TREASURY & RISK REVIEW

CAPITAL STRUCTURE

Brambles manages its capital structure to maintain a solid investment grade credit rating. During the financial year ended 30 June 2011, Brambles held investment grade credit ratings of BBB+ from Standard & Poor's and Baa1 from Moody's Investors Service.

In determining its capital structure, Brambles considers the robustness of future cash flows, potential funding requirements for growth opportunities and acquisitions, the cost of capital, and ease of access to funding sources. Initiatives available to Brambles to achieve its desired capital structure include adjusting the amount of dividends paid to shareholders, returning capital to shareholders, buying-back share capital, issuing new shares, selling assets to reduce debt and varying the maturity profile of borrowings.

Brambles' financial policy is to target a net debt to EBITDA ratio of less than 1.75 times. The ratio at 30 June 2011 was 2.2 times, outside the target, reflecting the funding of the IFCO acquisition. Brambles expects the net debt to EBITDA ratio to revert within the policy level during 2012 as the Company intends to use part of the proceeds from any sale of Recall to retire debt. The Company is committed to maintaining its BBB+/Baa1 credit ratings.

During the 2011 financial year, Brambles raised additional equity through a number of sources. These sources included the reinvestment of A$147.1 million in dividends under its Dividend Reinvestment Plan for the 2010 final dividend and the 2011 interim dividend; the A$104.1 million underwritten portion of the 2011 interim dividend; and A$110.0 million from an underwritten share purchase plan in December 2010.

TREASURY POLICIES

Brambles' treasury function is responsible for the management of certain financial risks within Brambles. Key treasury activities include liquidity management, interest rate and foreign exchange risk management, and securing access to short and long term sources of debt finance at competitive rates. These activities are conducted on a centralised basis in accordance with Board policies and guidelines, through standard operating procedures and delegated authorities. These policies provide the framework for Treasury to arrange and implement lines of credit from its financiers, select and deal in approved financial derivatives for hedging purposes and generally execute Brambles' financial strategy.

Brambles' policies with respect to interest and exchange rate risk and appropriate hedging instruments are described below and further information is contained in Note 30 (pages 106 to 115) including a sensitivity analysis (page 109 and page 111) with respect to these financial instruments.

The Group uses standard financial derivatives to manage financial exposures in the normal course of business. It does not use derivatives for speculative purposes and transacts derivatives predominantly with relationship banks with a reasonable understanding of its business operations. Individual credit limits are assigned to those banks, thereby limiting exposure to credit-related losses in the event of non-performance by a counterparty.

Treasury prepares formal reports each month, which are circulated to the Chief Financial Officer and other senior finance executives. These reports include statistical and sensitivity analysis, details of funding utilisation and capacity, and commentary on other significant matters.

FUNDING AND LIQUIDITY

Brambles funded its operations during the 2011 financial year through equity issuance, retained cash flow and new borrowings. The Group generally sources debt funding from relationship banks and debt capital market investors on a medium-to-long-term basis. Brambles also enters into operating leases for office and operational locations and certain plant and equipment.

Bank borrowing facilities are generally structured on a multi-currency, revolving basis and currently have maturities ranging to June 2016. Borrowings under the facilities are floating-rate, unsecured obligations with covenants and undertakings typical for these types of arrangements.

Net debt at 30 June 2011 was US$2,998.8 million, up US$1,239.5 million from 30 June 2010, reflecting the funding of the IFCO acquisition.

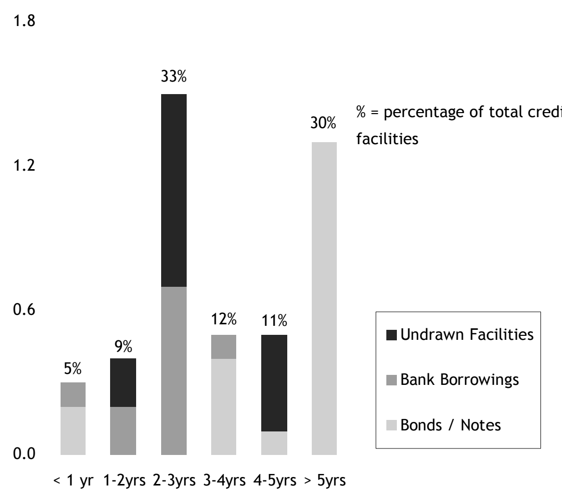
To diversify its funding sources further and to lengthen maturities, Brambles raised €500 million in the European bond market in April 2011. The note issue comprised €500 million of 4.625% fixed rate seven-year notes, the proceeds of which Brambles used to repay bank borrowings.

Key financial ratios continue to reflect the Company's strong balance sheet position and remain well within the financial covenants included in Brambles' major financing agreements, with net debt to EBITDA at 2.2 times (2010: 1.5 times) and EBITDA interest cover at 10.4 times (2010: 10.7 times).

At 30 June 2011, Brambles had committed credit facilities including bonds and notes totalling US$4,442.4 million. Undrawn committed borrowing capacity totalled US$1,433.6 million. The average term to maturity of committed credit facilities increased to 4.1 years at 30 June 2011 from 3.6 years at 30 June 2010.

The table below shows the maturity profile of the Group's committed borrowing facilities and outstanding bonds including the percentage due in each 12-month maturity bucket.

MATURITY PROFILE OF COMMITTED BORROWING FACILITIES AND OUTSTANDING BONDS (US$ BILLIONS)



During the 2011 financial year, Brambles adopted a liquidity policy that requires, among other things, that no more than 25% of total committed credit facilities due greater than 12 months mature in any rolling 12-month period. At 30 June 2011, Brambles exceeded its target level in the two-to-three-year maturity period. The Group actively manages its maturity profile and expects to attain full compliance with the policy over time as it refinances credit facilities.

INTEREST RATE RISK

Brambles' interest rate risk policy is designed to reduce volatility in funding costs through prudent selection of hedging instruments. This policy includes maintaining a mix of fixed and floating-rate instruments within a target band, over a certain time horizon. In some cases, interest rate derivatives are used to achieve this result.

The present policy requires the level of fixed rate debt to be within 40% to 70% of total forecast debt arising over the immediate 12-month period, decreasing to a range of 20% to 60% for debt maturities of one to two years, a range of 10% to 50% for debt maturities of two to three years and a range of 0% to 50% for debt maturities extending beyond three years.

As at 30 June 2011, 58% of Brambles' weighted average interest bearing debt over the next 12 months was at fixed interest rates (2010: 62%). The weighted average maturity period was 5.5 years (2010: 4.9 years). The fair value of all interest rate swap instruments was US$13.9 million net gain (2010: US$1.8 million net gain).

FOREIGN EXCHANGE RISK

Foreign exchange exposures are managed from a perspective of protecting shareholder value. Exposures generally arise in either of two forms:

- transaction exposures affecting the value of transactions translated back to the functional currency of the subsidiary; and
- translation exposures affecting the value of assets and liabilities of overseas subsidiaries when translated into US dollars.

Under Brambles' foreign exchange policy, foreign exchange hedging is mainly confined to hedging transaction exposures where they exceed a certain threshold, and as soon as a defined exposure arises. Within Brambles, exposures may arise with external parties or, alternatively, by way of cross-border intercompany transactions. Forward foreign exchange contracts are primarily used for these purposes. Given the nature of the Group's operations, these exposures are not significant.

Brambles mitigates translation exposures generally by raising debt in currencies where there are matching assets. During the 2011 financial year, Brambles increased its net investment hedge borrowings in euro from €50.5 million to €350.5 million to match the euro-denominated assets acquired with the IFCO acquisition. At the end of the financial year, the fair value of foreign exchange instruments was US$1.2 million net gain (2010: US$2.0 million net gain).

SIGNIFICANT RISKS & UNCERTAINTIES

The significant risks and uncertainties facing Brambles are described below. These are "net" risks, rated as the most significant for the Group as a whole after taking into account current mitigating actions. The strategies and processes applied for managing these risks are described in section 7 of the Corporate Governance Statement on pages 34 to 35.

- Business model - changing supply chain dynamics and customer needs could render CHEP's existing service offering and business model out of date. Current market issues that, in combination or separately, could support competitive service offerings include: differing segmental needs, attributes of wood versus alternative materials, use of track-and-trace technology, increasing fuel costs, changes in retailer behaviour and the embedded cost of asset losses in the current model. These issues could, over time, have an impact on revenue, cost base, economies of scale and the value of CHEP's existing assets.
- Competition and retention of major customers – Brambles operates in a competitive environment. Many of the markets in which Brambles operates are served by numerous competitors and are subject to the threat of new entrants. In addition, the concentration of distributors in certain areas could lead to shifts in market structure, bargaining position and intensity of competition. The above risks could have an impact on market penetration, revenue, profitability, economies of scale and the value of existing assets.
- Economic cycle – Brambles has operations spread across a diverse range of countries and territories. It is subject to risks related to global economic and business conditions. These may affect, among other things, profitability, demand for Brambles' services and solvency of counterparties.
- Strategy and execution – Brambles is subject to the risk of not having effective strategies in place to guide the Group's performance and to drive sales and profit growth, enable innovation, safety improvements and improve customer and employee satisfaction. Further, it is subject to the risk of not being able to effectively execute against agreed strategies resulting in loss of market and investor confidence and reduced share performance.
- Innovation – Brambles is subject to the risk of not being able to optimise innovations in its services, products, processes and commercial solutions, including capturing the full value of any innovations that support its growth opportunities. This could have an impact on revenue, profitability, economies of scale and the value of existing assets.
- Equipment losses – Brambles is subject to the risk of a lack of control of CHEP equipment. This could impact financial performance and lead to a reduction in customer satisfaction.
- Equipment quality – satisfaction of CHEP customers may fluctuate with the customers' perceived views of equipment quality which, in turn, is influenced by the effectiveness of the quality standards that CHEP employs in its equipment pool. Brambles is subject to the risk that it may not optimise these standards, thereby adversely affecting customer satisfaction with the CHEP service offering and/or the operating and capital costs of the equipment pool.
- Market communication – Brambles is subject to risks relating to not effectively communicating to the market, which may lead to a loss of investor confidence in the business and its management and reduced share performance.
- Mergers and acquisitions – Brambles is subject to the risk of failing to successfully execute or integrate acquisitions. If the integration of newly acquired businesses is not effective, this could result in the failure to realise the anticipated benefits and synergies.
- People capability – Brambles is subject to the risk of not attracting, developing and retaining high-performing individuals. Furthermore, succession planning may not be managed effectively, so that talented individuals are able to be developed and promoted within the Group, rather than sourced externally. This could result in Brambles not having sufficient quality and quantity of people to meet its growth and business objectives.
- Systems and technology – Brambles relies on the continuing operation of its information technology and communications systems, including those in CHEP's global data centre. Interruption, compromise or failure of these systems could impair Brambles' ability to provide its services effectively. This could damage its reputation and, in turn, have an adverse effect on its ability to attract and retain customers.