at is as it will be for internal information we have, so that's why we don't show some of these charts and ratios and that sort of thing because, in the transfer hire model, for instance, we don't care if the pallet doesn't come into the CHEP service centre because people are paying daily hire fees while it's out there.

So things like turns and that sort of thing don't really figure in that system.

Liz Doherty: Just to answer that, typically, Cassandra, in a one-way pool model, the thing you would want is for them to turn as quickly as possible. In a transfer hire, to Michael's point, you don't really mind providing you've got control over the assets because if it's out there earning you money, you don't really mind if it's back.

It's more difficult in Europe where we have both sort of exchange and one-way trip model to actually give a meaningful figure.

Michael Ihlein: We said on the exchange model that it stays - the pallets stay out there for movement. They become trade quality pallets as they're exchanged back and forth and we only see them back again when they send them back.

Question: (Simon Mitchell, UBS) Just two question, first on the pool ages you gave, I think which were about four years, can you just discuss how you calculate that? I think it's using the gross book value versus net written down value rather than a physical measure. The second was on the provisional rates for loss, just give us some idea of what those provisional rates are per issue. I think it's generally been 1% to 2% per issue, but if you could just give us some - I know you've discussed the accounting value, but you haven't discussed the actual provisioning rates.

Liz Doherty: Sorry Simon, can you repeat - I was just talking to Patrick - could you just actually repeat the second question, the one about the provisioning rate? I didn't catch it.

Question: (Simon Mitchell, UBS) Yeah, can you just talk about what you provisional rates are at the moment for issues, so how many issues do you assume that you're losing and also what that's done over time?

Liz Doherty: Okay, on your first question about how we calculated the average age, you're absolutely right, you start with the gross book value, take the written down value and you approximate what the depreciation is so you can approximate, so that's exactly how we did it.

In terms of the provisioning, we don't actually do a provisioning per issue per se. What, as Patrick described, is we do a whole lot of things. We do it based on the level of recoveries that we've actually done, we look at the control ratio, a whole series of judgmental factors come into it. So there's no particular sort of

rate per issue. The only thing we would say is that it's been relatively consistent over recent years.

Question: (Simon Mitchell, UBS) Let me ask it another way. How much - that $90 million that it's averaged the last two years, what does that imply that you're losing?

Liz Doherty: I think to answer your question, what we've actually told you is we're looking at between 9% to 10% of the pallets gross we need to replace each year and in order to do that, you need to take account of the cost of that, is represented in the depreciation figure, the IPEP provision and the net book value of the assets. They all need to be taken into account.

In terms of what we lose in net terms, if that's what you'd like to say, we said 9% to 10% is roughly what we need to replace each year, of that 1% to 2% is actually scraps, so you're talking between 7% and 9% are sort of on average deemed irrecoverable. Of that we get approximately half is actually compensated, so on net loss, if you like, is about 3% to 4.5% on that basis and that hasn't changed massively over recent years.

Mike Ihlein: I might just, before the next question in the room, there are a couple of questions online, Carlos [Roges, Playco] it looks like: has CHEP considered pooling plastic pallets? The answer to that Carlos is yes. We use a plastic pallet in China and we keep monitoring plastic around the rest of the world. It's a far more expensive pallet, it's an oil-based product, of course plastics are oil, so the price is higher. We look at it, continue to monitor it all the time.

Plastic pallets, we know, do get damaged and they can't be repaired, so if they get damaged to a fair degree, because forklifts are very hard on pallets, let's face it. When you see, when you do site visits and things to various places, you will see that it's pretty touch work on pallets and plastic pallets in fact do get damaged. You just can't repair them like you can with a wooden pallet. So we find the wooden pallet model still the most efficient.

Actually, that's another good point. If you are of the belief that plastic pallets don't get lost, just because they might have an RFID tag on them or something like that, believe me they do because we see enough plastic pallets in the US coming through our service centres going to the wrong place. They all get sent back, but if they come through our service centres it means they're going to the wrong place. An RFID tag is only as good as the reader it passes, so it's a very important thing to understand about plastic pallets. But they have their place, as I say we're using them in China.

Another one here, Shane Finemore from Manikay Partners: how much do economic conditions affect the control ratio from losses or recovery rate perspective?

Liz Doherty: Right. In slower economic conditions, if you get, for example, declining growth, massively declining growth, then pallets would tend to come back into you system faster than they were going out, that would be typical. So you would expect an increase or an improvement in your control ratio. Conversely, if you got massive growth going on which is what we've had in previous years, then you would tend to get a slightly lower control ratio because you'll be putting out more pallets into the world than you would be getting back in. So that's what would happen on the control ratio.

In terms of replacement assets and in terms of ones that are lost and recoveries, to be honest with you we don't really - the last recession was probably 18 years ago, so it's very difficult to say what would happen. I think you may find that we just actually do get more back than we would have otherwise have done, but it's too early to say whether there's any particular trend as a result of that.

Mike Ihlein: We return to the room, we've got somebody at the microphone.

Question: (Anthony Moulder, Credit Suisse) Two questions quickly if I can. First related to Simon's, what is the average book value of the compensated pallets please? Secondly, what is the proportion of

the UK pool that is on a one-way trip as opposed to exchange and how is that trended over the last few years?

Liz Doherty: The first question is, I'm not going to give you the precise detail, but you can take a look from our note to the accounts. You can see in the cash flow you'll see the proceeds of sale from disposals and in the other income statement you can, on note five, you can see the gains. So taking one from the other would give you the net book value and then you'd approximate how many of those were actually pallets. So the information is in the accounts, or enough for you to actually make a good estimate.

What was your second question? I can only do one at a time I'm afraid.

Question: (Anthony Moulder, Credit Suisse) Fair enough. The second related to the UK pool, you put it down as an exchange pool. What's the proportion of that pool that currently operates as a one-way trip?

Liz Doherty: Of the UK?

Question: (Anthony Moulder, Credit Suisse) Correct.

Liz Doherty: I'd have to come back to you on that one, I don't know.

Mike Ihlein: Just thinking off the top of my head it's still mainly exchange. We'll come back to you on that one.

Liz Doherty: I don't know the answer to that one.

Question: (Russell Shaw, Macquarie) Just two questions as well, hopefully you'll be able to answer them quite easily. First one was just to confirm your average depreciation charge, I think on your management accounts slide you've got around 11% versus your wooden pallets of an effective rate of around 7%-7.5%. Is that assuming you've got 11% across all you assets and then can you give some idea of what your expected lines are on the RPCs and some of the other pallet types?

Liz Doherty: Okay, I'll let Patrick handle that one, he's got his hands on the detail.

Patrick Gibson: Wooden pallets are depreciated over 10 years to a 25% residual value. Broadly speaking it varies a little bit by region and things like auto and IPC and RPC, but generally it's around 10 years to a 10% value on auto and RPC.

Question: (Russell Shaw, Macquarie) Isn't the effective rate 7.5% then if you've got a - so you're writing off 75% over 10 years versus that 11 that you've got in you management accounts?

Patrick Gibson: It's over 7.5 years down to 25% residual value which is equivalent to an effective volume.

Liz Doherty: That's what he's saying. He's saying over 13 years is effectively a 7% but we've got 11% in the depreciation as a percentage.

Patrick Gibson: Well there are other items of course within depreciation including repair tables, IT which is a higher depreciation rate and one or two other things.

Question: (Russell Shaw, Macquarie) Just one other question, just within the plant costs, can you give us an idea of what sort of proportion of those plant costs relate to storage costs and how that would change through an economic cycle?

Mike Ihlein: I know where you're heading and look we did raise at our AGM that we had extra storage costs for this current time with the economic downturn, but I don't want to comment any further on this unless there's something generally you want to say about it.

Liz Doherty: I mean in any point in time in normal circumstances, you will always need a proportion of your pallets in storage ready there, kind of like your working capital, if you like, to sort of buffer you up. In a massive slow down what you can do is get an increase in these temporarily, just as in a massive - if you get rapid growth you can actually deplete pretty rapidly your working capital.

Mike Ihlein: Look I can just repeat, there's a couple of things Russell that we did say, we were happy to say about the slow down situation in the US which had been a turnaround from growth market for 16 to 17 years and due to the rapid slow down there we had a whole lot

of extra pallets come back into our service centre network and there were - in the US there is normally five to six million pallets sitting in our service centre network at any one time to be able to service all our customer needs. At the moment, or at that time, in November when we talked, when we gave you a trading update, it was double that. So it was leading to extra storage costs.

I mean you can go and calculate these things if you like by just being aware that pallets just can't be chucked out in a field somewhere, they've got to be secure, they've got to be under cover so they're not out in the weather and they've also got to have fire protection, sprinklers and so on and so forth. So you can go and estimate that the extra cost of that sort of thing. I think one or two of you may have already had a go at that.

So it is a situation there, but normally, in normal circumstances, our plant costs, we don't go into a breakdown of the detail.

I think Russell you said something about expected lives on RPCs. Do we have any - sorry missed that. Right.

Okay, I'll just go to a couple more…

Liz Doherty: Just to add to that, if you look at the notes in the accounts, you should get some ranges of what we do for RPCs and other things, because that will vary, particularly where there are scraps to be done on plastic and recovering that sort of stuff, regrind values. You'll get the range in the accounts, you should see it there on the accounting policies I think.

Mike Ihlein: Okay, Joseph Livermore from Balanced Equity: how do you determine the amount per pallet which customers are charged in compensation for a lost pallet?

Liz Doherty: I think we're going on to commercial negotiations here. I mean we take it - I mean in all of these things, because as we've said, in a dynamic pooling environment you're inevitably going to get some losses, we sort of factor that into the business model and clearly, depending on whether people are compensating or not directly, we'll bill that into the pricing of it.

Mike Ihlein: Another one here, Peter Wetherall, Wallara Asset Management: one of the reasons you gave for capex in new pallets was contractual obligation, Liz. Could you please elaborate on this? Do some customers always get new pallets?

I think the answer is yes, there are some customers that receive new pallets and very specific customers and they're all the sorts of things we're looking at, at the moment in the US, which is, when you think about, we've always had to buy new pallets because we've had growth and replacement in the US, so we were just directing some of those to customers.

Now it doesn't always mean that they're necessarily needed, so we'll talk more about that at the trading update with our half year results.

Back to the room; have we got any more questions in the room? Nothing more online and I don't think there's any in the phone queue.

Antony, back again?

Question: (Anthony Moulder, Credit Suisse) Since you opened that can of worms, how many customers get new pallets?

Mike Ihlein: We're not going to talk about it in detail Antony, we'll talk a little bit more about this at our half year result.

Question: (Anthony Moulder, Credit Suisse) Follow up of accounting, the asset recovery program, the costs of that, are they part of plant costs or transportation costs?

Liz Doherty: The asset recovery, the main part of that, as Patrick explained, was actually in other operating expenses.

Question: (Anthony Moulder, Credit Suisse) That's back from the recyclers effectively, in the US market particularly?

Liz Doherty We're talking about, when you said asset recovery teams, we're actually talking about things such as, we have huge teams in Europe and those were the costs I thought you were referring to.

Question:	(Anthony Moulder, Credit Suisse) Sorry, the asset recovery program.
Liz Doherty:	It will go in there.
Question:	(Anthony Moulder, Credit Suisse) The costs of that haven't moved significantly over the last several years?
Liz Doherty:	What hasn't moved? Are you talking about the asset recovery team or the…
Mike Ihlein:	Costs of.
Question:	(Anthony Moulder, Credit Suisse) In the US it's my understanding that recyclers are paid for the return of pallets back to CHEP depots?
Liz Doherty:	Yep.
Question:	(Anthony Moulder, Credit Suisse) The costs of that I think were reset higher under the Buckeye case, just trying to understand whether or not they've moved with general inflation, costs of fuel, et cetera.
Liz Doherty:	Antony that's actually a bit of a commercial negotiation. That would be us discussing pricing with our suppliers, which I don't think would be normal to do.
Mike Ihlein:	Don't see anyone else in the room. Just check online. Shane Finemore, again, from Manikay: how do fuel rebates work, what are the delays, do fuel costs still have room to come down?
Liz Doherty:	With regard to the latter, you tell me, I mean fuel costs, they went sharply up and then came straight down again, so in that sense your guess is as good as mine. In terms of fuel surcharges, Shane, it varies between regions. In certain markets it's kind of normal practice to actually add a fuel surcharge as prices go up, that would be typically a US sign that's done some. I mean Australia, in Europe, it's not normal practice to do so and it's those sort of fuel pressures, those cost pressures tend to be taken in general pricing increases.

Mike Ihlein: No others, alright, well I think that concludes today's presentation. Hopefully you've found this of interest and has helped you understand particularly our CHEP business better. Please take the time, for those in the room, to fill out the surveys there to give us some feedback on this session and if you'd like to hear more information, please let us know, also the rating of the content and presentation today.

So thanks for your attendance. Also, to those online and on the phone lines, thanks for joining us and we'll see you all again on 19 February at our half year result. Thank you.

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