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23 October 2013

Dear Directors

PART ONE – INDEPENDENT EXPERT'S REPORT

1 Introduction

On 2 July 2013, Brambles Limited (Brambles or the Company) announced its intention to pursue a demerger of Recall, its information management solutions business, by listing a new holding company, Recall Holdings Limited (Recall Holdings), on the Australian Securities Exchange (ASX). Brambles will continue to be listed on the ASX (the Proposed Demerger).

If approved, the Proposed Demerger will be implemented by way of a Capital Reduction, Demerger Dividend and a scheme of arrangement (the Scheme) between Brambles and its shareholders (Brambles Shareholders). As part of the Scheme, Eligible Brambles Shareholders[1] will receive one new share in Recall Holdings for every five shares they hold in Brambles. All Brambles shareholders will retain their existing Brambles shares. Brambles will not retain any shareholding in Recall following the Proposed Demerger.

The Proposed Demerger is subject to a number of conditions precedent, including approval by Brambles Shareholders at a meeting to be held on 3 December 2013 (Scheme Meeting), Court approval of the Scheme and approval from the ASX regarding the listing of Recall Holdings.

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[1] Eligible Shareholders are Brambles Shareholders at the Scheme Record Date whose registered address is in a jurisdiction in Australia and New Zealand and certain other jurisdictions as determined by Brambles (expected to include Canada, France, Germany, Hong Kong, Ireland, Malaysia, Singapore, South Africa, Spain, United Kingdom and the United States as per Section 5.3.2 of the Scheme Book). Ineligible Overseas Shareholders are Brambles Shareholders that are not Eligible Shareholders. Whilst Ineligible Overseas Shareholders will be entitled to the Distribution Entitlement on the same basis as all Eligible Shareholders, Recall shares will not be transferred to them. Instead, Recall shares to which Ineligible Overseas Shareholders would otherwise have been entitled will be transferred to the Sale Agent and will be dealt with as described in Section 5.4.3 of the Scheme Book.

In order to assist Brambles Shareholders in assessing the Proposed Demerger, the Directors of Brambles have requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) prepare an Independent Expert's Report (IER) to opine on whether:

- the Proposed Demerger is in the best interests of Brambles Shareholders, and
- the Capital Reduction associated with the Proposed Demerger materially prejudices Brambles ability to pay its creditors.

This report sets out KPMG Corporate Finance's opinion as to the merits or otherwise of the Proposed Demerger. A concise report containing a summary of KPMG Corporate Finance's opinion has been extracted from this report and will be included in the Scheme Book to be sent to Brambles Shareholders prior to the Scheme Meeting. This report should be considered in conjunction with, and not independently of, the information set out in the Scheme Book.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

2 Opinion

2.1 The Proposed Demerger is in the best interests of Brambles Shareholders

2.1.1 Summary

In our opinion, the Proposed Demerger **is in the best interests** of Brambles Shareholders on the basis that the potential benefits of the Proposed Demerger outweigh the potential disadvantages, costs and risks.

In assessing whether the Proposed Demerger is in the best interests of Brambles Shareholders, it is important to recognise that:

- the existing economic interests of Eligible Brambles Shareholders remain unchanged. Essentially, Brambles Shareholders will be issued shares in Recall in a fixed proportion to their existing holding in Brambles
- the businesses already operate largely independently with no material operational or other synergies existing between the businesses.

Due to the nature of the transaction, it is not possible to quantify specific benefits or disadvantages, and therefore our assessment is necessarily subjective in nature and is based on an evaluation of the benefits, disadvantages and other factors having regard to the strategic, financial and current circumstances of the business.

We consider the key benefits of the Proposed Demerger include:

- enhancing the opportunity and potential for Brambles (after the Demerger) and Recall to independently focus on, develop and execute their respective strategies to maximise returns to shareholders
- enabling management to focus on their respective businesses without potential for conflicting interests and capital allocation issues
- allowing management to manage their financial policies, operational risks and capital structure having regard to the different characteristics of each business
- enhancing the prospect of a change of control transaction, which may allow shareholders to realise full underlying value for the demerged entities
- improving disclosure in relation to the demerged entities, thereby increasing analyst coverage and investors' confidence in their ability to judge and value each entity, which will increase the likelihood that the demerged entities will be held by those investors that value the respective businesses most highly
- providing Brambles Shareholders the flexibility to actively manage the level of diversification inherent in their investment portfolio by amending their relative investment in Brambles (after the Demerger) and/or Recall.

Further, the Proposed Demerger provides the demerged entities (and Brambles Shareholders) certainty of execution and clarity of direction, outcomes that were not achieved during Recall's withdrawn trade sale process in 2012. Whilst the Brambles Board considered various alternatives, including a trade sale or initial public offering, these would not provide the certainty of execution that arises from the Proposed Demerger and may have resulted in further disruptions to the operating businesses. Finally, the Brambles Board does not consider the cash potentially generated from such alternatives is currently required to support the existing operations of Brambles.

Whilst we consider these benefits compelling, we have identified several key disadvantages of the Proposed Demerger. These include:

- incremental corporate and ongoing costs to operate two separately listed entities and one-off transaction costs associated with the implementation of the Proposed Demerger
- loss of diversification at the consolidated entity level, which may expose shareholders to greater earnings volatility at the demerged entity level by being only exposed to the risks of the respective industries in which the demerged entities operate
- an increase in Recall's funding costs on a standalone basis due to the loss of the financial support and credit profile currently provided by the larger Brambles group
- potential reduction in trading liquidity (particularly with respect to Recall) as a result of the separately listed entities individually having lower market capitalisations and consequently, lower index weightings, than the current market capitalisation and index weighting of Brambles.

In relation to the costs, we consider these to be relatively minor in the context of the overall size of Brambles and Recall. In relation to the other matters and notwithstanding their subjective nature, we do not consider these disadvantages are likely to be substantial.

Our evaluation of the Proposed Demerger also considered:

- the potential for a market re-rating. We have reviewed various literature and examined the experiences of demergers in the Australian market, however, the lack of directly comparable listed companies makes it difficult to form any definitive view as to whether a market re-rating will occur. On this basis, we are of the opinion that any positive re-rating would be unlikely in the near term and would ultimately be driven by the performances of the businesses in the future, consistent with historic evidence
- that no material synergies would be lost as a result of the Proposed Demerger, which is not unexpected given the largely independent operations and customer base
- the transition risk of Recall operating as a standalone listed entity without the direct guidance of Brambles has been largely mitigated (though not eliminated) through securing transitional service arrangements with Brambles and third parties, as well as Recall already having recruited experienced senior personnel

- if the proposed dividend policies set out in the Scheme Book are implemented following the Proposed Demerger, it is likely that shareholders will receive higher combined dividends from Brambles (after the Demerger) and Recall than they have from Brambles
- the tax risks at both a company level and shareholder level have been managed to the extent possible.

The principal matters that KPMG Corporate Finance has taken into consideration in forming its opinion that the Proposed Demerger is in the best interests of Brambles Shareholders are discussed in more detail in the following sections.

2.1.2 Background

Established in 1875 to service the transport and logistics industry, Brambles has grown to become one of the world's largest providers of supply chain logistics services, specialising in providing outsourced pallet, crate and container pooling solutions. Since its listing in 1954, Brambles grew into a diversified conglomerate, comprising different industrial services and logistics businesses, through acquisition and expansion into new industries and markets. Recall, a full-service provider of information management solutions, was established by Brambles in 1999 through the integration of several existing document management businesses. During the 2000s, Brambles conducted a series of divestments of non-core business units, including Cleanaway and Brambles Industrial Services, to refocus the group. Following these divestments, Brambles was comprised of its pooling solutions businesses and Recall. Aside from the centralised head office functions, Brambles and Recall have largely operated independently, with Brambles' and Recall's key management based in Australia and the United States (US) respectively.

Since 2008, Brambles has acquired several businesses in the pooling solutions industry, targeting opportunities such as container pooling, intermediate bulk containers, reusable plastic crates (RPCs) and other pallet management and pooling businesses. Brambles has an increasing presence in emerging markets (such as Eastern Europe, Central and South America, the Middle East and Asia) and has also achieved organic growth in its existing markets through winning new customers and contracts. The strategy of the pooling solutions business contrasts with Recall, which currently operates a relatively stable, strong cash flow business with a focus on growing organically through operating efficiencies, customer growth in the unvended segment, geographic expansion and further extension of the services it provides into workflow automation and other ancillary business segments. Whilst Recall also has opportunities to grow its business through bolt-on acquisitions, it has to compete for capital resources with Brambles' much larger pooling solutions business, for which the expected returns are higher than those available in the information management solutions business.

In 2011, Brambles conducted a formal trade sale process for Recall. However, the Board concluded the proposals received did not provide sufficient value to shareholders or deliver sufficient certainty of outcome and therefore the process was withdrawn in June 2012.

The recent acquisitions of IFCO and Pallecon have demonstrated Brambles' continued focus on the pooling solutions business. These acquisitions have resulted in Recall declining in weight relative to the pooling solutions business, leading to ongoing speculation of the carve out of Recall from Brambles due to the businesses' diverging strategies and competing priorities.

2.1.3 Benefits

Greater strategic focus

Brambles is currently comprised of the pooling solutions business and the information management solutions business. These businesses have different characteristics and different growth prospects.

Whilst each business maintains its own management structure, operating within a single corporate structure means that strategies and operational decisions are rarely made in isolation of the group as a whole. Further, under Brambles' current structure, the time of the Board and senior management needs to be divided between each of the businesses and may not always be reflective of the size and earnings of the business.

Following the Proposed Demerger, each business will have a dedicated board and management team, which should enable a greater focus on their respective core businesses and growth objectives. The demerged entities can independently focus on developing and executing their strategies based on the dynamics of the industry in which they operate and the business' expected risk/return profile, whilst avoiding potential conflicts arising from competing strategies.

The Proposed Demerger into 'pure play' companies will allow a more transparent view of the companies' strategy, making it easier for investors to assess the strategy and the risks of each company. It also provides the Boards and management teams with a mandate to pursue their strategy more aggressively than would be possible if operating within a diversified conglomerate. This is supported by empirical evidence (refer to Section 7 of this report) that demergers of conglomerates operating in different industries have a greater potential to unlock value for shareholders in the long run.

Enhanced financial flexibility

The Proposed Demerger will allow Brambles and Recall to independently manage their funding requirements to best achieve their operational, financial and strategic goals without the potential for any internal conflict in relation to the allocation of capital.

As part of a consolidated group and prior to the Proposed Demerger, any capital investment would be assessed against the risk/return profile of the overall business. Given the different characteristics of each business, that could result in suboptimal operating outcomes.

In recent years, Brambles has pursued the acquisition of various pooling solutions businesses, due to the higher expected returns in this sector over those available in the information management solutions business. As such, potentially value enhancing growth strategies for Recall may not have been pursued.

This issue is likely to be encountered again in the future, further reducing Recall's contribution to Brambles, which accounted for approximately 14% of total Brambles revenue and underlying profit in

FY13[2]. As Recall reduces in importance to the overall group, so too may its ability to attract an appropriate allocation of group capital.

Following the Proposed Demerger, each entity will adopt an appropriate gearing structure tailored to its earnings profile and strategic goals, without the influence or competing priorities of the other operating business.

To enable Recall to operate independently, Brambles has arranged a new multi-currency syndicated loan facility for Recall to access following the Proposed Demerger. Recall will also be able to raise additional capital, be it in equity or debt, to support its future strategic goals. This will allow it to execute its focussed strategy without restrictions.

Increased shareholder flexibility

On implementation of the Proposed Demerger, current shareholders of Brambles will, in total, have the same ownership interest in the demerged entities as they currently hold in Brambles (except ineligible overseas investors and small shareholders who choose to sell into the Sale Facility).

However, the risk profile, growth prospects and return characteristics of Brambles (after the Demerger) and Recall differ and may appeal to different types of investors. Therefore, shareholders will have the flexibility to adjust their holdings in Brambles and Recall to match their individual risk/return profile.

Further, the Proposed Demerger will create two standalone listed entities which can be better aligned with their specific industry or market dynamics. Combined with a greater level of transparency in the demerged entities, that will enable investors to better assess the strategy and risks of each entity, which will potentially attract new investors post the Proposed Demerger.

Finally, the Proposed Demerger will allow shareholders to retain a direct ownership interest in a business with strong brand awareness and market share, which would not have been possible under a trade sale process.

Takeover potential

Takeovers or similar transactions are typically seen to create value for shareholders as the bidder is often required to pay a premium to the current traded share price to gain control of the target. Higher premiums are often observed where synergies are expected to be achieved. Therefore, a company identified as a viable takeover target will often be more 'fully priced' than a company that is not.

Diversified businesses present a deterrent for a potential acquirer who may not have sufficient funding capacity to acquire the whole business nor sufficient interest or expertise to manage businesses outside of their core focus. As such, the creation of a more focused business through a demerger process often results in the creation of a potential takeover target as well.

This is evidenced in our analysis of Australian demergers set out in Section 7 of this report. Of the 20 demergers that have been analysed since 2000, five have resulted in at least one of the demerged entities

[2] Underlying profit is a non-IFRS profit measure

being subject to a takeover within two years of the demerger date. Each of these takeovers resulted in an outperformance relative to the All Ordinaries Index and an enhancement in shareholder value.

Following the Proposed Demerger, Recall, and to a lesser extent Brambles, would potentially be more attractive to potential bidders due to:

- the more focused nature of their businesses and the lower capital required to complete an acquisition
- the expected shareholding structure being widely held by institutional investors with no substantial impediments to corporate activity, such as a large voting bloc that may have existed in a limited IPO
- the flexibility offered for investors to establish a strategic investment without the immediate requirement to launch a full takeover of the company.

Whilst these factors all suggest an increase in takeover potential, the unsuccessful trade sale process for Recall provides evidence of the difficulty in achieving a takeover price that is considered to reflect the fair value for the business in the current market.

Execution certainty

Should the Proposed Demerger be successful, it will conclude the process begun by Brambles in 2011 to divest Recall and allow Brambles to focus on its pooling solutions businesses. Whilst it is possible that alternatives may have delivered a different value outcome to Brambles Shareholders, the Proposed Demerger provides, amongst other things, execution certainty which the alternatives may not.

Better alignment of management incentives with performance

The Proposed Demerger will allow the respective Boards of Brambles and Recall to introduce new employee incentive plans, which are more directly aligned to the financial and share price performance of the standalone businesses within management control.

Currently, the employee incentive plans of Brambles and Recall management are linked to the overall share performance of Brambles. Following the Proposed Demerger, the decisions made by Brambles and, in particular, Recall will be solely reflected in their respective share prices.

It is generally acknowledged that a tailored management incentive scheme that is aligned with business performance over the long run can maximise the benefit for shareholders.

Corporate governance and disclosure

Good governance practices provide investors with additional confidence and trust to invest in the company, thereby outperforming a company with weaker corporate governance practices, though these results vary from country to country[3]. The observed outperformance from increased disclosure and better

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[3] Gompers, A, Ishii, J.L. and Metrick, A. (2003) “Corporate Governance and Equity Prices” *Quarterly Journal of Economics*, 118, 107-55 and Bauer, Gunster and Otten (2004) “Empirical Evidence on Corporate Governance in Europe”, *Journal of Asset Management*

corporate governance practices is also consistent with the uplift in market value on demerged entities, where limited information was disclosed prior to the demerger (further details outlined in Section 7 of this report).

The Proposed Demerger will result in Recall receiving dedicated Board oversight, including through the creation of an independent Audit Committee and Remuneration Committee. These committees are consistent with best practice corporate governance and will provide for additional oversight and greater transparency in disclosures, including those relating to remuneration arrangements.

Disclosure requirements will also be enhanced for Recall given its separate listing on the ASX, which will provide greater transparency of Recall's operations and performance than currently occurs. Ultimately, improved disclosure may increase analyst coverage and investors' confidence in their ability to judge and value each company, which will increase the likelihood that the demerged entities will be held by those investors that value the respective businesses most highly.

2.1.4 Disadvantages

Additional corporate and ongoing costs

Upon completion of the Proposed Demerger, Recall will incur increased standalone costs comprising:

- corporate costs associated with maintaining its own Board of Directors and with certain services previously provided by Brambles, such as accounting, legal, tax, treasury, insurance and information technology
- listing costs associated with its separate listing on the ASX, including listing fees, shareholder communications, share registry, legal and regulatory compliance costs.

Management estimates these standalone corporate and listing costs will be approximately $14 million per annum, of which $9 million are incremental to the corporate costs that Brambles allocated to the Recall business in FY13.

The risk that the establishment of Recall's standalone capabilities is more costly and time consuming than currently anticipated is unlikely to be material given that the pooling solutions business and the Recall business already largely operate as independent businesses.

We have also considered whether there are any other non-corporate costs or revenue benefits that would either be incurred or lost as a consequence of the Proposed Demerger. However, given the largely independent nature of the businesses, including the lack of common customers, we do not believe these to be material.

Following the Proposed Demerger, Recall will also form a new tax consolidated group, with any tax losses included in the Brambles tax consolidation group remaining with Brambles and therefore not available to Recall. As a consequence, the effective tax rate of Recall Holdings as a standalone entity will vary from what it would have been if it remained part of Brambles.

Impact on funding costs

Upon implementation of the Proposed Demerger, Recall will no longer benefit from the financial support and credit profile currently provided by the larger Brambles group. In establishing its own debt facilities, Recall has secured a committed syndicated debt facility totalling $800 million, of which $529 million will be used to repay Recall's current intercompany liability to Brambles[4].

In combination with the operating cash flow expected to be generated by Recall, management considers the committed syndicated facility will be sufficient to operate Recall on a standalone basis and support the stated strategic objectives.

Recall is not expected to seek a public credit rating immediately after the Proposed Demerger. However, whilst the committed syndicated facility contains market standard terms and conditions for a facility of this nature, the funding costs of Recall are likely to increase on a standalone basis following the Proposed Demerger, relative to the funding costs incurred within the Brambles group.

Brambles (after the Demerger) will retain its existing debt facilities. However, its drawn debt will reduce in accordance with the proposed repayment of the intercompany liability by Recall. Given the relative size of the Recall business, the Proposed Demerger is unlikely to materially affect the borrowing capacity or credit profile of Brambles (after the Demerger). This is evidenced by the confirmation from Brambles' primary credit rating agencies, that Brambles' current credit ratings are expected to remain unchanged as a result of the Proposed Demerger.

Loss of diversification

Following the Proposed Demerger, Brambles (after the Demerger) will no longer hold an interest in Recall and therefore will no longer benefit from the diversification of earnings inherent in Brambles' current corporate structure. Further, as standalone entities both Brambles (after the Demerger) and Recall will be smaller in size relative to the existing Brambles group.

As the pooling solutions business and the Recall business operate in separate and largely unrelated industries, each business is individually exposed to different risks and growth prospects. Whilst Recall is expected to provide a higher dividend yield, supported by relatively stable operating cash flows and moderate growth prospects, Brambles (after the Demerger) is expected to provide a higher capital growth potential, supported by higher return and growth expectations inherent in the pooling solutions business.

There is a general risk that the future financial performance or prospects of the businesses may be adversely affected by events beyond the control of management. Following the Proposed Demerger, the potential negative impact of a material adverse event on one of the businesses may no longer be reduced or offset by the performance of the other business. On the other hand, a strong performing business may no longer be penalised by an underperforming business.

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[4] Based on the pro forma historical balance sheet of Recall as set out in Section 2.16.5 of the Scheme Book.

Whilst the Proposed Demerger will result in a loss of diversification at the entity level, Brambles Shareholders would still be able to replicate this diversification from an investment portfolio perspective through maintaining their ownership in both Brambles (after the Demerger) and Recall.

Trading liquidity

Brambles had a market capitalisation of A$14.4 billion at 27 September 2013 and is currently included in all major S&P/ASX market indices. The Proposed Demerger will lead to both Brambles (after the Demerger) and Recall being separately listed entities on the ASX and individually having lower market capitalisations and consequently, lower index weightings, than the current market capitalisation and index weighting of Brambles. It is possible that this reduction in size and lower presence in the sharemarket indices may result in a lower level of institutional interest in each of the demerged entities. This may in turn reduce liquidity. However, both entities will be substantial in size and should continue to attract considerable investor interest.

The demerged entities are both expected to be included in the S&P/ASX 200 Index, the key benchmark index for institutional investors, which further mitigates the risk that a reduction in size and index weighting would have a material impact on liquidity. Accordingly, whilst there is a risk that the Proposed Demerger would result in lower trading liquidity, we consider it unlikely that this would materially affect investor interest in the demerged entities.

One-off implementation costs

Management have estimated total one-off transaction and implementation costs in relation to the Proposed Demerger to be approximately $62 million on a pre-tax basis, of which approximately $22 million will have been paid, or committed, prior to the Scheme Meeting.

One-off transaction costs associated with the Proposed Demerger primarily relate to expenses incurred in the establishment of Recall's debt facilities, restructuring costs associated with separating Recall and Brambles including associated information technology expenditures, equity settled share based payments to be granted to management of Recall, costs associated with the listing of Recall on the ASX and advisor fees.

Total one-off transaction costs as a percentage of the current market capitalisation of Brambles are not inconsistent with ratios observed for many precedent demergers.

2.1.5 Other Considerations

Market re-rating

One of the prime drivers of a demerger is the potential for value enhancement. The creation of two separately listed entities typically results in a greater level of transparency and understanding of the operations of each business, which in turn increases the likelihood of a more efficient value assessment being made by the market.

In assessing the potential of a market re-rating following the Proposed Demerger, we have considered:

- market evidence as to the performance of demergers based on empirical studies and our analysis of recent Australian demergers as set out in Section 7 of this report. It is evident, whilst not all demergers created shareholder value, the shares of the parent and demerged entity have typically outperformed the broader market over the medium term. However, due to the nature of the transactions and the uncertainty over what the performance of the parent entity would have been if the demerger had not been completed, it is difficult to argue conclusively that demergers create shareholder value. Rather, the success or otherwise of any demerger will always depend on the specific circumstances of each transaction
- the likely benefits and disadvantages of the Proposed Demerger as discussed above. It is noted that the relative share price performance in the short term may be impacted by the one-off cash transaction and incremental costs of the Proposed Demerger as they will be incurred immediately, while many of the benefits will take longer to materialise in improved earnings and cash flow, and in turn a market re-rating
- the level of disclosure and transparency provided by Brambles in relation to its businesses. Based on the size and transparency of the information management solutions businesses relative to the pooling solutions businesses, we consider it more likely that a re-rating will occur in Recall rather than Brambles. Whilst there may also be the prospect of a re-rating in Brambles, any re-rating is likely to be limited due to the size of Recall relative to Brambles
- the market valuation parameters of listed peers against which Brambles and Recall are likely to be rated following the Proposed Demerger as set out in Appendix 5. However, it is noted that Brambles is highly unusual in the sense that it is a leading global pooling solutions company with no directly comparable peers listed on any stock exchange. Similarly, there are only few listed information management solutions businesses listed around the world. Iron Mountain, whilst arguably the most comparable to Recall, is larger in size and offers a different risk/return profile as reflected by its recent application for conversion into a real-estate investment trust (REIT). Due to the lack of directly comparable listed peers, there is clearly a need for caution in attempting to derive reliable conclusions as to the likely quantum and timing of a market re-rating (if any) from market valuation parameters. It is noted though that the EBIT and EBITDA trading multiples of Iron Mountain are not too dissimilar to Brambles, which may suggest that the potential of a market re-rating in Recall is rather limited immediately after the Proposed Demerger is implemented
- the size of Recall relative to Brambles. Even if a re-rating were to occur in Recall, the impact on the hypothetical combined sharemarket value of the demerged entities may not be material given the size of Recall relative to Brambles
- the share price performance of Brambles since announcement of the Proposed Demerger. On the day of the announcement of the Proposed Demerger, Brambles' share price increased by 3.0% (from A$9.08 to A$9.35) versus the S&P/ASX All Ordinaries Index which increased by 2.6%. The demerger of Recall was broadly expected by the market subsequent to the unsuccessful trade sale efforts. This may explain the relatively low impact of the announcement on the Brambles share price that day, as well as the size of Recall relative to Brambles. More recently, Brambles' share price

dropped to a low of A$8.60 as a result of the negative market reaction to Brambles' full year results presentation, including its FY14 guidance, from where the stock recovered to a closing price of A$9.21 on 27 September 2013. It is not possible to conclusively assess whether and to what extent the current share price of Brambles incorporates any anticipation of the benefits of the Proposed Demerger, which adds to the complexity of assessing the prospects of a potential market re-rating following the Proposed Demerger. For further detail in relation to Brambles' share price performance refer to Section 6.8 of this report

- the current shareholder structure of Brambles and the trading liquidity in Brambles shares. In the short term, there is likely to be an increase in share price volatility in both Brambles and Recall until portfolio weightings and share registers are stabilised and the market becomes familiar with the risk/return profile and performance of each entity on a standalone basis. In the long term, the demerged entities should be held by those investors that assign the highest value to the respective businesses, which will increase the likelihood of any market re-rating.

On balance, we consider it unlikely that any material market re-rating will occur shortly after the implementation of the Proposed Demerger. As with most demergers, there is a risk of a period of increased share price volatility and relative share price weakness in the short term. Whilst we are unable to quantify with any certainty the extent or timing of any re-rating, the balance of market evidence does favour demergers outperforming the market over a medium term investment horizon, say one to two years. Further, based on market evidence of increased takeover activity following a demerger, shareholders may benefit even in the short term from a premium to share price that is often paid for company control and may also be paid for potential synergies.

Ultimately, the traded price of Brambles and Recall, and the quantum of any re-rating, will be influenced by a range of factors, including:

- the extent of any increase in the transparency of each entity, which may increase analyst coverage and investors' confidence in their ability to judge and value each entity
- the ability of management to realise the benefits and mitigate the risks associated with the Proposed Demerger
- the extent to which the 'pure play' entities can attract and maintain a new investor base
- the operating performance of Brambles and Recall and market perceptions as to the earnings prospects of each entity
- the performance of the respective industries in which Brambles and Recall operate and the ability of each entity to effectively adapt to new opportunities and threats, such as the trend to digitalisation in the information management industry
- the market conditions of global equity markets
- economic conditions prevalent at the time.

Transition risk

Transition risk associated with the Proposed Demerger relates primarily to the initial share trading in the demerged entities and Recall operating as a standalone business.

In respect of the initial share trading, it is possible that once the Proposed Demerger is implemented, Brambles Shareholders will adjust their portfolio holdings in both Brambles and Recall. Accordingly, until the shareholder bases of both companies are rebalanced, a risk exists that short term volatility in the share price of both Brambles and Recall may result in the combined value of Brambles (after the Demerger) and Recall being lower than the current market capitalisation of Brambles. Such short term volatility is not unusual after a demerger, as discussed in Section 7 of this report.

From an operating perspective, the proposed transformation of the Recall business into a standalone, separately listed entity with the associated organisational changes, involves some degree of risk. However, this risk is unlikely to be material given:

- the Recall business already operates largely independently
- transitional service agreements with Brambles and third parties will be implemented to assist Recall in establishing its standalone capabilities immediately following the Proposed Demerger and Recall has recruited the necessary additional personnel to be able to effectively operate on a standalone basis
- the proposed composition of the Recall Board has an appropriate combined level of independence, skills and experience for the company after listing
- the Recall senior management team has experience in the information management industry and has a proven track record of successfully managing and growing international businesses. Further, the proposed Recall Short Term Incentive arrangements and the Recall Performance Share Plan will assist Recall in attracting and retaining crucial management capabilities.

Dividends and franking credits

The future dividend policy of the demerged entities will be determined at the discretion of their respective Boards and will ultimately depend on the financial performance and cash requirements of each individual entity. Whilst the dividend policy is likely to change over time, it currently is the intention of:

- the Brambles Board to retain the annual dividend at least at the 2013 financial year level of 27.0 Australian cents per share and not rebase the dividend following the Proposed Demerger
- the Recall Board to initially target a dividend pay-out ratio of at least 60% of net profit after tax following the Proposed Demerger. Recall's first dividend is intended to be paid in September/October 2014 and be based on earnings for the six months to 30 June 2014.

In relation to the dividends’ tax status, it is noted that:

- Brambles' future dividends are expected to be franked between 20% and 30% for the near term. The unfranked components of Brambles’ dividends paid to non-Australian residents are expected to continue to be conduit foreign income and therefore not subject to Australian dividend withholding tax

- Recall’s future dividends are not expected to be franked until FY15, with the proportion of dividends to be franked then expected to be 20–40% for the foreseeable future. Recall will seek to ensure that the unfranked component of Recall's dividend paid to non-Australian residents is conduit foreign income and therefore not subject to Australian withholding tax. However, there is a risk that some or the entire unfranked component may be subject to withholding tax.

It follows that if the proposed dividend policies set out above are implemented following the Proposed Demerger, it is likely that shareholders will receive higher combined dividends from Brambles (after the Demerger) and Recall than they have from Brambles.

Restructure risks and taxation implications

There are a number of risks associated with the restructure as outlined in Section 4.3.6 to 4.3.8 of the Scheme Book, including that the demerger tax relief sought in both Australia and the US will not be available.

In both Australia and the US there are various changes to the corporate structure in order to implement the Proposed Demerger. This requires the transfer of various entities within the group. The effect of the demerger tax relief, if granted, will be such that in Australia any capital gain or loss on transfer will be disregarded and in the US the transfer will not be taxable.

With respect to Australia, Brambles has received a draft ruling from the Australian Taxation Office (ATO) indicating the demerger tax relief will be granted. In the US, should the demerger tax relief not be granted, Brambles will seek to utilise available carry forward income tax losses to reduce any cash tax payable to an immaterial amount.

Taxation implications for current Brambles Shareholders

General tax implications for Brambles Shareholders in Australia, UK and the US in respect of the Proposed Demerger are outlined in detail in Section 6 of the Scheme Book.

With respect to Australian resident shareholders, Brambles has sought a Class Ruling from the ATO confirming that demerger tax relief is available in relation to the Proposed Demerger. Whilst a final ATO ruling has not been received at the date of this report, a draft ruling has been received which indicates that this relief will be granted. The final ruling, once received, will be announced on the ASX and published on Brambles’ website.

The tax and legal advice indicates that assuming relevant demerger tax relief is received (as expected), should they choose to apply the demerger tax relief, then no adverse tax consequences will result from the Proposed Demerger for Australian residents who hold their shares on capital account as:

- any capital gain made from a CGT event happening to their Brambles Shares as a result of the Capital Reduction will be disregarded
- the cost base of their Brambles Shares will be allocated between the Brambles Shares and Recall Shares in proportion to their respective market values just after the Proposed Demerger

- they will be deemed to have acquired the relevant Recall Shares at the same time as they acquired their Brambles Shares for the purposes of determining eligibility for the CGT discount
- the amount that is taken to be a Demerger Dividend for tax purposes will not be assessable to them.

Although unlikely, if demerger tax relief is not available, then, while tax consequences may vary between shareholders, there may be an assessable capital gain for Australian resident shareholders, who may be liable for income tax on an unfranked dividend as a result of the Proposed Demerger.

We note that shareholders should consider their individual circumstances, review Section 6 of the Scheme Book for further information where it applies to their circumstances and should seek the advice of their own professional adviser.

Ineligible Overseas Shareholders

Whilst Ineligible Overseas Shareholders[5] will not be entitled to participate in the Proposed Demerger, it is noted that:

- Recall shares that would otherwise have been transferred to them under the Scheme will be sold on the ASX under the Sale Facility as soon as reasonably practicable
- their shares will be sold for market value, free of any brokerage costs or stamp duty, though tax may be payable on any profit on disposal in their country of residence
- if they wish to retain their exposure, they can acquire Recall shares through the ASX following the listing
- they represent approximately 0.3% of Brambles' listed capital.

Alternatives to the Proposed Demerger

Following a strategic review of the business, the Brambles Board concluded that the Proposed Demerger provides greater execution certainty and is more likely to enhance shareholder value over the long term than the alternatives available for Recall. The alternatives considered were:

- *the status quo.* The pooling solutions businesses and Recall have different strategies, risk/return profiles and growth prospects. Further, apart from sharing certain overhead functions, no material operational or other synergies can be realised between the businesses. If the status quo were maintained, the benefits of having a separate Board and management team focus on Recall and Brambles and allowing capital resources and financial policies to be tailored to each company's risk/return profile and growth opportunities may not be realised

[5] Ineligible Overseas Shareholders are Brambles Shareholders, who as at the Scheme Record Date are not Eligible Shareholders.

- *a trade sale.* It was evident from the withdrawn sale process for Recall in 2012 that a trade sale process bears significant execution risk, while being highly disruptive to the operating business and staff morale. Further, whilst the previous sale process for Recall attracted interest from a multitude of potential investors, the proposals received ultimately did not provide sufficient value for Brambles to proceed. As a result, instead of using the proceeds from a trade sale of Recall to reduce debt which was raised in 2011 to fund the IFCO acquisition, Brambles conducted a rights issue. There is no certainty if such a trade sale process was repeated whether an acceptable binding offer could be realised. Further, given the rights issue undertaken, Brambles does not require the cash proceeds from a trade sale, which would expose it to reinvestment risk or may lead to adverse tax consequences for shareholders if the excess capital were returned to shareholders
- *an initial public offering (IPO).* An IPO has similar issues to a trade sale, including considerable execution uncertainty and Brambles having no current need for the proceeds. It is likely that if an IPO were undertaken, it would result in a divestment of Recall at a discount to its fair value and dilution of the economic interests of Brambles Shareholders given current market conditions. There is also the risk that Brambles may be required to retain a minority shareholding in Recall for a period of time following an IPO.

2.1.6 Implications if the Proposed Demerger is not approved

In the event that the Proposed Demerger is not approved, Brambles will continue to operate in its current form and be listed on the ASX. As a consequence:

- Brambles Shareholders will continue to own shares in a diversified Brambles, but will not receive separate shares in Recall
- the advantages, disadvantages and risks of the Proposed Demerger, as summarised above, will not occur, other than with respect to the one-off transaction and implementation costs incurred prior to the Scheme Meeting of approximately $22 million
- Brambles shares may not continue to trade at prices in line with recent levels. It is not possible to conclusively assess whether and to what extent the current share price of Brambles incorporates any anticipation of the benefits of the Proposed Demerger. However to the extent it does, there would be a risk that the share price may fall if the Proposed Demerger is not approved
- restructuring alternatives to the Proposed Demerger available for Recall are unlikely to be actively pursued by the Brambles Board in the short to medium term in order to avoid further disruptions to the operating business of Recall.

2.2 The Capital Reduction will not materially prejudice the creditors of Brambles

In our opinion, the Capital Reduction **will not** materially prejudice the creditors of Brambles.

In forming our opinion, we have considered the ability of the demerged entities to meet their creditor obligations in the context of the following:

- the Capital Reduction and Demerger Dividend
- the separation into two separate entities
- the change in key financial ratios of the demerged entities
- the Brambles Cross Guarantee.

Capital reduction and Demerger Dividend

The implementation of the Proposed Demerger will result in a non-cash Capital Reduction and a non-cash Demerger Dividend which will be applied together by Brambles on behalf of Brambles Shareholders as consideration for the shares issued in Recall. Brambles estimates the Capital Reduction will reduce the capitalisation of Brambles in the order of $500 million to $800 million[6] and thus has the potential to materially prejudice Brambles' ability to pay its existing creditors. The Demerger Dividend will be the difference between the fair value of Recall shares demerged by Brambles and the Capital Reduction.

In order to assess the impact on Brambles' ability to pay its creditors, we considered key indicators of the financial performance and financial position of the demerged entities as set out in the table below.

[6] The actual amount of the Capital Reduction will depend upon the trading price of Brambles and Recall shares post the Proposed Demerger, but based on the illustrative Recall trading range set out in Figure 3.22 of the Scheme Book, the Capital Reduction amount would be in the order of $500 million to $800 million.

Table 1: Key financials

$m	Brambles Actual	Brambles (after the Demerger) Pro forma	Recall Pro forma
Financial performance for FY13			
Sales revenue	5,890	5,083	840
Underlying EBITDA	1,614	1,403	206
Underlying profit (EBIT)	1,057	908	142
Financial position at 30 June 2013			
Total assets	7,952	6,709	1,346
Net borrowings	2,714	2,349	500
Net assets	3,025	2,503	513
Debt facilities at 30 June 2013			
Total facilities	4,238	4,231	807
Facilities used	2,812	2,371	550
Facilities available	1,426	1,860	257

Source: Brambles.
Note 1: The pro forma financials of Brambles (after the Demerger) and Recall include Recall Singapore at 100%, whilst the reported actuals for Brambles in FY13 reflected Recall Singapore at 49%. This arguably limits the comparability of the respective figures pre and post the Proposed Demerger. However, given the relative size of Recall Singapore, we consider this is not material in the context of the conclusions we derive from the data outlined in this table.
Note 2: Net borrowings = total borrowings less cash and cash equivalents. Recall's pro forma net borrowings is calculated based on approximately $550 million drawn debt and approximately $50 million cash (before paying $6 million post demerger transaction costs) at 30 June 2013 foreign exchange rates.

As outlined in the table above, Brambles (after the Demerger) and Recall individually generate strong revenues and are profitable, with a positive net assets position to support their existing operations as standalone entities after the Proposed Demerger.

Further, both Brambles (after the Demerger) and Recall will have a material amount of undrawn facilities available after the Proposed Demerger.

Separation of entities

The implementation of the Proposed Demerger will result in Brambles being split into two separate entities, with the existing creditors of each Brambles business continuing to remain as creditors of their respective demerged entities. Except for one-off transaction and additional ongoing standalone costs, the business operations of each entity are not expected to materially change.

Whilst this is the case, the Recall business, which contributed only 14% of total Brambles revenue and underlying profit in FY13, will be a much smaller entity on a standalone basis. As with all smaller entities, Recall will potentially become more exposed to changes in the internal and external factors that influence its operations. This could arguably prejudice its creditors. However, Recall's risk profile is considered to be low, with its market position in the information solutions industry providing relatively stable operating cash flows, with approximately 68% of cash flows from recurring sources.

As a separate entity, Recall will also have to meet its considerable operating lease commitments of $587 million as at 30 June 2013 (of which $113 million is no later than one year). It is also noted that, the pro forma financial performance and operating cash flows already include the expenses associated with these obligations.

Whilst Recall has not been rated by a credit rating agency prior to the Proposed Demerger, the commitment of a syndicated loan facility for Recall suggests independent financiers expect Recall to being able to meet its financial obligations. This will also provide a track record for Recall's future debt refinancing or raisings.

Key financial ratios

As both demerged entities will be required to meet their own obligations and risks, in our assessment as to whether the Capital Reduction will materially prejudice the creditors of Brambles, we have considered the key financial ratios of the demerged entities based upon the pro forma financials of the demerged entities.

Brambles

The pro forma key financial ratios of Brambles (after the Demerger) for FY13 are set out below.

Table 2: Brambles (after the demerger) – Key pro forma financial ratios for FY13

FY13	Brambles Actual	Brambles (after the Demerger) Pro forma
Gearing (%)	47.3%	48.4%
Net debt/EBITDA (x)	1.7x	1.7x
Interest coverage ratio (x)	14.5x	13.9x
Current ratio (x)	0.9x	0.8x

Source: Brambles.
Note 1: Gearing ratio = net borrowings / (net borrowings + net assets) and reflect book values. Net borrowings represent gross debt less cash.
Note 2: Interest coverage ratio = Underlying EBITDA / (finance costs – finance revenue).
Note 3: Current ratio = current assets/ current liabilities.
Note 4: The pro forma financials of Brambles (after the Demerger) and Recall include Recall Singapore at 100%, whilst the reported actuals for Brambles in FY13 reflected Recall Singapore at 49%. This arguably limits the comparability of the respective figures pre and post the Proposed Demerger. However, given the relative size of Recall Singapore, we consider this is not material in the context of the conclusions we derive from the data outlined in this table.

In relation to the table above, it is noted:

- the pro forma gearing ratio of Brambles (after the Demerger) and net debt to EBITDA ratio are similar to the existing Brambles ratios
- the pro forma interest coverage ratio of 13.9 times remains substantially above the debt covenant of 3.5 times and similar to the interest coverage ratio of 14.5 times prior to the Proposed Demerger
- whilst the current ratio for Brambles (after the Demerger) is expected to be slightly below the consolidated entity current ratio, we consider the pro forma operating cash flow of $437 million after capital expenditure, interest payments and tax to be sufficient to meet its working capital obligations. This operating cash flow also includes payments for its operating lease commitments, which accounted for approximately $538 million at 30 June 2013 (of which $122 million is no later than one year). Further, it is noted that Brambles (after the Demerger) will have $1,860 million of undrawn debt facilities available after the Proposed Demerger.

We also note Brambles' primary credit rating agencies have confirmed that their respective credit ratings for Brambles are expected to remain unchanged as a result of the Proposed Demerger.

Recall

The pro forma key financial ratios of Recall for FY13 are set out in the table below.

Table 3: Recall – Key pro forma financial ratios for FY13

	Brambles Actual	**Recall Pro forma**
Gearing (%)	47.3%	49.7%
Net debt/EBITDA (x)	1.7x	2.4x
Interest coverage ratio (x)	14.5x	11.4x
Current ratio (x)	0.9x	1.2x

Source: Brambles.
Note 1: Gearing ratio = net borrowings / (net borrowings + net assets) and reflect book values. Net borrowings represent gross debt less cash.
Note 2: The Net debt/EBITDA ratio is calculated based on approximately $500 million of expected net debt at the time of the Proposed Demerger (comprising approximately $550 million drawn debt and approximately $50 million cash (before paying $6 million post demerger transaction costs) at 30 June 2013 foreign exchange rates).
Note 3: Interest coverage ratio = Underlying EBITDA / (finance costs – finance revenue).
Note 4: Current ratio = current assets/ current liabilities.
Note 5: The pro forma financials of Brambles (after the Demerger) and Recall include Recall Singapore at 100%, whilst the reported actuals for Brambles in FY13 reflected Recall Singapore at 49%. This arguably limits the comparability of the respective figures pre and post the Proposed Demerger. However, given the relative size of Recall Singapore, we consider this is not material in the context of the conclusions we derive from the data outlined in this table.

In relation to the table above, it is noted:

- the pro forma gearing ratio of Recall of 49.7% is similar to the existing Brambles ratio of 47.3%
- Recall has sufficient headroom in terms of its:
  - pro forma interest coverage ratio of 11.4 times, which will be substantially above the debt covenant of 3.5 times
  - pro forma net debt to EBITDA ratio of 2.4 times, which will be below the debt covenant of 3.5 times
- whilst the current ratio for Recall is expected to be higher than the consolidated entity current ratio, we also consider the pro forma operating cash flow of $95 million after capital expenditure, interest payments and tax to be sufficient to meet its working capital obligations. This operating cash flow also includes payments for Recall's operating lease commitments. Further, it is noted that Recall will have $257 million of undrawn debt facilities available after the Proposed Demerger.

Brambles Cross Guarantee

Certain wholly owned subsidiaries of Brambles (each of which will remain a member of the Brambles Group following the Proposed Demerger) and certain entities which will be members of the Recall Group following the Proposed Demerger are currently parties to a deed of cross guarantee (Brambles Cross Guarantee) in accordance with ASIC Class Order 98/1418. Under the Brambles Cross Guarantee, each party guarantees the debts or claims of the other parties. Whilst an application was lodged with ASIC on 16 September 2013 to revoke the Brambles Cross Guarantee insofar as it applies to members of the Recall

Group, the creditors to these businesses will be supported as if part of the consolidated group, until it takes effect six months after the date of lodgement provided that no party to the Brambles Cross Guarantee goes into certain forms of liquidation during that period.

We note the lenders under the Recall Syndicated Facility are waiving their rights against the members of the Brambles Group (after the Demerger). Brambles' main external debt financing arrangements are not covered by the Brambles Cross Guarantee but some of its transactional financing arrangements are. Brambles intends to obtain waivers from the providers of certain of those transactional financing arrangements of their rights against the members of the Recall Group which are party to the Brambles Cross Guarantee.

The guarantee effectively insulates the creditors of either Brambles (after the demerger) or Recall should the operating businesses be impacted by an industry or company specific shock over the six month period.

3 Other matters

In forming our opinion, we have considered the interests of Brambles Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Brambles Shareholders. It is not practical or possible to assess the implications of the Proposed Demerger on individual Brambles Shareholders as their financial circumstances are not known. The decision of Brambles Shareholders as to whether or not to approve the Proposed Demerger is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Brambles Shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Brambles Shareholders, including residents of foreign jurisdictions, seek their own independent professional advice.

Our report has been prepared in accordance with the relevant provisions of the Corporations Act (the Act) and other applicable Australian regulatory requirements, and has been prepared solely for the purpose of assisting Brambles Shareholders in considering the Proposed Demerger. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in US dollars unless otherwise stated.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Scheme Book to be sent to Brambles Shareholders in relation to the Proposed Demerger, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Scheme Book.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Ian Jedlin Authorised Representative	Sean Collins Authorised Representative

Contents

4 The Proposed Demerger

On 2 July 2013, Brambles announced its intention to pursue the Proposed Demerger, being a demerger of Recall, its information management solutions business, by listing a new holding company, Recall Holdings, on the ASX. Should the Proposed Demerger be successfully implemented, Brambles and Recall will operate as two standalone entities, pursuing their own objectives and outcomes.

The entities which will comprise the Recall Group are currently owned through various entities within the Brambles corporate structure. Prior to the implementation of the Proposed Demerger, Brambles will undertake a series of internal restructuring steps to transfer the relevant Recall entities under a common holding company, Recall Holdings.

The current financing arrangements for Recall will also be restructured with a new syndicated bank facility established for Recall. This syndicated bank facility will allow Recall to source its own funding from three finance entities located in Australia, the United Kingdom (UK) and the US.

The following process will be implemented if the Proposed Demerger is approved:

- the Brambles Board will pass a resolution to pay a special dividend to Brambles Shareholders (the Demerger Dividend)
- Brambles will reduce its share capital (Capital Reduction) as approved by Brambles Shareholders
- Brambles will pay Brambles Shareholders their entitlement to the Demerger Dividend and Capital Reduction (collectively the Distribution Entitlement). Instead of receiving cash, Brambles will apply these amounts as consideration for the transfer to each Brambles Shareholder (or the sale agent as described below) of one Recall share for every five Brambles shares held at the Scheme Record Date
- Recall will be separately listed on the ASX
- Brambles and Recall will operate their respective businesses independently.

As a result, Recall will no longer be part of Brambles and will have no dealings with Brambles apart from certain transitional arrangements, with all previous intercompany balances severed.

Brambles Shareholders considered Ineligible Overseas Shareholders will continue to be entitled to hold their Brambles shares following the Proposed Demerger. However, they will not be entitled to receive Recall shares through the Proposed Demerger. The Recall shares to which Ineligible Overseas Shareholders would otherwise have been entitled under the Proposed Demerger will be transferred to a sale agent appointed by Brambles and sold on the ASX as soon as practicable after the demerger date. Ineligible Overseas Shareholders will receive a cash payment based on the average sale price of those shares free of any brokerage costs or stamp duty (Sale Facility).

In addition, small shareholders, being an eligible Brambles Shareholder who individually holds 2,500 Brambles shares or less, may elect to have all of the Recall shares to which they are entitled as part of the Proposed Demerger sold under the Sale Facility.

The Proposed Demerger is subject to a number of outstanding conditions precedent, including:

- approval of both the Scheme Resolution and Capital Reduction Resolution by Brambles Shareholders at meetings to be held on 3 December 2013
- obtaining Regulatory approvals
- admission of Recall to the Official List of the ASX and permission for official quotation of Recall shares
- Court approval of the Scheme
- no restrictions, such as a temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction and no other legal restraint or prohibition preventing the Proposed Demerger is in effect at the Second Court Date[7].

The resolutions to approve the Capital Reduction and the Scheme are interdependent. The Proposed Demerger will not proceed if either of these resolutions is not approved.

Certain wholly owned subsidiaries of Brambles (each of which will remain a member of the Brambles Group following the Proposed Demerger) and certain entities which will be members of the Recall Group following the Proposed Demerger are currently parties to a deed of cross guarantee (Brambles Cross Guarantee) in accordance with ASIC Class Order 98/1418. Under the Brambles Cross Guarantee, each party guarantees the debt or claims of the other parties. A revocation deed was lodged with ASIC on 16 September 2013 to revoke the Brambles Cross Guarantee and will take effect six months after the date of lodgement provided no party goes into certain forms of liquidation during the six month period. Accordingly, until the six month period expires, Brambles will have potential exposure to the financial position of Recall and vice versa.

[7] Brambles may waive the Regulatory approvals and the no restrictions conditions.

5 Scope of the report

5.1 Purpose

Section 411(3) of the Corporations Act (the Act) requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Act include information that is material to the making of a decision by a member as to whether or not to agree with the relevant proposal. In this regard, the Directors of Brambles have requested KPMG Corporate Finance to prepare an IER (although there is no technical requirement for an IER to be prepared for the Proposed Demerger).

Section 256B and 256C of the Act outlines the requirements regarding a company proposing to undertake a Capital Reduction. Again, there is no technical requirement for an IER to be prepared in order to assist shareholders in evaluating the proposed Capital Reduction, however, the Directors of Brambles have requested KPMG Corporate Finance, as part of the IER in relation to the Proposed Demerger, to also opine on whether the proposed Capital Reduction would materially prejudice Brambles' ability to pay its creditors.

5.2 Basis of assessment

Regulatory Guide (RG) 111 "Content of expert reports", issued by the Australian Securities and Investments Commission (ASIC) provides guidance on the content of an expert report and how an expert can help security holders make informed decisions about transactions.

RG 111 specifically provides a recommended approach for control transactions, demergers and demutualisations, approval of a sale of securities under item 7 of Section 611 of the Corporations Act and compulsory acquisitions and buy-outs. In our opinion, the Proposed Demerger is most similar to that of a demerger and demutualisation as it does not involve any of the following:

- a change in the underlying economic interests of security holders
- a change of control
- selective treatment of different security holders.

RG 111.36 states that in the absence of these factors, the issue of 'value' may be of secondary importance and the expert should provide an opinion as to whether the advantages of the transaction outweigh the disadvantages. This involves a judgement by the expert as to the overall commercial effect of the proposed transaction, the circumstances that led to the proposal and the alternatives available. By weighing up the advantages and disadvantages of the proposal, the expert forms an overall view as to whether the shareholders are likely to be better off if the proposal is implemented than if it is not. Further to this, RG 111.37 states that if the demerger or demutualisation involves a scheme of arrangement and the expert concludes that the advantages of the transaction outweigh the disadvantages, the expert should say that the scheme is in the best interests of the members.

It follows that, where the advantages of the Proposed Demerger are considered to outweigh the disadvantages, the Proposed Demerger will be in the best interests of Brambles Shareholders.

In forming our opinion as to whether the Proposed Demerger is in the best interests of Brambles Shareholders, we have considered the following:

- the financial implications of the Proposed Demerger on the operations of both Brambles and Recall
- the effect on earnings and dividends attributable to existing Brambles Shareholders
- the proposed management and board structures and associated potential change in management focus on the business operations of both Brambles and Recall
- any possible share market re-rating following the Proposed Demerger
- the transitional arrangements between Brambles and Recall following the implementation of the Proposed Demerger
- the potential taxation risks and/or consequences for existing Brambles Shareholders
- any other benefits or advantages of the Proposed Demerger
- the disadvantages, costs and risks of the Proposed Demerger
- the implications for Brambles Shareholders if the Proposed Demerger is not implemented.

In forming our opinion as to whether the proposed Capital Reduction would materially impact Brambles' ability to pay its creditors, we have considered the following:

- the impact of the Capital Reduction on the financial position of Brambles
- the impact of the Capital Reduction on the credit rating of Brambles
- the impact of the Capital Reduction on the cash flows of Brambles
- the debt facilities available to Brambles post the Capital Reduction
- any other potential issues associated with the Capital Reduction.

5.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Brambles for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with management of Brambles in relation to the nature of its business operations, specific risks and opportunities, historical results and prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Brambles has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the management of Brambles. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, Brambles remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We do not make any statement in this report as to whether any forecasts or projections included in this report will be achieved, or whether the assumptions and data underlying any prospective financial information are accurate, complete or reasonable. We do not warrant or guarantee the achievement of any such forecasts or projections.

Accordingly, KPMG Corporate Finance cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period. In particular, we have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any prospective financial information. Any variations from forecasts/projections may affect our valuation and opinion.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

5.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Brambles has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to Brambles and its subsidiaries. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising Brambles. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by Brambles.

6 Profile of Brambles

6.1 Background

Established in 1875 to service the transport and logistics industry, Brambles has grown to become one of the world's largest providers of supply chain logistics services and through its subsidiary Recall, a leading provider of information management solutions. Brambles specialises in providing outsourced pallet, crate and container pooling solutions and associated logistics services to a large range of industries. In 1954, Brambles became a publicly listed company on the ASX. Following its merger with GKN's support services arm, Brambles maintained a dual listing on both the ASX and the London Stock Exchange (LSE) from 2001 until 2006, when it ceased its listing on the LSE to become a unified company solely listed on the ASX. Brambles is among the top 50 ASX listed companies by market capitalisation and at 27 September 2013 had a market capitalisation of approximately A$14.4 billion.

Since its listing in 1954, Brambles has grown significantly through acquisition and expansion into new industries and markets as outlined in the table below.

Table 4: Brambles - Corporate history

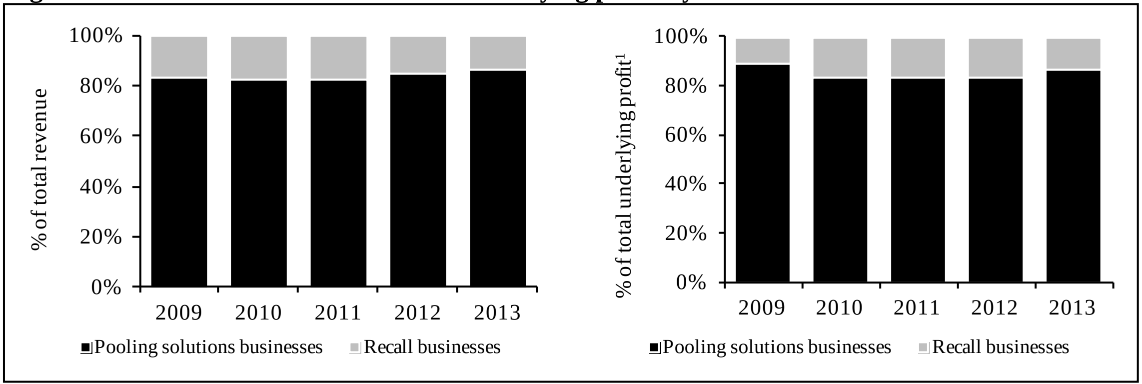
Date	Event
1958	Enters the pooling solutions business through the acquisition of the Commonwealth Handling Equipment Pool (CHEP) from the Australian Government. CHEP was originally a collection of pallets and other transportation assets left in Australia by the US army following World War II
1970	Enters the waste disposal industry
1974	Expands its pooling solutions business into the UK through the formation of the CHEP UK joint venture with Guest Keen & Nettlefold (GKN)
1978	Expands its pooling solutions business into continental Europe and subsequently establishes CHEP Germany in 1984
1990	Expands its pooling solutions business into the USA through the establishment of CHEP USA
1991	First overseas investment in document management solutions by acquiring the Vault Company, a business based in Atlanta, USA
1994	Divests its removalist and towage businesses, Grace Removals and J P Fenwick
1999	Establishes Recall, a global records management business
2001	Merges with the support services arm of GKN and commences dual listing on the ASX and LSE as Brambles Industries
2005-2006	Divests Cleanaway, its waste disposal business and Brambles Industrial Services
2006	Unifies its dual-listed structure by listing Brambles Limited, the holding company for CHEP and Recall, on the ASX
2010	Acquires Unitpool, a container pooling business servicing the aerospace industry
2011	Expands its pooling solutions businesses through the acquisition of: • Container and Pooling Solutions (CAPS), a USA based provider of intermediate bulk containers • IFCO Systems, the world's largest reusable plastic crates (RPC) business and provider of pallet management services in the US • Canadian based Paramount Pallet • JMI Aerospace and Driessen Services, which are both aerospace maintenance and repairs organisations. Brambles announces its intention to divest Recall
2012	Following an unsuccessful sale process, Brambles announces its intention to retain Recall
2013	Acquires Pallecon, provider of intermediate bulk container solutions operating in Europe and Asia Pacific Brambles announces its intention to demerge Recall

Source: Brambles.

6.2 Business operations

The business operations of Brambles currently consist of four operating segments, being pallets, RPCs, containers and Recall. Pallets, RPCs and containers currently make up Brambles pooling solutions businesses, whilst its information management solutions operations are contained within the Recall businesses. The figure below illustrates the breakdown of sales revenue and underlying profit[8] between the pooling solutions businesses and the Recall businesses as reported for the five years ended 30 June 2013.

Figure 1: Brambles – Sales revenue and underlying profit by business



Source: Brambles 2010, 2012 and 2013 Annual Report.
Note 1: Underlying profit excludes head office expenses.

The majority of Brambles' revenue is derived from its pooling solutions businesses, which increased its share of total sales revenue from 82.9% in the year ended 30 June 2009 (FY09) to 86.3% in FY13. This was a result of the revenue of the pooling solutions businesses growing at a higher compound annual growth rate (CAGR) of 11.1%, in part due to acquisitions, compared to 4.2% for Recall over the period from FY09 to FY13.

With regard to underlying profit excluding corporate costs, the pooling solutions businesses and the Recall businesses contributed 86.8% and 13.2% respectively in FY13.

6.2.1 Pooling solutions businesses

Brambles' pooling solutions businesses are focussed on the outsourced management of reusable and returnable pallets, crates and containers (the Pooling Equipment) and operate under both the CHEP and IFCO brands. Headquartered in Sydney, Australia, Brambles owns and operates pooling equipment in more than 50 countries spanning developed markets in North America, Europe and Australasia, and emerging markets in South America, Eastern Europe, South East Asia, South Africa and the Middle East. The pooling solutions businesses primarily serve customers in the consumer goods sector, including the fresh food, dry grocery, retail and general manufacturing industries.

Brambles' pooling solutions businesses can draw upon a global pool of approximately 450 million pallets, crates and containers supported by a global network of approximately 850 service centres, many of which

[8] Underlying profit is defined as profit from continuing operations before financing costs, tax and significant items.

are outsourced and therefore improve Brambles' strategic flexibility. Brambles enables its customers to reduce their supply chain costs through eliminating the need for them to own and operate their own pooling equipment.

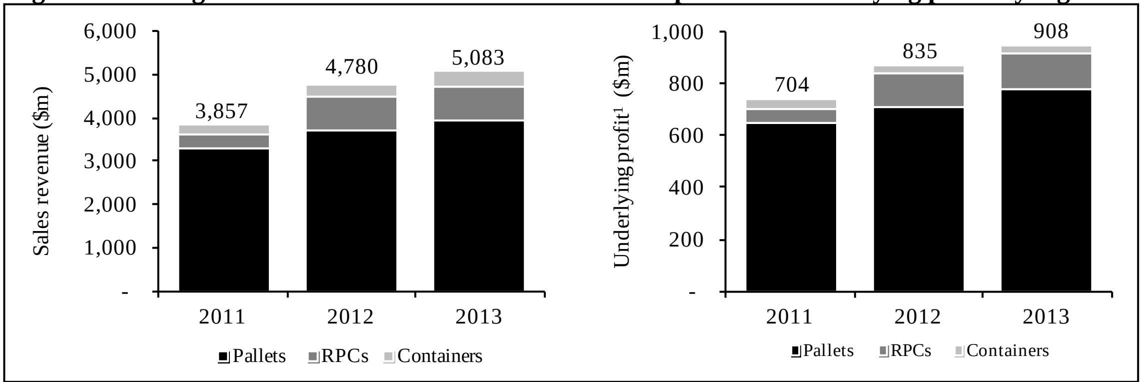
Brambles derives revenue by charging customers fees for their use of the Pooling Equipment. Fees generally differ by geographic location and the types of equipment being issued. As part of the pooling model, customers are generally not obliged to use a minimum number of items of Pooling Equipment nor are they expected to hold the equipment for any minimum period of time. Brambles' cost base includes depreciation, recovery of the equipment, losses, transport and repairs. In addition, Brambles maintains ownership of the Pooling Equipment at all times.

Under the Brambles pooling model, the Pooling Equipment is issued directly to the customer, from a service centre and the customer utilises the Pooling Equipment to transport goods through the supply chain. Once emptied, the Pooling Equipment is returned to a service centre where it is inspected and if necessary repaired before being re-issued to the next customer. In some specific pooling models, the Pooling Equipment can be exchange a number of times throughout the supply chain before being returned to a service centre.

In addition to its pooling platform, Brambles also provides supply chain optimisation, transport and asset management services to its customers. During FY13, these services contributed approximately 8.3% of revenue in the pooling solutions businesses.

The figure below illustrates the breakdown of sales revenue and pro forma underlying profit by segment for the pooling solutions businesses for the three years ended 30 June 2013.

Figure 2: Pooling solutions businesses – Sales revenue and pro forma underlying profit by segment



Source: Brambles.
Note 1: Total pro forma underlying profit includes head office expenses of $43 million in FY11, $39 million in FY12 and $39 million in FY13.

In FY13, sales revenue derived by the pallets segment contributed the largest portion of sales revenue (77.6%) in the pooling solutions businesses, followed by RPCs (16.0%) and containers (6.4%). Similarly in FY13, underlying profit (excluding corporate overheads) derived by the pallets segment contributed the largest portion of underlying profit (82.4%) in the pooling solutions businesses, followed by RPCs (14.6%) and containers (3.0%).

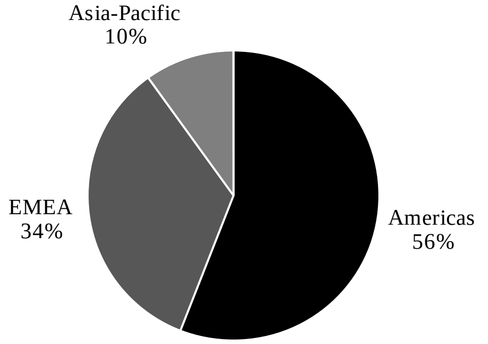
The significant increase in revenue and underlying profit in FY12 was primarily driven by the acquisition of IFCO Systems, a leading provider of pooled RPCs to the food supply chain worldwide and of pallet management services in the US.

Pallets

The pallets segment is the largest segment of the pooling solutions businesses and offers the pooling of wood pallets primarily under the CHEP brand. In certain geographies, CHEP also offers the pooling of plastic pallets for specific applications. Due to its relatively low cost to manufacture and its standardised size, wood pallets have established themselves as the industry standard. The pallets segment serves a variety of customers, primarily in the consumer goods, dry food and grocery industries.

The pallets segment operates across a wide range of geographies spanning North and South America (the Americas), Europe, Africa and the Middle East (EMEA), and Asia Pacific. Illustrated in the figure below is a breakdown of the pallet segment revenue by region for FY13.

Figure 3: Pallets – Revenue by region (FY13)



Source: Brambles.

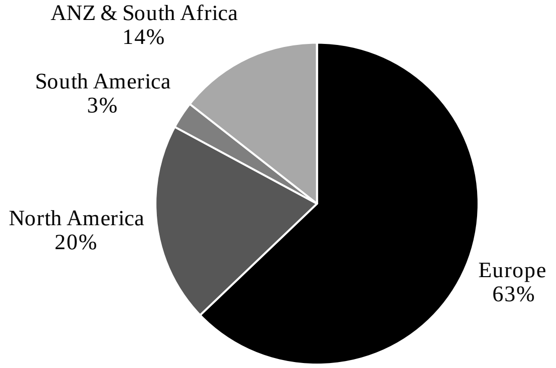
The pallets segment also offers pallet management services under both the IFCO and Paramount Pallets brands and transport management software under its LeanLogistics business.

RPCs

Under both the CHEP and IFCO brands, the RPCs segment offers pooling solutions for reusable and durable high quality plastic crates (RPCs) that are shipped through the supply chain and displayed in a retail environment with minimal handling.

The RPCs segment primarily serves the fresh produce sector across a wide range of geographies including Europe, North and South America, South Africa and Australia and New Zealand. Illustrated in the figure below is a breakdown of the RPCs segment revenue by region for FY13.

Figure 4: RPCs – Revenue by region (FY13)



Source: Brambles.

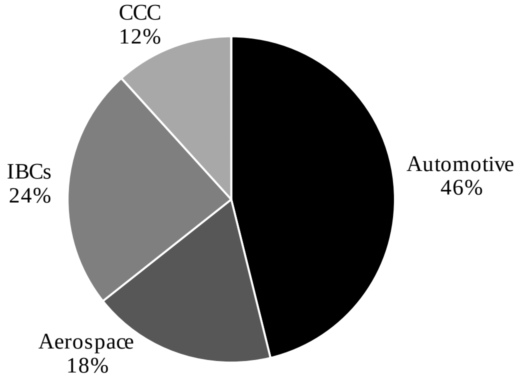
Containers

Predominantly under the CHEP brand, the containers segment operates in the following four divisions:

- *CHEP Aerospace Solutions (Aerospace)*, which owns and operates a pool of unit load devices used to transport air cargo
- *CHEP Automotive and Industrial Solutions (Automotive)*, which owns and operates a pool of containers and crates used to transport parts in the automotive supply chain
- *CHEP Pallecon Solutions*, which owns and operates a pool of intermediate bulk containers (IBCs) used to transport bulk goods and raw materials
- *CHEP Catalyst and Chemical Containers (CCC)*, which owns and operates a pool of containers used to transport spent catalysts for customers operating in the refining industry.

Illustrated in the figure below is a breakdown of the containers segment revenue by division for FY13.

Figure 5: Containers – Revenue by division (FY13)



Source: Brambles.
Note: Pallecon Solutions (which forms part of the IBCs segment) was acquired in December 2012, therefore the results for FY13 only reflect half a year's contribution from Pallecon.

Pooling solutions industry

Brambles is the leading provider of pallet, RPCs and container pooling solutions primarily through the CHEP and IFCO brands in its key markets. Competition is predominantly driven by smaller regional industry participants. The Pooling Equipment offered by Brambles is recognised as the industry standard with the main substitute being non-propriety Pooling Equipment. Specifically, non-propriety pallets, often referred to as “white wood”, which differ in design and quality to those manufactured under the CHEP brand, are generally purchased directly from a manufacturer or a recycler and ownership is passed with the goods as the goods are passed through the supply chain. High barriers to entry exist in the pooling solutions industry given the substantial capital requirements associated with the purchase of pooling equipment and the establishment of a transport and service centre network.

Given Brambles provides services to its customers through various elements of their supply chains, the demand for its pooling solutions offerings is largely dependent on the demand for its customers’ end products. As most of Brambles’ customers operate in the consumer goods sector, key industry drivers include:

- *real household disposable income*, as real disposable income increases consumers are more likely to increase their spending and therefore demand for consumer goods
- *population growth*, there is a positive correlation between population growth and the demand for consumer goods, therefore as the population increases demand for consumer goods is likely to increase.

Further, the demand for Brambles’ Pooling Equipment and associated services is also impacted by:

- *price of alternative products*, in particular the price of “white wood” pallets, as the price of “white wood” pallets increases so does the demand for CHEP branded pallets
- *growth and expansion of retail networks*, as the retail networks of customers grow so does the demand for pooling equipment and associated services given that the complexity of the customers’ supply chains is also likely to increase
- *scale of operations*, with increasing scale, pooling solutions providers may be able to manage their pooling equipment in a more cost effective manner, which may increase demand for outsourced management of pooling equipment if such cost synergies are shared with customers
- *innovation and technology*, innovative operating models, efficient information systems and high quality pooling equipment are key levers to differentiate the value proposition of a pooling solutions provider, which in turn is likely to drive demand for its pooling equipment and associated services. Further, the ability to tailor pooling solutions to the specific needs of customers is likely to reduce customer churn.

6.2.2 Recall businesses

Recall is a global provider of information management solutions headquartered near Atlanta, Georgia. Established by Brambles in 1999 through the integration of several existing document management businesses, Recall has evolved into a full-service provider of information management solutions, spanning both physical and digital information, to meet the diverse and evolving information management needs of customers.

Recall offers integrated storage, access, workflow automation, backup protection and certified destruction of its customers' information assets across the information media spectrum with over two-thirds of total revenues underpinned by stable recurring non-cyclical revenues and 16 of its top 20 customers contracted for over twelve years. Its customer base is highly diversified with its top ten customers contributing only 13% of total FY13 revenue and its top 20 customers contributing 17%.

Recall is geographically diverse, managing a global network of 308 dedicated facilities strategically located across 23 countries of operation, with leading positions in North America (158 facilities), Europe (77 facilities), Australia and New Zealand (ANZ) (47 facilities), Brazil and Asia (26 facilities). Recall leases the majority of its facilities with long term leases and options to renew. Recall actively reviews its facilities to realise cost or operating efficiencies, such as the consolidation of sites into megacentres.

As at 30 June 2013, Brambles held a 49% interest in CISCO Recall Total Information Management Pte Ltd (Recall Singapore), a Singaporean entity that was operated as a joint venture with Certis CISCO Security Pte Ltd (Certis) which owned the other 51% interest in Recall Singapore. Subsequently, Brambles has agreed with Certis to purchase the remaining 51% interest[9]. Prior to the Proposed Demerger, Recall will acquire Brambles' 100% interest in Recall Singapore. As such, references to Recall and Recall's pro forma historical financial information assume 100% ownership of Recall Singapore.

Core services within Recall's integrated information management offering include:

- document management solutions, business process automation and digital document management (DMS)
- secure destruction services (SDS)
- data protection services (DPS).

Recall generates revenue primarily from the following sources:

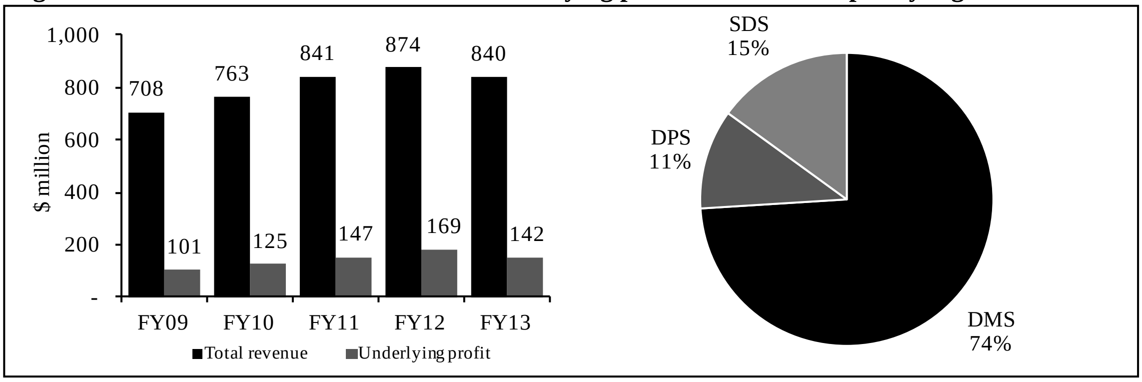
- *storage fees.* Recurring revenue is derived from the provision of services through long term contracts under which customers are charged fees based on the quantity of information under management
- *non-storage fees.* Recurring and activity-based revenue is derived from the provision of services including stored information retrieval, document and data tape pick-up or destruction and on-demand document conversion
- *consulting fees.* Revenue is derived from the provision of consulting services, specifically in relation to customers information management needs assessments

[9] A share purchase agreement was signed on 13 September 2013 with close expected to occur on 31 October 2013.

- *termination fees.* Revenue is derived when certain customers agreements are terminated or expire
- *paper and paper recycling.* Revenue is derived from the sale of shredded paper as recycled paper and the sale of recycled metals from digital device destruction.

The figure below illustrates both pro forma revenue and pro forma underlying profit of the Recall businesses for the five years ended 30 June 2013 and the breakdown of revenue by segment in FY13.

Figure 6: Recall – Pro forma revenue and underlying profit and revenue split by segment in FY13

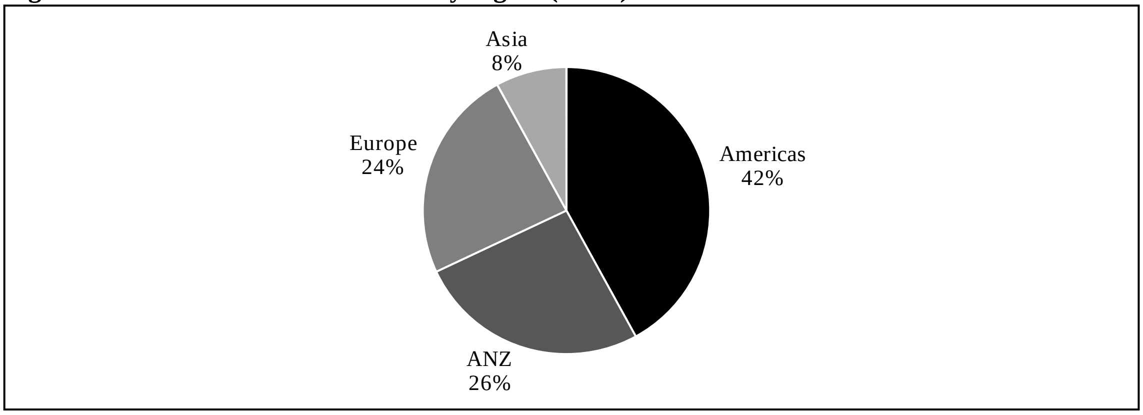


Source: Brambles.
Note: Recall pro forma revenue and underlying profit assumes Recall held a 100% interest in Recall Singapore.

Over the past five years, total pro forma revenue and pro forma underlying profit have grown at a CAGR of 4% and 9% respectively, primarily driven by growing demand for physical document management solutions with DMS reflecting 74% of FY13 revenue. The decline in revenue in FY13 was primarily driven by a decline in transactional activity and paper prices.

As illustrated in the figure below, the majority of Recall's FY13 pro forma revenue was generated in developed markets. It is expected that future growth will be primarily driven by accessing the substantial unvended segment of the information management solutions market and from the emerging market economies of Asia and South America, with the potential for further acquisitions to expand its operations.

Figure 7: Recall – Pro forma revenue by region (FY13)



Source: Brambles.

Document Management Solutions

DMS represents the largest segment of the Recall businesses, offering efficient and secure document management solutions for both physical and digital documents. It comprises of Physical Document Management Solutions (DMSP) and Digital Document Management Solutions (DMSD). Recall works in partnership with its customers to ensure they have access to their stored information in an efficient manner, delivered through technology enabled information centres, web-based customer interface, secure vehicles and innovative product offerings. Recall also provides its customers with expert knowledge and consulting on information management and program implementation.

Physical Document Management Solutions

DMSP provides customers with safe and secure indexing, storage and retrieval on demand of critical physical documents. Key customer segments include the financial and legal services, healthcare and government sectors.

DMSP generates revenues from long term agreements for the storage of physical information and activity based revenues (such as a fee per transaction and fees for permanent removal and destruction of documents). In FY13, Recall had securely stored more than 106 million cartons of customer information, reflecting an average carton growth of c.5% per annum over the five years to FY13. Long term-agreements vary between customers, with most falling within the three to five year range, with seven to ten years more common for larger customers.

Digital Document Management Solutions

DMSD provides customers with capture, indexing, storage and retrieval of digital information and integration of digital information into workflow processes and systems, as well as the conversion of critical information to digital formats which can be accessed through multiple channels, including online or through mobile devices.

DMSD generates recurring fees from licensing its proprietary online tracking and retrieval software, as well as activity based revenues (fees for consulting services, set up and processing on a per image or document basis).

Secure Destruction Services

SDS provides customers with confidential certified destruction of sensitive documents and other media items of critical value, including secure and eco-friendly destruction of digital assets. SDS distributes and services bins used to collect confidential information before securely transporting and destroying the materials onsite or at a Recall facility.

Recall generates recurring SDS revenues by charging customers for the number of bins serviced and from selling shredded paper from physical destruction into the recycling market (based on volume of paper shredded and market price of recycled paper).

Data Protection Services

DPS provides customers with secure offsite storage, as well as the rotation, protection and recovery of computer backup data which is integral to business continuity planning and disaster recovery. DPS also provides advice on data retention and destruction policies.

Recall generates recurring DPS revenues from long term agreements for the storage of customer data tapes, and activity based DPS revenues from fees charged per transaction for providing retrieval or access to customer data tapes.

Information management industry

Based on industry research, Recall management estimates the market size of the global information management industry to be at least $20 billion per annum. Information management solutions can be performed either in-house by customers (unvended) or outsourced to a third party such as Recall (vended). For the physical document management market, which addresses the principal part of Recall's business, Recall management estimates approximately 65% of the global market to be unvended. This presents a continuing opportunity for Recall as clients face cost pressures, increasing volumes of documents, globalisation challenges, regulatory documentation requirements, increasing litigation and data security issues (theft and data breaches).

The global information management market is highly fragmented, with Recall and Iron Mountain being the two leading global players in the industry. Competition within the industry is primarily driven by location, services offered, security standards, efficiency and innovation, standardisation, customer relationships and price. Recall is a well established brand in the industry, with a strong market position in a competitive market environment where customers typically become entrenched with the provider over time due to the complications of moving documents and "perm-out" fees charged for removal of documents.

The impact on the information management industry from increasing digitalisation of information is difficult to predict. Whilst the trend to digitalisation will likely drive a steady substitution from paper to electronic media, the volume and complexity of information management is also likely to increase, which provides an opportunity for outsourced document management processes. Despite of the trend to digitalisation, regulatory requirements for storage of physical documentation, the significant cost of converting physical documents to digital media and the slow uptake in using paperless processing suggests physical information storage is likely to remain the primary storage solution in the short to medium term. As a result, physical data is expected to continue to grow, however at a slower pace than that of digital data.

6.3 Financial performance

The financial performance of Brambles for the three years ended 30 June 2013 is summarised in the table below.

Table 5: Historical financial performance of Brambles

For the year ended 30 June $m	2011	2012	2013
Sales revenue			
Pallets	3,313	3,744	3,944
RPCs	310	760	813
Containers	234	277	326
Recall	815	845	807
Total segment sales revenue	4,672	5,625	5,890
Other income[1]	135	130	145
Total revenue	**4,807**	**5,755**	**6,035**
Share of results of joint ventures	6	6	6
Total expenses[1]	(3,477)	(4,199)	(4,427)
Underlying EBITDA	**1,337**	**1,562**	**1,614**
Depreciation and amortisation	(480)	(552)	(557)
Underlying profit			
Pallets	655	715	780
RPCs	54	126	139
Containers	38	33	28
Recall	145	174	144
Brambles HQ	(35)	(38)	(34)
Underlying profit	**857**	**1,010**	**1,057**
Significant items	(48)	(71)	(46)
Operating profit	**809**	**939**	**1,011**
Finance revenue	17	22	20
Finance costs	(145)	(174)	(131)
Operating profit before tax	**682**	**787**	**900**
Tax expense	(210)	(212)	(260)
Profit from continuing operations	472	575	640
Profit from discontinued operations	4	1	1
Profit for the year	**475**	**576**	**641**
Basic earnings per share (cents)	*32.9*	*38.9*	*41.2*
Basic earnings per share (AU cents)[2]	*33.3*	*37.7*	*40.1*
Dividend per share (AU cents)	*26.0*	*26.0*	*27.0*
Dividend payout ratio (%)	*78.0%*	*69.0%*	*67.3%*
Amount of dividend franked (%)	*20.0%*	*25.0%*	*30.0%*
Sales revenue growth (%)	*12.7%*	*20.4%*	*4.7%*
Underlying EBITDA margin (%)	*27.8%*	*27.1%*	*26.7%*
Underlying profit margin (%)	*17.8%*	*17.5%*	*17.5%*
Interest coverage ratio (x)[3]	*10.5x*	*10.3x*	*14.5x*

Source: Brambles Annual Report 2012 and 2013.
Note 1: Other income and total expenses have been adjusted to exclude significant items.
Note 2: Basic earnings per share in Australian dollars have been translated at the average exchange rate for the respective financial year.
Note 3: Interest coverage ratio calculated as underlying EBITDA divided by net finance costs.

In relation to the table above, it is noted:

- in FY13, total sales revenue increased by 4.7% to $5,890 million, or 6.5% on a constant currency basis. This increase was driven by growth in the pooling solutions businesses of 6.3%, which was partly offset by a decline in sales revenue derived from Recall, primarily as a result of a decline in transactional customer activity
- other income relates to net gains on disposals of property, plant and equipment and other operating income
- share of results of joint ventures represents Brambles share of income from its investments in:
  - Recall Singapore, an information management business located in Singapore. We note subsequent to 30 June 2013, Brambles acquired Certis' 51% interest in the joint venture
  - Recall Becker GmbH & Co. KG, a document management services business located in Germany
  - IFCO Japan Inc, a RPC pooling business located in Japan
- for the purposes of deriving underlying profit, management identified and excluded the following significant items:

Table 6: Brambles – Significant items

For the year ended 30 June $m	2011	2012	2013
Acquisition related costs	(19)	(3)	(5)
Restructuring and integration costs	(29)	(53)	(22)
Recall transaction costs	-	(21)	(4)
Impairment of software development costs	-	-	(15)
Pension costs	-	(6)	-
Foreign exchange gain on capital repatriation	-	12	-
Total	**(48)**	**(71)**	**(46)**

Source: Brambles Annual Report 2012 and 2013.

- underlying profit increased by 5% to $1,057 million, or 7% on a constant currency basis, in FY13. This was primarily driven by continued sales growth in all regions of the pooling solutions businesses led by Pallets Americas, RPCs, improving sales mix, operational efficiencies and asset efficiency driving improved capital performance
- profit from continuing operations increased by 11.3% in the year ended 30 June 2013, primarily driven by lower interest costs as a result of lower average net debt and lower interest rates. The effective tax rate on operating profit before tax increased from 27% to 29% in FY13, primarily due to a higher share of profits generated from Brambles' US operations.

6.4 Financial position

The financial position of Brambles as at 30 June 2011, 2012 and 2013 is summarised in the table below.

Table 7: Historical financial position of Brambles

As at 30 June **$m**	**2011**	**2012**	**2013**
Cash and cash equivalents	139	174	129
Trade and other receivables	1,050	1,055	1,124
Inventories	57	48	56
Other assets	68	75	72
Total current assets	1,314	1,352	1,381
Other receivables	10	9	9
Investments	17	17	20
Property, plant and equipment	4,279	4,139	4,408
Goodwill	1,694	1,607	1,737
Intangible assets	404	362	337
Deferred tax assets	36	38	48
Other assets	15	22	12
Total non-current assets	6,455	6,193	6,571
Total assets	**7,768**	**7,546**	**7,952**
Trade and other payables	1,264	1,177	1,254
Borrowings	326	86	157
Derivative financial instruments	6	5	10
Tax payable	103	47	63
Provisions	189	90	111
Total current liabilities	1,888	1,405	1,594
Borrowings	2,812	2,778	2,686
Provisions	20	30	26
Retirement benefit obligations	37	59	51
Deferred tax liabilities	529	506	545
Other liabilities	30	28	24
Total non-current liabilities	3,428	3,401	3,333
Total liabilities	**5,317**	**4,805**	**4,927**
Net assets	**2,451**	**2,740**	**3,025**
Contributed equity	14,370	6,484	6,619
Reserves	(14,717)	(6,689)	(6,748)
Retained earnings	2,798	2,945	3,155
Parent entity interest	2,451	2,740	3,025
Non-controlling interest	-	-	-
Total equity	**2,451**	**2,740**	**3,025**
Shares on issue at year end (million)	*1,479.4*	*1,536.1*	*1,557.4*
Net assets per share ($)	*1.66*	*1.78*	*1.94*
Net tangible assets per share ($)[1]	*0.24*	*0.50*	*0.61*
Gearing (%)[2]	*55.0%*	*49.5%*	*47.3%*

Source: Brambles Annual Report 2012 and 2013.
Note 1: Calculated as net assets less goodwill and intangible assets divided by total shares on issue at year end.
Note 2: Calculated as total borrowings less cash (net borrowings) divided by the sum of net borrowings and net assets.

In relation to the table above, it is noted:

- cash and cash equivalents consist of $99 million of cash at bank and in hand and $30 million of short term deposits. The balance of cash and cash equivalents as at 30 June 2013 has decreased by $45 million primarily as a result of acquisitions made throughout the year (Pallecon) which were settled in cash
- investments relate to Brambles' 49% interest in Recall Singapore, 50% interest in Recall Becker GmbH & Co. KG and 33% interest in IFCO Japan Inc. In FY13, investments increased by $3 million as a result of the acquisition of an interest in IFCO Japan Inc
- property, plant and equipment consists of land and buildings with a carrying value of $122 million and plant and equipment with a carrying value of $4,286 million. Plant and equipment primarily reflects the pooling equipment of Brambles
- intangible assets consists of internally generated software, acquired customer relationships and customer lists and agreements
- borrowings consist of unsecured bank loans, loan notes, finance leases, overdraft facilities and other loans. The expiry dates of committed borrowing facilities and loan notes extend to November 2017 and April 2020 respectively, with an average term to maturity of 3.6 years
- Brambles has entered into operating leases in respect of offices, operational locations and plant and equipment. As at 30 June 2013, Brambles had total outstanding commitments relating to these leases of $1,113 million, of which $538 million related to the pooling solutions businesses and $575 million[10] related to the Recall businesses.

6.5 Cash flow

The historical cash flow of Brambles for the three years ended 30 June 2013 is summarised in the table below.

[10] Excluding Recall Singapore.

Table 8: Historical cash flow of Brambles

For the year ended 30 June $m	2011	2012	2013
Cash flows from operating activities			
Receipts from customers	5,210	6,218	6,605
Payments to suppliers and employees	(3,816)	(4,759)	(4,962)
Cash generated from operations	1,395	1,459	1,643
Dividends received from joint ventures	6	4	4
Interest received	5	6	4
Interest paid	(170)	(164)	(120)
Income taxes paid on operating activities	(222)	(215)	(191)
Net cash inflow from operating activities	1,014	1,089	1,340
Cash flows from investing activities			
Payments for property, plant and equipment	(765)	(949)	(905)
Proceeds from sale of property, plant and equipment	101	94	111
Payments for intangible assets	(46)	(54)	(37)
Costs incurred on disposal of businesses	(2)	-	-
Acquisition of subsidiaries, net of cash acquired	(1,050)	(23)	(179)
Net cash outflow from investing activities	(1,763)	(933)	(1,010)
Cash flows from financing activities			
Proceeds from borrowings	3,184	1,722	1,586
Repayments of borrowings	(2,488)	(1,710)	(1,680)
Net inflow/(outflow) from hedge instruments	(10)	5	7
Proceeds from issues of ordinary shares	231	327	117
Dividends paid, net of Dividend Reinvestment Plan	(224)	(398)	(426)
Net cash (outflow)/inflow from financing activities	694	(55)	(395)
Net increase/(decrease) in cash and cash equivalents	**(55)**	**101**	**(66)**
Cash and deposits, net of overdrafts, at beginning of the year	123	80	153
Effect of exchange rate changes	12	(29)	(12)
Cash and deposits, net of overdrafts, at end of the year	**80**	**153**	**75**

Source: Brambles Annual Report 2012 and 2013.

In relation to the table above, it is noted:

- net cash inflow from operating activities increased by $251 million in FY13 primarily due to an increase in sales and in turn receipts from customers, a decrease in interest paid as a result of a decrease in average net debt and interest rates and a decrease in tax paid
- net cash outflow from investing activities increased during FY13 as a result of the acquisition of Pallecon in December 2012
- payments of dividends increased by A$0.05 per share during FY13.

6.6 Taxation

Under the Australian tax consolidation regime, Brambles and its Australian subsidiaries formed a tax consolidated group in 2006. In addition, Brambles, as the head entity of the tax consolidated group, and its Australian subsidiaries have entered into a tax sharing agreement in order to allocate income tax expense.

At 30 June 2013, Brambles had carried forward tax losses of $1,302 million which are available for offset against future profits. A deferred tax asset of $275 million has been recognised in respect of these tax losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of $450 million due to the unpredictability of future profit streams in the relevant jurisdictions.

At 30 June 2013, Brambles had $71.8 million worth of franking credits available for subsequent financial years based on a tax rate of 30%.

6.7 Capital structure and ownership

As at 6 August 2013, Brambles' issued capital consisted of the following:

- 1,557,435,403 fully paid ordinary shares
- 12,724,155 share options and performance share awards with respect to Brambles shares issued to employees with various exercise and expiry dates.

As at 6 August 2013, there were 62,255 registered Brambles Shareholders and 2,911 registered holders of share options. Brambles Shareholders primarily consist of custodian and institutional nominee companies with the top ten Brambles Shareholders accounting for approximately 81% of the ordinary shares on issue as summarised in the table below.

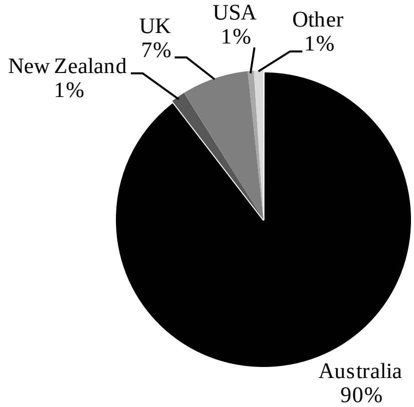
Table 9: Top ten Brambles Shareholders as at 6 August 2013

Shareholder	Total number of shares held	% of shares on issue
HSBC Custody Nominees (Australia) Limited	422,702,565	27.1%
J P Morgan Nominees Australia Limited	315,261,202	20.2%
National Nominees Limited	287,862,165	18.5%
Citicorp Nominees Pty Limited	78,905,089	5.1%
BNP Paribas Noms Pty Ltd <DRP>	45,319,515	2.9%
J P Morgan Nominees Australia Limited <Cash Income A/C>	41,923,544	2.7%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	36,303,872	2.3%
AMP Life Limited	11,963,661	0.8%
Australian Foundation Investment Company Limited	11,173,530	0.7%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	8,402,043	0.5%
Total shares held by top ten shareholders	**1,259,817,186**	**80.9%**
Other shareholders	297,618,217	19.1%
Total shares on issue	**1,557,435,403**	**100.0%**

Source: Brambles Annual Report 2013.

As illustrated in the figure below, the majority of Brambles Shareholders are located in Australia accounting for approximately 90% of the total shareholder base.

Figure 8: Geographical spread of Brambles Shareholders



Source: Brambles.

The spread of Brambles Shareholders as at 6 August 2013 is set out in the table below.

Table 10: Spread of Brambles Shareholders as at 6 August 2013

Size of holding	Number of shareholders	Number of shares	% of shares on issue
1 to 1,000	26,405	12,851,184	0.8%
1,001 to 5,000	27,450	64,683,869	4.2%
5,001 to 10,000	5,156	36,107,846	2.3%
10,001 to 100,000	3,076	63,716,428	4.1%
100,001 and over	168	1,380,076,076	88.6%
Total	**62,255**	**1,557,435,403**	**100.0%**

Source: Brambles Annual Report 2013.

In relation to the table above, we note that approximately 0.3% of Brambles Shareholders by number hold more than 88% of the ordinary shares in Brambles.

As part of its remuneration structure, Brambles currently operates two employee share schemes consisting of:

- *Brambles Performance Share Plan*, whereby Brambles grants to its managers conditional rights, or performance rights, to receive Brambles shares or the cash equivalent
- *Brambles MyShare Plan*, whereby both full-time and part-time Brambles employees are offered the opportunity to acquire up to A$5,000 worth of Brambles shares per annum together with a corresponding conditional right to receive one Brambles share for every Brambles share acquired for no consideration two years after the acquisition subject to certain conditions.

6.8 Share price performance

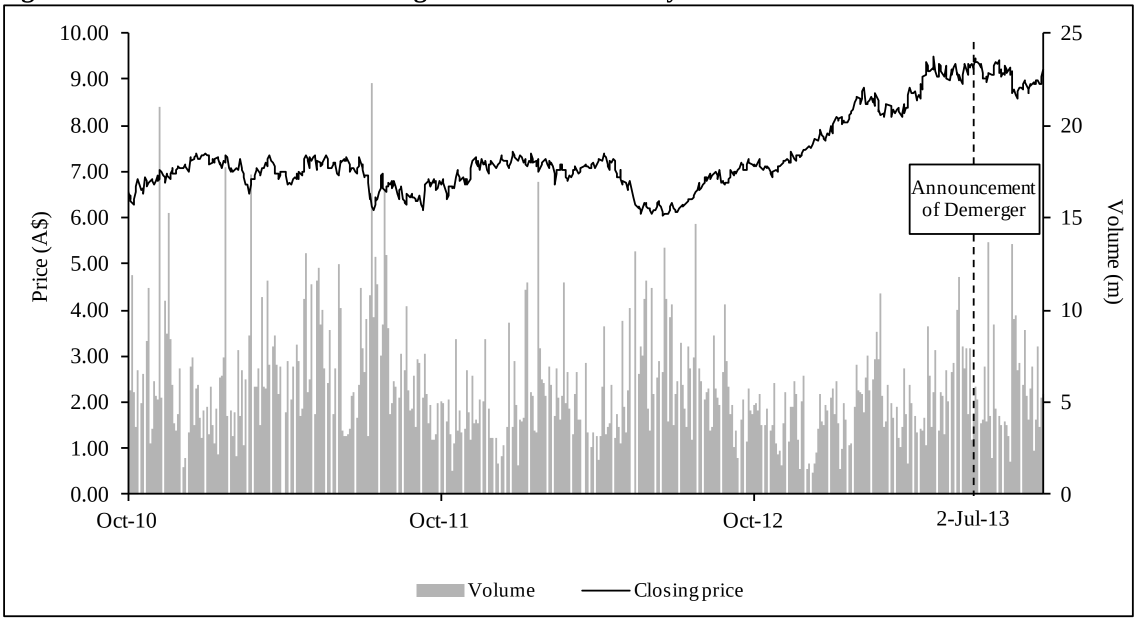
In assessing Brambles' share price performance, we have:

- analysed Brambles' history and volume of trading over the period from 1 October 2010
- compared the Brambles share price to the S&P/ASX 200 Index and the S&P/ASX 200 Industrials Index over the same corresponding period
- analysed the trading liquidity of Brambles shares for the year ended 27 September 2013.

6.8.1 Price and volume history

Brambles' history and volume of trading over the period from 1 October 2010 to 27 September 2013 is illustrated in the figure below.

Figure 9: Price and volume of trading in Brambles ordinary shares



Source: S&P Capital IQ.

In the period from October 2010 to July 2012, the share price of Brambles traded within a range of approximately A$6.00 to A$7.50. Since July 2012, Brambles' share price increased strongly and reached a high of A$9.50 in May 2013, supported by a general upwards trend in global equity markets. Further, given its exposure to overseas markets, in particular the US, Brambles, and in turn its share price, is well positioned to leverage off the continuing recovery trend of the US economy.

On the day of the announcement of the Proposed Demerger, Brambles' share price increased by 3.0% (from A$9.08 to A$9.35) versus the S&P/ASX All Ordinaries Index which increased by 2.6%. The demerger of Recall was broadly expected by the market subsequent to the unsuccessful trade sale efforts. This may explain the relatively low impact of the announcement on the Brambles share price that day, as well as Recall being a relatively small component of Brambles.

Of the other price sensitive announcements made by Brambles to the market over the observation period, we have summarised below those that had the largest share price impact on the day of their announcement relative to the performance of the S&P/ASX All Ordinaries Index. (A full list of the price sensitive announcements made by Brambles over this period is attached as Appendix 3.)

- On 15 November 2010, Brambles announced its intention to acquire IFCO Systems for a total consideration of €923 million, its largest acquisition by size in recent history. IFCO is a leading provider of pooled RPCs to the food supply chain worldwide and of pallet management services in the US. On the day of the announcement, the Brambles share price outperformed the S&P/ASX All Ordinaries Index by approximately 5.5%.
- On 17 August 2011, Brambles announced its intention to divest Recall together with its results for FY11, in which Brambles reported an increase in sales revenue of 17.0% and an increase in operating profit of 12.0%. On the day of the announcement, the Brambles share price outperformed the S&P/ASX All Ordinaries Index by approximately 3.1%.
- On 4 June 2012, Brambles announced a trading halt pending a significant announcement regarding its intention to conduct a fully underwritten A$448 million equity raising. In addition, Brambles also announced its intention to retain Recall. The trading halt ended on 7 June 2012 with Brambles' announcement that it had completed the institutional component of its one-for-twenty pro-rata renounceable entitlement offer. Including the trading halt period, the Brambles share price underperformed the S&P/ASX All Ordinaries Index by approximately 6.4%.
- On 22 August 2013, Brambles announced its results for FY13, with an increase in sales revenue of 5.0% and an increase in earnings per share of 6.0%. However, Brambles guidance for FY14 earnings was below brokers' expectations. On the day of the announcement, the Brambles share price underperformed the S&P/ASX All Ordinaries Index by approximately 4.8%.

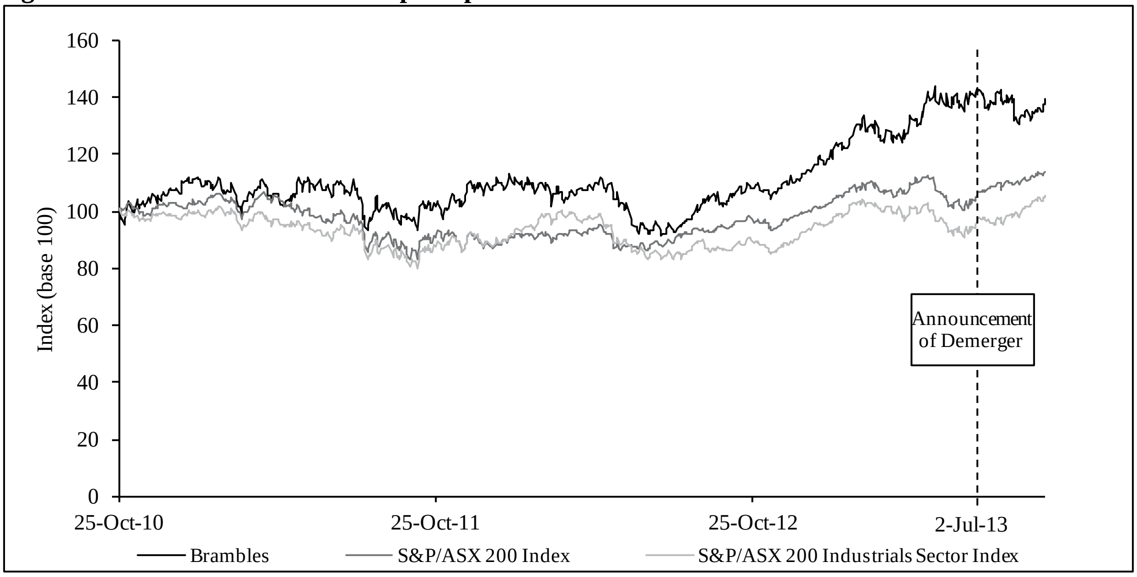
Post the announcement of the Proposed Demerger, Brambles' share price has traded between A$8.60 and A$9.46 per share and closed at A$9.21 on 27 September 2013.

6.8.2 Relative share price performance

Brambles is currently included in all major S&P/ASX market indices, including the S&P/ASX 200 Index and the S&P/ASX 200 Industrials Index. At 27 September 2013, Brambles had a weighting in these indices of 1.1% and 1.4% respectively.

The figure below illustrates the trading performance of Brambles over the period from 1 October 2010 to 27 September 2013 relative to the S&P/ASX 200 Index and the S&P/ASX 200 Industrials Index.

Figure 10: Brambles relative share price performance



Source: S&P Capital IQ.

Over the observation period, Brambles has outperformed the S&P/ASX 200 Index and the S&P/ASX 200 Industrials Index. Between 1 October 2010 and 27 September 2013, the S&P/ASX 200 Index increased by 15.9% and the S&P/ASX 200 Industrials Index increased by 8.5%. In comparison, Brambles' share price increased by 46.4% over the same period.

6.8.3 Trading liquidity

An analysis of the trading liquidity of Brambles shares for the 12 months to 27 September 2013 is summarised in the table below.

Table 11: Brambles VWAP and liquidity analysis

Period	Price (low) A$	Price (high) A$	Price VWAP A$	Cumulative value A$m	Cumulative volume m	% of issued capital
1 week	8.89	9.25	9.02	208.2	23.1	1.5
1 month	8.50	9.25	8.89	1,078.6	121.4	7.8
3 months	8.14	9.60	9.03	3,055.7	338.6	21.7
6 months	8.01	9.60	8.98	5,711.4	636.1	40.8
12 months	6.83	9.60	8.44	9,579.7	1,135.6	72.9

Source: S&P Capital IQ.

We consider the percentage of shares traded over the 12 months to 27 September 2013 is sufficient to assess Brambles as a liquid stock. In assessing the liquidity in the trading of Brambles shares, it is noted that a large portion of Brambles shares is held by a few substantial shareholders.

7 Background on Demergers

A 'pure' demerger is a form of restructure in which existing shareholders retain 100% ownership of a newly separated entity (the 'demerged entity') that was formerly part of the larger consolidated entity (the 'parent entity'). Typically, a pure demerger involves a transfer of shares in a wholly owned subsidiary from the parent entity to the parent entity's shareholders on a pro rata basis, where the underlying economic interest of the shareholders remains the same.

There are a number of variants to a 'pure' demerger, which generally result in some alteration to the ownership structure of the demerged entity. These include:

- *a majority demerger*, similar to a pure demerger, however the parent entity either retains a minority interest in the demerged entity or sells the minority interest via an initial public offering (IPO) or private sale process
- *an equity carve out*, where the parent entity or its shareholders retain an interest in a newly formed entity with the balance of the equity sold through an IPO process to newly introduced shareholders
- *a divestiture or spin off*, where 100% of the demerged entity is sold through an IPO or other sale process.

Although the rationale behind the various forms of demergers is similar, as the Proposed Demerger is a 'pure' demerger, we have focused our analysis on demergers where there is no change in the total underlying economic interest of the shareholders.

7.1 Rationale

The rationale for a multi-divisional firm, or 'conglomerate', is that it has an internal capital market where managers, who are assumed to be better informed than external investors, can efficiently allocate resources across a diversified portfolio of assets. In addition to the more efficient use of resources, internal diversification may lower a company's overall risk, allowing a better return on the capital employed in the business.

Conglomerates emerged when the capital markets were not as deep or broad as they are today. As capital markets have evolved and investors have become more 'sophisticated', there has been conjecture that investors are able to replicate the benefits provided by a conglomerate through a series of 'pure play' investments. There is also the risk that competing priorities and strategies of the individual divisions within the conglomerate may result in resources not being as efficiently allocated across the organisation as intended. Therefore, unless there are significant synergies available to a conglomerate by holding a diversified portfolio of assets, capital markets are unlikely to reward corporate diversification and in some cases, may in fact penalise it.

Benefits of demergers

Having considered the findings of various studies[11], we conclude that one or more of the following benefits will likely drive the extent to which a demerger is successful in creating value.

Table 12: Benefits of a demerger

Benefit	Driver
Investment transparency	Opportunity to improve corporate governance and disclosure in relation to the demerged entity, which may increase analyst coverage and investors' confidence in their ability to judge and value each company
Shareholder flexibility	Opportunity to attract new investors in demerged entities which are more focussed and aligned with a specific industry or market segment, placing the power of diversification in the hands of the investor
Management focus and accountability	Opportunity for separate boards and senior management teams to purely focus on their respective businesses and strategic objectives. Further, separately listed entities enable management incentives to be more closely aligned with the financial and share price performance within management control
Strategic focus	Opportunity for demerged entities to pursue growth initiatives independently and to better align their strategy with their specific risk/return profile and growth prospects
Financial flexibility	Opportunity for demerged entities to independently manage their capital requirements in accordance with their strategic objectives, which may resolve existing capital allocation conflicts and may also provide greater flexibility in funding future growth initiatives, including strategic acquisitions
Market re-rating	Opportunity to remove 'conglomerate discount' via a market re-rating of the demerging entities' share prices more in line with their peers. Also may reflect greater transparency of the demerged entities' operations
Takeover potential	A demerged or parent entity may have a more industry specific focus and thus may be more attractive to potential buyers. As a result, shareholders may benefit from a premium to share price that is often paid for company control and may also be paid for potential synergies

[11] See for example: 'Breaking up is good to do' The McKinsey Quarterly, 1 January 1999, 'Doing the spin-out' The McKinsey Quarterly, 1 January 2000, 'The performance effects of European demergers' Thomas Kirchmaier, London School of Economics and Political Science, May 2003 and 'Q-Series: Spin-offs and demergers' UBS Investment Research, 14 April 2005.

Disadvantages of demergers

Having considered the findings of various studies[12], we conclude that one or more of the following disadvantages or risks may cause a demerger to be unsuccessful in creating value.

Table 13: Disadvantages of a demerger

Disadvantage/Risk	Driver
Increased corporate and funding costs	The transformation of the demerged entity into a separately listed entity may impose transition risks and increased costs associated with the duplication of corporate functions, its separate listing and own capital structure
Transaction costs	Demerger will incur one-off transaction costs, including advisory fees, restructuring costs to separate the demerging businesses and costs associated with establishing new debt facilities
Reduced trading liquidity	Demerger will result in demerging entities being separately listed and individually having lower market capitalisations and consequently lower index weightings than the consolidated entity, which in turn may affect trading liquidity and investor interest
Loss of synergies	Whether through the loss of cross selling opportunities or staff, or a higher risk rating as a smaller company, the demerged entities may lose some of the benefits of operating as a larger group
Loss of diversification	A non-diversified company may be more exposed to adverse market conditions, as well as industry specific risks
Exposure of immature businesses	Risk that immature and unsustainable businesses may be exposed to the market, which lack the necessary commerciality or flexibility to survive outside a parent company's structure

7.2 Market evidence

It is important to note the potential results of a demerger will not occur instantaneously. Consequently, changes in shareholder value need to be measured over time to determine how effective a demerger has been in creating shareholder value.

There have been a number of empirical studies carried out with regard to the effectiveness of demergers in creating shareholder value. The studies tend to look at the impact of a demerger on share price at the announcement date and for a period of time post the completion of the demerger. However, the majority of these empirical studies focus on both the European and US markets and took place more than 10 years ago.

Therefore, to supplement these empirical studies, we have undertaken our own analysis of the demergers implemented in Australia since 2000.

[12] Ibid.

7.2.1 Empirical studies

While empirical studies found that a majority of demergers created shareholder value, there was no conclusive evidence as to what characteristics created a successful demerger and thus no way of concluding whether a particular demerger will be effective in creating shareholder value.

Furthermore, it should be noted that no definitive conclusions as to the benefit of demergers can be made, largely because it is impossible to reliably assess what would have happened to the company's share price had the demerger not occurred. Some of the conclusions and evidence derived from empirical studies are summarised below:

- the announcement effect of a demerger had a positive effect on share price in the majority of cases[13]
- the majority of companies outperformed the market since the demerger[14]. However, it is important to note:
  - not all demergers created shareholder value
  - the value created by the demerger was not evenly split between the demerged entity and the parent entity, with the demerged entity often outperforming the parent entity. In particular, one broker report[15] found that the demerged entity typically underperformed the market for a period of six months following the demerger and eventually outperformed the market after 12 months. The parent entity's performance typically mirrored the market over the same 12 months period
  - other factors, such as company size, may have also affected the outcome, with smaller demergers often outperforming larger demergers.
- both the demerged entity and the parent entity experienced an unusually high incidence of takeover activity in the first three years following the demerger[16]. Positive abnormal returns were achieved where companies got involved in takeover activity. The findings suggest that demergers may provide a trigger to facilitate the future transfer of control to a bidder in a cost effective manner, which ultimately enhances shareholder value
- positive abnormal returns achieved by demergers were directly related to the degree of information asymmetry that existed in the combined entity[17]. The findings suggest that value is enhanced when capital markets were better informed about the risk/return profile and growth prospects of the demerged entity following the demerger. This is consistent with the hypothesis that companies that

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[13] See for example: 'Breaking up is good to do' The McKinsey Quarterly, 1 January 1999, 'Doing the spin-out' The McKinsey Quarterly, 1 January 2000, 'The performance effects of European demergers' Thomas Kirchmaier, London School of Economics and Political Science, May 2003 and 'Q-Series: Spin-offs and demergers' UBS Investment Research, 14 April 2005.

[14] Ibid.

[15] Macquarie Equities Research, "Australian Quant Action Demergers: Breaking up is hard to do", 14 June 2013.

[16] Patrick J. Cusatis, James A. Miles and J. Randall Woolridge, "Restructuring through spinoffs, the stock market evidence", Journal of Financial Economics, Volume 33 No. 3, June 1993.

[17] Sudha Krishnaswami and Venkat Subramaniam, "Information asymmetry, valuation, and the corporate spin-off decision", Journal of Financial Economics, Volume 53, No. 1, July 1999.

engage in demergers have higher levels of information asymmetry compared to other entities of a similar size operating in their respective industry. Further, both the parent entity and demerged entity are generally able to raise more capital as a result of the reduction in information asymmetry following the demerger

- where the main rationale for the demerger was to increase focus, significantly higher long-run abnormal returns were achieved as compared to other demergers[18]. This was particularly evident where the parent entity and the demerged entity operated in different industries[19]. A focus driven demerger reduces the diversity of assets under management and thereby increases the efficiency of management.

7.2.2 Analysis of recent demergers in Australia

In order to supplement the empirical studies which primarily focus on the European and US markets, we have also undertaken our own analysis of recent demergers in Australia. Specifically, we have identified 20 demergers implemented by ASX listed companies since 2000 (as detailed in Appendix 4), for which we have analysed:

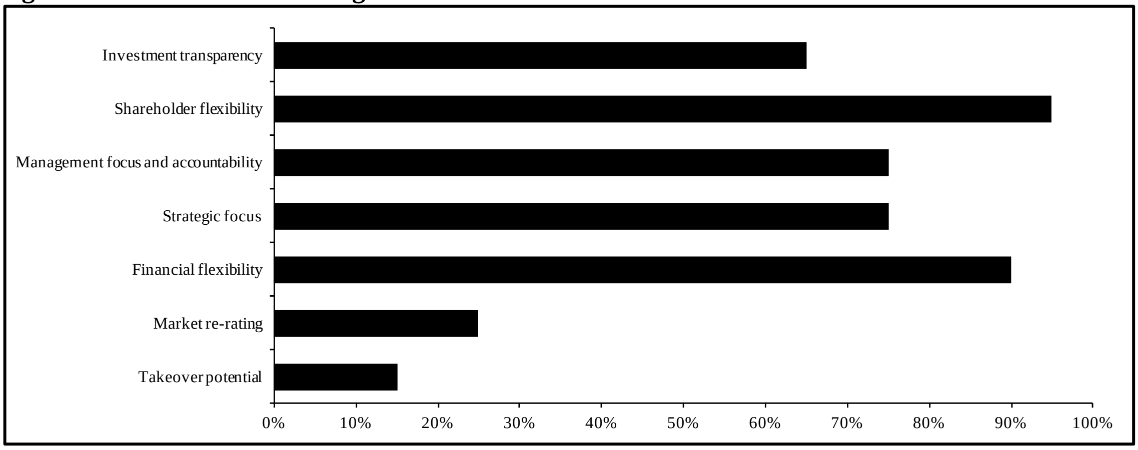
- the rationale of the demerger as outlined in the respective scheme book
- the relative share price performance during the demerger process, including the effect of the announcement and the initial market re-rating on the first day of trading as demerged entities
- the relative share price performance post implementation of the demerger for periods of three months, one year and two years after the date the demerged entity was listed on the stock exchange.

[18] Hemang Desai and Prem C Jain, "Firm performance and focus: long-run stock market performance following spinoffs", Journal of Financial Economics, Volume 54, No. 1, October 1999.
[19] Lane Daley, Vikas Mehrotra and Ranjini Sivakumar, "Corporate focus and value creation, evidence from spinoffs", Journal of Financial Economics, Volume 45, 1997.

Rationale

The figure below summarises the rationale of the demergers based upon the benefits referred to in the respective scheme books we have analysed.

Figure 11: Rationale for demerger



Source: Scheme books of respective demergers, KPMG Corporate Finance Analysis.
Note: The figure illustrates the number of scheme books, in percentage terms, which referred to the respective benefit as part of their rationale for the proposed demerger.

Whilst each demerger had a specific rationale for being implemented, most of them referred in some form to splitting the company into more focused operational entities and increasing the flexibility for both management and shareholders in order to enhance shareholder value.

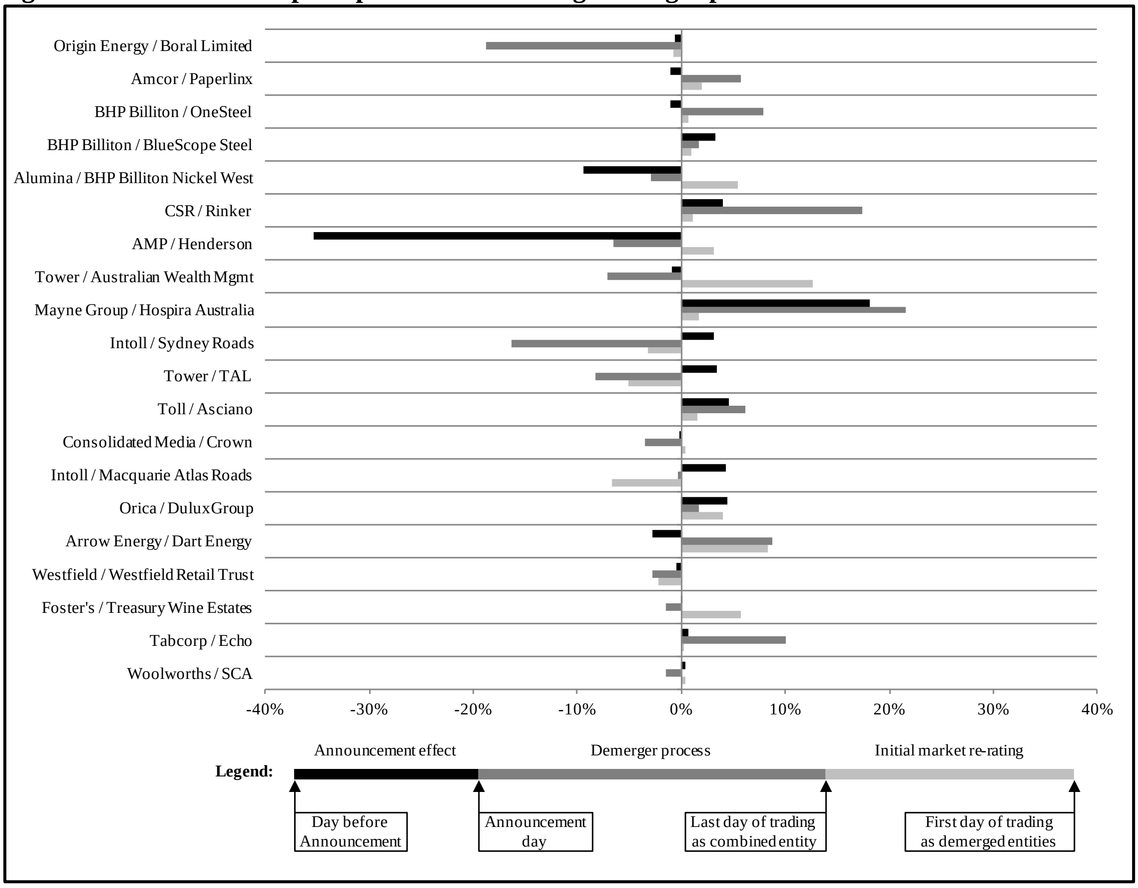
Conversely, the benefit of a potential market re-rating over the short term was only referred to in 25% of the demergers. This evidence suggests that there is significant uncertainty in the market and among researchers as to whether conglomerates create or destroy value. A survey of recent literature concluded that corporate diversification alone does not drive the discount or premium. Rather, the effect on value differs from firm to firm and is dependent upon certain industry settings, economic conditions and governance structures[20].

Relative share price performance during demerger process

The figure below summarises the relative share price performance, in percentage terms, from announcement to implementation of the demerger, in comparison to the performance of the All Ordinaries Index over the same time period.

[20] Stefan Erdorf, Thomas Hartmann-Wendels, Nicolas Heinrichs and Michael Matz, "Corporate diversification and firm value: a survey of recent literature", 4 April 2013.

Figure 12: Relative share price performance during demerger process



Source: S&P Capital IQ, KPMG Corporate Finance Analysis.

With respect to the figure above, it is noted:

- the above analysis indicates that there has been mixed results as to the performance of the parent entity upon announcement until completion of the demerger, with evidence of both outperformance and underperformance to the broader market
- on the day of the announcement, 11 out of the 20 demergers outperformed the All Ordinaries Index, whereby outperformances were generally more material than underperformances. However, it is noted that in the following cases the initial reaction of the market to the demerger announcement was diluted by other concurrent announcements:
  - the demerger of Bluescope Steel by BHP was announced on the same day as the proposed merger of BHP and Billiton
  - as part of the demerger of Henderson, AMP also announced that in order to fund the demerger it would undertake a capital raising at a significant discount to its share price at the time. In addition, on the same day AMP also announced that it intended to write down certain assets by approximately A$2.5 billion, prompting a potential credit rating downgrade

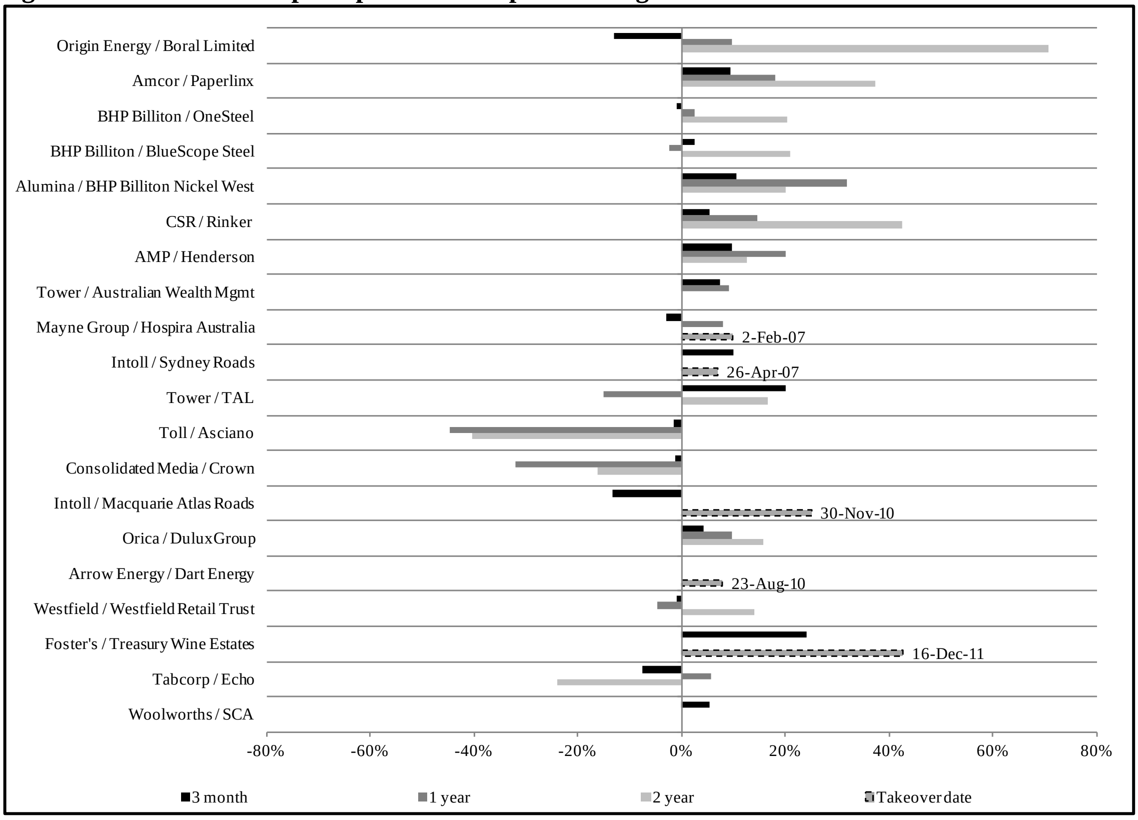
- the demerger of Rinker by CSR was announced on the same day as its financial results which were generally positive
- on the day of the demerger announcement, the Board of Directors of Arrow Energy announced two separate transactions, one being the demerger of Dart Energy by Arrow Energy and the second being the subsequent takeover of Arrow Energy by CS CSG (Australia) Pty Limited.

- on the day the demerged entity was listed on the ASX, 15 out of the 20 demergers outperformed the All Ordinaries Index. Although in many cases the outperformance was marginal, it is indicative that shareholder value may be unlocked through a market re-rating following a demerger.

Relative share price performance post demerger

The figure below summarises the relative share price performance, in percentage terms, of the hypothetical combined sharemarket value of the parent entity and the demerged entity three months, one year and two years after the date the demerged entity was listed on the ASX, in comparison to the performance of the All Ordinaries Index over the same time period.

Figure 13: Relative share price performance post demerger



Source: S&P Capital IQ, KPMG Corporate Finance Analysis.
Note: No two year performance is calculated for the Tower/Australian Wealth Management demerger as Tower also demerged Tower Australia within the two year period, which was analysed separately (refer to Tower/TAL).

With respect to the figure above, it is noted:

- although there have been mixed results as to the performance of the parent and demerged entity immediately following the demerger, the outcome of the transactions after two years was typically positive. Only 3 out of the 20 demergers underperformed the All Ordinaries Index over a two year period following the demerger, including:
  - Toll/Asciano, who were impacted by Asciano's highly geared capital structure following the global financial crisis
  - Consolidated Media/Crown, who were impacted by the underperformance of the media sector relative to the market following the global financial crisis
  - Tabcorp/Echo, who were impacted by events relating to its casino business, in particular the recent decision of NSW Government to grant a second casino licence in Sydney to Echo's main competitor Crown in favour of Echo's $1.4 billion development proposal of the Star.
- both the demerged entity and the parent entity experienced an unusually high incidence of takeover activity. 5 out of the 20 demergers were subject to takeover activity within two years of the demerger, all of which resulted in an outperformance of the All Ordinaries Index over the period up to the completion of the takeover.

Further, although not depicted in the figure above, the demerged entity outperformed the parent entity over the two year period, except for the three demergers which underperformed the All Ordinaries Index over the same period.

Conclusion

The analysis above supports the view that the shares of the parent and demerged entity have typically outperformed the broader market over the medium term. However, as noted previously, due to the nature of the transactions and the uncertainty over what the performance of the parent entity would have been if the demerger had not been completed, it is difficult to argue conclusively that demergers create shareholder value. Rather, the success or otherwise of any demerger will always depend on the specific circumstances of each transaction.

8 Impact of the Proposed Demerger

8.1 Structure and ownership

As noted in Section 4, if the Proposed Demerger is implemented, Eligible Brambles Shareholders not participating in the Sale Facility will receive one Recall share for every five Brambles shares they own. The relative ownership interest of each Brambles Shareholder in Brambles (after the Demerger) will remain unchanged. In addition, Eligible Brambles Shareholders will hold the same proportionate interest in Recall as they hold in Brambles other than for those who participate in the Sale Facility.

Ineligible Overseas Shareholders who are not entitled to receive Recall shares through the Proposed Demerger and small shareholders who elect to participate in the Sale Facility will receive cash proceeds from the Sale Facility established to monetise the Recall shares to which they would otherwise have been entitled under the Proposed Demerger. Ineligible Overseas Shareholders and small shareholders who elect to participate in the Sale Facility will continue to hold their Brambles shares.

The figures below illustrate the current ownership structure of Brambles prior to the Proposed Demerger and the proposed ownership structure of Brambles if the Proposed Demerger is implemented.

Figure 14: Current ownership structure

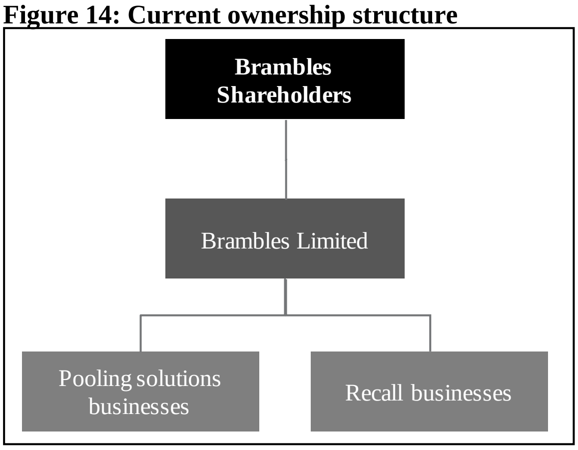
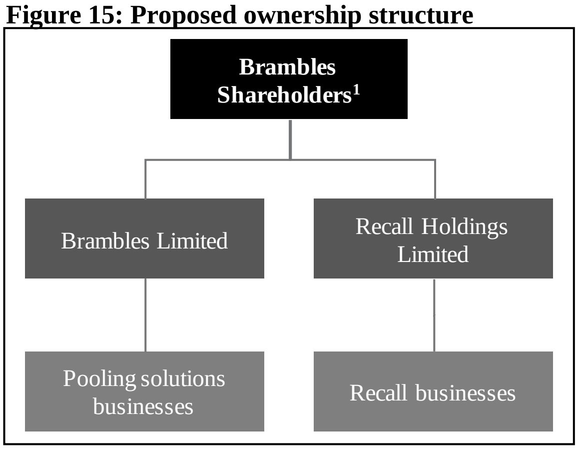


Figure 15: Proposed ownership structure



Source: Brambles.
Note 1: Other than Ineligible Overseas Shareholders (and small shareholders who elect to participate in the Sale Facility) who will hold Brambles shares but will not hold Recall shares as a result of the Proposed Demerger.

Upon completion of the Proposed Demerger, there will be no cross-shareholdings between Brambles and Recall, with both entities operating at arm's length on a standalone basis, except for certain transitional arrangements under a transitional services agreement (TSA).

Under the TSA, Brambles will provide Recall with certain corporate and other services, particularly in relation to information technology, for a period of up to one year after the Proposed Demerger is implemented.

8.2 Brambles (after the Demerger)

8.2.1 Strategic focus

Upon completion of the Proposed Demerger, Brambles will be a pure play supply chain logistics company specialising in the provision of pooling solutions and associated services, focussing on the outsourced management of reusable and returnable pallets, crates and containers. The pooling solutions businesses of Brambles will remain largely unchanged as a result of the Proposed Demerger.

The strategic focus of Brambles will be to continue to create superior and sustainable value for its customers, shareholders and employees. Brambles approaches its strategy under four key themes:

- *diversification* – expanding into more customer segments, broadening the range of products and services and growing geographically
- *cost leadership* – delivering a low-cost business model that leverages Brambles' global scale to create a sustainable competitive advantage
- *go to market* – strengthening its brand position and enhancing the customer experience through continuously improving the quality of its products and services
- *people and leadership* – attracting, developing and retaining the right individuals and teams that can enhance its culture and bring the required capability for sustainable success.

In order to create value for both new and existing customers whilst supporting its investment proposition for shareholders, Brambles has identified the following factors to help define growth opportunities:

- a common asset (for example a pallet, crate or container) is used by multiple parties to transport goods throughout the supply chain
- assets flow freely throughout the supply chain, creating complexity that Brambles can manage more effectively through a pooled environment than its customers could alone
- ownership of assets is not a source of competitive differentiation to Brambles' customers
- the pooling of assets can create a benefit in which all participants in the supply chain can share.

Brambles has access to a broad range of opportunities to continue to expand its pooling solutions businesses and invest in value-adding products and services for its customers, whilst delivering attractive returns to shareholders.

8.2.2 Financial impact

Financial performance

The pro forma financial performance of Brambles (after the Demerger) for the three years ended 30 June 2013 is summarised in the table below.

Table 14: Pro forma historical financial performance of Brambles (after the Demerger)

For the year ended 30 June $m	2011	2012	2013
Sales revenue	3,857	4,780	5,083
EBITDA	**1,084**	**1,267**	**1,373**
Significant items	48	57	30
Underlying EBITDA	**1,132**	**1,324**	**1,403**
Depreciation and amortisation	(428)	(489)	(495)
Underlying profit	**704**	**835**	**908**
Pro forma net financing costs	(113)	(139)	(101)
Pro forma income tax expense	(165)	(184)	(222)
Pro forma profit from continuing operations	**426**	**512**	**585**
Profit from discontinued operations	4	1	1
Pro forma net profit	**430**	**513**	**586**
Revenue growth (%)	*n/a*	*23.9%*	*6.3%*
Underlying EBITDA margin (%)	*29.3%*	*27.7%*	*27.6%*
Underlying profit margin (%)	*18.3%*	*17.5%*	*17.9%*
Interest coverage ratio (x)[1]	*10.0x*	*9.5x*	*13.9x*

Source: Brambles.
Note 1: Interest coverage ratio calculated as underlying EBITDA divided by net finance costs.
Note 2: n/a denotes not available.

In relation to the table above, it is noted:

- the pro forma historical financial performance represents the adjusted historical earnings of Brambles after deducting the historical financial performance of Recall and assumes that the Proposed Demerger was effective from 1 July 2010
- pro forma financial information has been prepared by Brambles and reviewed by the investigating accountant, PwC. PwC's report is set out in Section 7 of the Scheme Book
- the following pro forma adjustments have been made:
  - corporate costs to include costs incurred by Brambles but no longer recharged to Recall of approximately $8 million, $1 million and $5 million in FY11, FY12 and FY13 respectively
  - net financing costs to reflect the differences between the estimated reduction in Brambles' actual funding costs and Recall's pro forma estimated funding costs and the interest cost on the additional 51% acquisition of Recall Singapore of approximately $6 million, $7 million and $8 million in FY11, FY12 and FY13 respectively
  - income tax expense in order to tax effect the preceding adjustments of approximately $5 million, $2 million and $4 million in FY11, FY12 and FY13 respectively

- for the purposes of deriving normalised profit figures, management identified and excluded the following significant items:

Table 15: Brambles (after the Demerger) – Significant items

For the year ended 30 June $m	2011	2012	2013
Acquisition related costs	(19)	(3)	(4)
Restructuring and integration costs	(29)	(39)	(22)
Recall transaction costs	-	(21)	(4)
Pension costs	-	(6)	-
Foreign exchange gain on capital repatriation	-	12	-
Total	**(48)**	**(57)**	**(30)**

Source: Brambles.

Implementation costs

Management estimates one-off implementation costs of the Proposed Demerger to be approximately $62 million, of which $36 million is expected to be borne by Brambles. Of the total one-off implementation costs, $22 million is expected to be incurred prior to the Scheme Meeting. Refer to Section 3.9.6 of the Scheme Book for further details.

Financial position

The pro forma financial position of Brambles (after the Demerger) as at 30 June 2013 is summarised in the table below.

Table 16: Pro forma historical financial position of Brambles (after the Demerger)

As at 30 June $m	2013
Cash and cash equivalents	53
Trade and other receivables	972
Inventories	54
Derivative financial instruments	11
Other assets	45
Total current assets	1,135
Other receivables	5
Investments	1
Property, plant and equipment	4,036
Goodwill	1,231
Intangible assets	240
Deferred tax assets	48
Derivative financial instruments	10
Other assets	3
Total non-current assets	5,574
Total assets	**6,709**
Trade and other payables	1,093
Borrowings	157
Derivative financial instruments	10
Tax payable	52
Provisions	95
Total current liabilities	1,407
Borrowings	2,245
Provisions	21
Retirement benefit obligations	50
Deferred tax liabilities	480
Other liabilities	3
Total non-current liabilities	2,799
Total liabilities	**4,206**
Net assets	**2,503**
Shareholders' equity	2,503
Shares on issue at year end (million)	*1,557.4*
Net assets per share ($)	*1.61*
Net tangible assets per share ($)[1]	*0.66*
Gearing (%)[2]	*48.4%*

Source: Brambles.
Note 1: Calculated as net assets less goodwill and intangible assets divided by total shares on issue at year end.
Note 2: Calculated as total borrowings less cash (net borrowings) divided by the sum of net borrowings and net assets.

The pro forma historical financial position of Brambles (after the Demerger) represents the consolidated financial position of Brambles less the segment assets and liabilities of Recall which have historically been recorded in the Recall segment of Brambles' consolidated financial statements.

The pro forma historical financial position of Brambles (after the Demerger) is based on the following pro forma adjustments, assuming the Proposed Demerger was effective on 30 June 2013:

- cash and cash equivalents have been reduced by $32 million to reflect implementation costs to be incurred by Brambles in relation to the Proposed Demerger. A corresponding adjustment has also been made to retained earnings
- shareholders' equity has been increased by $179 million, comprising the consideration paid for various internal restructuring transactions (including the acquisition of an additional 51% of Recall Singapore), a proposed dividend from Recall, an adjustment for Recall's proportion of the Brambles UK Pension Plan deficit which will be extinguished by Brambles prior to implementing the Proposed Demerger, and associated tax impacts
- non-current borrowings have been decreased by $529 million to reflect the repayment by Recall of its liability to Brambles and subsequent pay down of Brambles' external debt.

Debt facilities

A summary of the debt facilities of Brambles (after the Demerger) is set out below.

Table 17: Brambles (after the Demerger) – Pro forma debt facilities

As at 30 June 2013 $m	Facilities used	Facilities available	Total facilities
Committed borrowing facilities	528	1,660	2,188
Loan notes	1,765	-	1,765
Credit standby/uncommitted/overdraft arrangements	78	200	278
Total	**2,371**	**1,860**	**4,231**

Source: Brambles.
Note: *Facilities used represent the principal value of loan notes and borrowings drawn against the relevant facilities to reflect the correct amount of funding headroom. This amount is lower by $31 million compared to loan notes and borrowings as shown in the balance sheet as the balance sheet is measured on the basis of amortised cost as determined under the effective interest method and includes accrued interest and fair value adjustments on certain hedging instruments.*

Following the Proposed Demerger, Brambles expects to retain its outstanding loan notes and bank borrowing facilities. Brambles' total facilities will reduce by $7 million of working capital and overdraft facilities that will be advanced to Recall. At the Demerger Date, Brambles' utilised facilities are expected to be reduced by a net $441 million to reflect the repayment by Recall of the expected $529 million liability owing to Brambles at demerger and the increase in borrowings of $88 million to fund the acquisition of an additional 51% of Recall Singapore.

Following the reduction in debt at the Demerger Date, Brambles may review its overall level of borrowing facilities having consideration to the debt maturity profile and future funding requirements of the pooling solutions businesses.

The table below summarises the debt maturity profile of Brambles (after the Demerger).

Table 18: Brambles (after the Demerger) – Pro forma debt maturity profile

As at 30 June 2013 $m	Facilities used	Facilities available	Total facilities
Less than one year	134	198	332
1-2 years	490	378	868
2-3 years	335	610	945
3-4 years	236	349	585
4-5 years	656	325	981
Over 5 years	520	-	520
Total	**2,371**	**1,860**	**4,231**

Source: Brambles.

We also note Brambles' primary credit rating agencies have confirmed that their respective credit ratings for Brambles are expected to remain unchanged as a result of the Proposed Demerger.

Further detail regarding the debt profile of Brambles (after the Demerger) is set out in Section 3 of the Scheme Book.

Cash flow

The pro forma cash flow of Brambles (after the Demerger) for the three years ended 30 June 2013 is summarised in the table below.

Table 19: Pro forma historical cash flow of Brambles (after the Demerger)

For the year ended 30 June $m	2011	2012	2013
EBITDA	**1,084**	**1,267**	**1,373**
Significant items	48	57	30
Underlying EBITDA	**1,132**	**1,324**	**1,403**
Change in working capital	9	(96)	(50)
Proceeds from disposal	96	92	100
Other non-cash items	109	52	103
Operating cash flows, before capital expenditure, before financing costs and tax	**1,346**	**1,372**	**1,556**
Capital expenditure	(722)	(914)	(864)
Operating cash flows after capital expenditure, before financing costs and tax	**624**	**458**	**692**
Financing costs	(150)	(145)	(106)
Income tax paid	(190)	(182)	(149)
Operating cash flows after capital expenditure, financing costs and tax[1]	**284**	**131**	**437**

Source: Brambles.
Note 1: Operating cash flows exclude the payment of dividends, repayment or draw down of debt, entity acquisitions and settlement of balances between Brambles and Recall on demerger.

8.2.3 Directors and management

Upon completion of the Proposed Demerger, the Board of Directors and management team of Brambles (after the Demerger) will remain largely unchanged from the existing Brambles structure. Summarised in the table below is the Board of Directors of Brambles (after the Demerger) and their respective roles.

Table 20: Board of Directors of Brambles (after the Demerger)

Name	Board Position	Committee Membership
Graham Kraehe AO	Non-Executive Chairman	Chairman of the Nominations Committee and member of the Remuneration Committee
Doug Duncan	Independent Non-Executive Director	Member of the Audit Committee
Tony Froggatt	Independent Non-Executive Director	Member of the Audit Committee, Remuneration Committee and Nominations Committee
Tom Gorman	Chief Executive Officer	Chairman of Executive Leadership Team
David Gosnell	Independent Non-Executive Director	Member of the Audit Committee
Tahira Hassan	Independent Non-Executive Director	Member of the Remuneration Committee
Stephen Johns	Independent Non-Executive Director	Chairman of the Audit Committee and member of the Nominations Committee
Carolyn Kay	Independent Non-Executive Director	Member of the Audit Committee
Luke Mayhew	Independent Non-Executive Director	Chairman of the Remuneration Committee
Brian Schwartz AM	Independent Non-Executive Director	Member of the Remuneration Committee

Source: Brambles.

Tahira Hassan will also join the Board of Directors of Recall following the Proposed Demerger.

The senior management of Brambles (after the Demerger) and their respective roles is summarised in the table below.

Table 21: Senior management of Brambles (after the Demerger)

Name	Management Position
Tom Gorman	Chief Executive Officer
Zlatko Todorcevski	Chief Financial Officer
Jean Holley	Chief Information Officer
Peter Mackie	Group President, Pallets
Wolfgang Orgeldinger	Group President, RPCs
Jason Rabbino	Group President, Containers
Nick Smith	Group Senior Vice President, Human Resources

Source: Brambles.

Upon implementation of the Proposed Demerger, Brambles (after the Demerger) proposes to adjust the terms of the two employee share schemes as follows:

- *Brambles Performance Share Plan.* The performance conditions will be adjusted in a manner that ensures that the conditions are not materially easier or more difficult to satisfy. In addition, the number of Brambles shares issued under the Brambles Performance Share Plan will be adjusted to reflect the decrease in value of Brambles shares as a result of the Proposed Demerger

- *Brambles MyShare Plan.* The number of matching rights granted under the Brambles MyShare Plan will be adjusted to reflect the decrease in value of Brambles shares as a result of the Proposed Demerger. This adjustment will be equally applied to any matching rights held by Brambles employees who become employees of Recall upon implementation of the Proposed Demerger.

8.2.4 Outlook and dividend policy

At 30 June 2013 foreign exchange rates, Brambles (after the Demerger) expects underlying profit of between $930 million and $965 million for FY14. This represents between 4% and 8% growth in the pooling solutions businesses from the prior year.

Brambles future dividend policy will be determined by the Board of Directors of Brambles (after the Demerger) at its discretion and may change over time as it is subject to the financial performance and cash requirements of Brambles (after the Demerger) during the relevant period and any unforeseen circumstances.

Brambles currently has a dividend policy of at least maintaining its level of dividends per share in Australian dollars, subject to Brambles' financial performance and cash requirements. The Brambles Board intends to keep the annual dividend at least at FY13 levels, that is, 27.0 Australian cents per share and not rebase the dividend for the reduction in Brambles' earnings and cash flow following the Proposed Demerger. Currently, the Brambles Board intends to pay an interim dividend of 13.5 Australian cents per share for the half year ending 31 December 2013, subject to financial performance, cash requirements and any unforeseen circumstances which Brambles (after the Demerger) may encounter.

For the near term, the future dividends of Brambles (after the Demerger) are expected to be franked to between 20% and 30%.

8.3 Recall

8.3.1 Strategic focus

Upon completion of the Proposed Demerger, Recall will operate as a standalone entity (except for certain transitional arrangements under the TSA), focussed on enhancing its leading position in key markets while expanding its portfolio of services offered. Recall will also aim to identify new geographic markets to further expand its footprint organically and through consolidation. It will seek to deliver value through the following key strategic drivers:

- *growth*. Increasing revenue from existing customers, converting in-house holdings, increasing services and product offerings to existing and new customers into new geographic markets and leveraging global accounts
- *go to market*. Providing consistent global customer service and security while offering innovative technology as a competitive advantage
- *cost containment*. Leveraging global scale and systems to achieve a low-cost business model with increased asset utilisation.

In driving sustainable growth, Recall management intends to specifically focus on:

- improving sales force effectiveness to improve cross-selling of services and increase overall market share and drive incremental cross-selling of services
- expanding its service offerings, such as integration of digital and physical information assets with workflow automation, unified information management tools and increased access to in-house customer records that have typically not been outsourced for storage and protection
- converting unvended customers, a segment for which management expects the market potential to be at least as large as for the vended segment
- expanding into new geographic markets by leveraging Recall's existing global customers to expand, especially into higher-growth markets
- driving innovation to develop service offerings which address increasingly complex information management needs
- improving operational efficiency through cost reductions and productivity improvements
- pursuing selected value accretive acquisitions in a fragmented market to leverage Recall's fixed cost infrastructure and realise synergies.

Brambles has agreed to purchase the remaining 51% interest in Recall Singapore from its joint venture partner Certis prior to the Proposed Demerger for a total consideration of SGD112.2 million. Prior to the implementation of the Proposed Demerger, Recall will acquire 100% of Recall Singapore from Brambles. Therefore, upon completion of the Proposed Demerger, Recall Singapore will be a wholly owned subsidiary of Recall.

8.3.2 Financial impact

Financial performance

The pro forma financial performance of Recall for the three years ended 30 June 2013 is summarised in the table below.

Table 22: Pro forma historical financial performance of Recall

For the year ended 30 June $m	2011	2012	2013
Pro forma sales revenue	841	874	840
Pro forma EBITDA	**207**	**233**	**199**
Significant items	-	14	16
Underlying EBITDA	**207**	**247**	**215**
Pro forma estimated standalone corporate costs	(6)	(13)	(9)
Pro forma underlying EBITDA	**201**	**234**	**206**
Depreciation and amortisation	(54)	(65)	(64)
Pro forma underlying profit	**147**	**169**	**142**
Pro forma net financing costs	(21)	(20)	(18)
Pro forma income tax expense	(39)	(52)	(45)
Pro forma net profit	**87**	**97**	**79**
Revenue growth (%)	*n/a*	*3.9%*	*-3.9%*
Pro forma underlying EBITDA margin (%)	*23.9%*	*26.8%*	*24.5%*
Pro forma underlying profit margin (%)	*17.5%*	*19.3%*	*16.9%*
Interest coverage ratio (x)[2]	*9.6x*	*11.7x*	*11.4x*

Source: Brambles.
Note 1: n/a denotes not available.
Note 2: Interest coverage ratio calculated as pro forma underlying EBITDA divided by net finance costs.

In relation to the table above, it is noted:

- the pro forma historical financial performance of Recall assumes that the Proposed Demerger was effective from 1 July 2010 and that Recall owns 100% of Recall Singapore
- pro forma financial information has been prepared by Brambles and reviewed by the investigating accountant, PwC. PwC's report is set out in Section 7 of the Scheme Book
- for the purposes of deriving normalised profit figures, management identified and excluded the following significant items:

Table 23: Recall – Significant items

For the year ended 30 June $m	2011	2012	2013
Restructuring and integration costs	-	(14)	(1)
Impairment of software development costs	-	-	(15)
Significant items	-	**(14)**	**(16)**

Source: Brambles.

Redundancy and other restructuring costs related to a cost reduction initiative, the aborted sales process for Recall and the disposal of an Indonesian Joint Venture. Software development costs were written down to their recoverable values following a change in Recall's IT strategy.

- the following pro forma adjustments have been made:
  - annual corporate costs of operating Recall as a standalone listed entity following the Proposed Demerger have been estimated to be in the order of $14 million. These costs include share registry costs, the cost of maintaining a separate Board of Directors, as well as costs associated with certain services previously provided by Brambles, such as accounting, legal, tax, treasury, insurance and information technology. Of the $14 million standalone corporate costs, $12 million are assumed to be cash and $2 million are assumed to be non-cash as they relate to share based payments. The pro forma incremental corporate costs of Recall as set out in the table above were derived by offsetting the corporate costs which were charged from Brambles to Recall under the existing structure
  - net financing costs have been reset based on the assumed financing costs paid on $550 million of debt drawn down at commencement of each financial year at prevailing base interest rates plus margins and undrawn facility fees. FY13 includes establishment fees paid on the $800 million syndicated facility
  - pro forma income tax expense has been calculated on an entity basis and reflects pro forma adjustments for the financing structure of the acquisition of Recall Singapore and estimated additional standalone corporate costs.

Implementation costs

Management estimates one-off implementation costs of the Proposed Demerger to be approximately $62 million, of which $26 million is expected to be borne by Recall. Total one-off implementation costs incurred by Recall comprise $5 million of capitalised finance costs, $10 million of cash costs mainly related to information technology separation and advisory costs resulting from the Proposed Demerger and $11 million in equity settled share based payments to be granted to Recall management.

Financial position

Set out in the table below is the pro forma financial position of Recall at 30 June 2013.

Table 24: Pro forma historical financial position of Recall

As at 30 June $m	**2013**
Cash and cash equivalents	44
Trade and other receivables	160
Inventories	2
Other assets	22
Total current assets	228
Other receivables	4
Investments	1
Property, plant and equipment	401
Goodwill	608
Intangible assets	104
Total non-current assets	1,118
Total assets	**1,346**
Trade and other payables	165
Tax payable	9
Provisions	16
Total current liabilities	190
Borrowings	550
Provisions	5
Retirement benefit obligations	1
Deferred tax liabilities	65
Other liabilities	22
Total non-current liabilities	643
Total liabilities	**833**
Net assets	**513**
Shareholders equity	513
Gearing (%)[1]	*49.7%*

Source: Brambles.
Note 1: Calculated as total borrowings less cash (net borrowings) divided by the sum of net borrowings and net assets.

The pro forma historical financial position of Recall is based on the following pro forma adjustments, assuming the Proposed Demerger was effective on 30 June 2013:

- cash and cash equivalents have been reduced by $10 million to reflect the implementation costs to be incurred by Recall in relation to the Proposed Demerger. A corresponding adjustment of $10 million has also been made to retained earnings. Approximately $6 million of the $10 million implementation costs to be incurred by Recall are expected to be incurred after the Proposed Demerger
- shareholders' equity has been decreased by $148 million, comprising the consideration paid for various internal restructuring transactions, a proposed dividend and the acquisition of Recall Singapore

- non-current borrowings have been increased by $550 million to reflect external debt to be drawn down by Recall at the time of the Proposed Demerger, with $5 million in capitalised funding costs, $529 million applied to the repayment of the liability to Brambles (after the Demerger) and the remaining $16 million to be retained as cash
- no adjustment has been made to deferred tax liabilities to reflect that on the demerger, Recall will exit the Australian Brambles consolidated tax group. An adjustment has been made to reflect additional provision for unremitted profits from overseas entities and the tax effect of demerger transaction costs to be incurred by Recall post demerger.

Debt facilities

A group of Australian and international banks has signed a commitment letter to a $800 million multicurrency syndicated facility in favour of Recall Holdings, subject to conditions being satisfied as outlined in Section 2 of the Scheme Book. This facility is comprised of two tranches each amounting to $400 million; Tranche A with a tenor of 3 years and Tranche B with a tenor of 5 years, with an overall net debt to EBITDA covenant of 3.5 times and an EBITDA to net finance costs covenant of 3.5 times.

In combination with the operating cash flow expected to be generated by Recall, management considers the committed syndicated facility will be sufficient to operate Recall on a standalone basis and support the stated strategic objectives.

Recall is not expected to have a public credit rating immediately after the Proposed Demerger. However, whilst the committed syndicated facility contains market standard terms and conditions for a facility of this nature, the funding costs of Recall are likely to increase on a standalone basis following the Proposed Demerger.

Recall also has existing regional working capital and overdraft facilities available. These facilities total approximately $7 million and were undrawn as at 30 June 2013.

Further, Recall has entered into operating lease commitments for operational locations and certain plant and equipment. As at 30 June 2013, Recall has total pro forma outstanding commitments relating to these leases of $587 million.

Cash flow

The pro forma cash flow of Recall for the three years ended 30 June 2013 is summarised in the table below.

Table 25: Pro forma cash flow of Recall

For the year ended 30 June $m	2011	2012	2013
EBITDA	**207**	**233**	**199**
Significant items	-	14	16
Underlying EBITDA	**207**	**247**	**215**
Change in working capital	(24)	(14)	26
Proceeds from disposal	5	1	11
Other non-cash items	4	(3)	-
Net operating cash flows, before capital expenditure, financing costs, tax and standalone corporate costs	**192**	**231**	**252**
Capital expenditure	(90)	(90)	(85)
Net operating cash flows after capital expenditure, before financing costs, tax, and standalone corporate costs	**102**	**141**	**167**
Pro forma estimated additional standalone corporate costs	(4)	(11)	(7)
Net operating cash flows after capital expenditure, before financing costs and tax	**98**	**130**	**160**
Financing costs	(21)	(20)	(18)
Tax expense	(34)	(34)	(47)
Net operating cash flows after capital expenditure, financing costs and tax	**43**	**76**	**95**

Source: Brambles.
Note: Net operating cash flows after capital expenditure, financing costs and tax exclude payment of dividends, repayment and draw down of debt, entity acquisitions and settlement of balances between Recall and Brambles on demerger.

8.3.3 Directors and management

Upon completion of the Proposed Demerger, Recall will establish its own Board of Directors comprising the following proposed appointments.

Table 26: Board of Directors of Recall

Name	Board Position
Ian Blackburne	Independent Non-Executive, Chairman
Doug Pertz	Managing Director, Executive Director and Chief Executive Officer
Neil Chatfield	Independent Non-Executive Director

Source: Brambles.

Following the Proposed Demerger, Tahira Hassan will also join the Recall Board as an Independent Non-Executive Director. She will also remain a member of the Brambles Board. Recall intends to add one additional Non-Executive Director upon the Proposed Demerger with one or two Non-Executive Directors to be added in the future.

The senior management of Recall and their respective roles is summarised in the table below.

Table 27: Senior management of Recall

Name	Management Position
Doug Pertz	Chief Executive Officer
Mark Wratten	Chief Financial Officer
Mark Wesley	President, Recall North America
Owen Kinnaird	President, Recall ANZ
Christian Coenen	President, Recall Europe
Lyn Ng	President, Recall Asia

Source: Brambles.

Recall has established, or will shortly establish, an employee incentive plan called the Recall Performance Share Plan. Managers and selected employees, as determined by the Recall Board, will be eligible to participate in the incentive plan. Under the Recall Performance Share Plan, Recall will grant participants with awards in the form of either:

- *conditional rights*, which are rights to receive Recall shares or the cash equivalent upon vesting for no consideration
- *share rights*, consisting of options to subscribe for or acquire Recall shares.

These awards may be subject to both continued employment and performance conditions as determined by the Recall Board.

In addition, existing Brambles employees who transfer to Recall upon implementation of the Proposed Demerger will enter into transitional short term and long term incentive awards. Further detail regarding these transitional awards can be found in Section 2.11.7 of the Scheme Book.

8.3.4 Outlook and dividend policy

Whilst Recall has not released any guidance for FY14 to the market, based on its year to date performance, Recall has confidence in its ability to deliver growth in revenue and underlying profit (adjusting for one-time demerger and standalone expenses) for FY14.

Recall's future dividend policy will be determined at the discretion of the Recall Board and may change over time. The Recall Board intends to target a dividend payout ratio of at least 60% of net profit after tax, with Recall's first dividend expected to be paid in September/October 2014 and be based on earnings for the six months to 30 June 2014.

The Recall Board has confirmed that it intends to frank dividends to the extent practicable, noting that Recall's franking account balance will be nil and will depend on the amount of Australian income tax paid by Recall following the Proposed Demerger. Currently, dividends are not expected to be franked until FY15 with the proportion of dividends to be franked expected to be between 20% and 40% for the foreseeable future.

Dividends are expected to be declared and paid in Australian dollars.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin and Sean Collins. Ian is an Associate of the Institute of Chartered Accountants in Australia, a Senior Fellow of the Financial Services Institute of Australasia and holds a Master of Commerce from the University of New South Wales. Sean is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Chartered Institute of Securities and Investments in the UK and holds a Bachelor of Commerce degree from the University of Queensland. Both Ian and Sean have a significant number of years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Proposed Demerger is in the best interests of Brambles Shareholders. KPMG Corporate Finance expressly disclaims any liability to any Brambles Shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Scheme Book or any other document prepared in respect of the Proposed Demerger. Accordingly, we take no responsibility for the content of the Scheme Book as a whole or other documents prepared in respect of the Proposed Demerger.

We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation. Future taxation changes are unable to be reliably determined at this time.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Brambles for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Scheme Book to be issued to the Brambles Shareholders. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- the Scheme Book (including earlier drafts)
- annual reports of Brambles for the five financial years ended 30 June 2013
- various ASX company announcements
- various broker and analyst reports
- various press and media articles
- financial information from IRESS, Thompson Financial Securities, Aspect Huntley, Connect 4 and S&P Capital IQ.

Non-public information provided by Brambles:

- Board papers and other internal briefing papers prepared by Brambles and their advisers in relation to the Proposed Demerger
- other confidential documents, presentations and workpapers.

In preparing this report, we have also held discussions with, and obtained information from, senior management of Brambles and their advisers.

Appendix 3 – ASX announcements

The price sensitive ASX announcements made by Brambles since 1 October 2010 are summarised below.

Table 28: Brambles – ASX announcements

Date	Announcement
15 November 2010	Brambles announced its intention to acquire IFCO Systems, a leading provider of pooled RPCs to the food supply chain worldwide and of pallet services to the US. In addition, Brambles also announced a 2.0% increase in sales revenue for the four months ended 31 October 2010 from the prior corresponding period
8 February 2011	Brambles announced that it had acquired Container and Pooling Solutions (CAPS), a US based provider of intermediate bulk containers (IBCs) and automotive containers
15 February 2011	Brambles announced its results for the half year ended 31 December 2010 which included an increase in sales revenue of 3.0% and a decrease in free cash flow after dividends of $136.7 million from the prior corresponding period
1 April 2011	Brambles announced that it had taken majority control of IFCO Systems
15 April 2011	Brambles announced that it had priced a €500 million Eurobond issue to be listed on the Singapore Exchange
19 May 2011	Brambles announced its reported sales revenue for the nine months ended 31 March 2011 resulting in an increase of 5.0% increase from the prior corresponding period. We also note that on the same day IFCO reported an increase in revenue and EBITDA of 9.7% and 8.1% respectively for the three months ended 31 March 2011
17 August 2011	Brambles announced its intention to divest Recall in addition to its results for the year ended 30 June 2011 in which Brambles reported an increase in sales revenue of 17.0% and an increase in operating profit of 12.0%
3 November 2011	Brambles announced the launch of CHEP Aerospace Solutions, the world’s largest independent network of pooled unit load devices (ULDs) and repair centres in addition to the acquisition of Driessen Services, a specialist in the outsourced repair and maintenance of ULDs and airline galley equipment
10 November 2011	Brambles announced its reported sales revenue for the three months ended 30 September 2011 resulting in an increase of 32.0% from the prior corresponding period primarily driven by Brambles acquisition of IFCO Systems
18 November 2011	Brambles announced that it had signed a three-year service agreement with PepsiCo worth $45 million in sales revenue per year
16 February 2012	Brambles announced its results for the half year ended 31 December 2011 in which it reported an increase in sales revenue of 30.0 % and a decrease in free cash flow after dividends of $291.8 million from the prior corresponding period
2 May 2012	Brambles announced its reported sales revenue for the nine months ended 31 March 2012 resulting in a 33.0% increase from the prior corresponding period
4 June 2012	Brambles announced a trading halt pending a significant announcement regarding its intention to conduct a fully underwritten equity raising comprising a pro-rata accelerated renounceable entitlement offer of Brambles ordinary shares. In addition, Brambles also announced its intention to retain Recall
7 June 2012	Brambles announced that it had completed the institutional component of its one-for-twenty pro-rata renounceable entitlement offer raising gross proceeds of approximately A$333 million

Date	Announcement
5 July 2012	Brambles announced that it had completed the retail bookbuild in relation to its $120.6 million pro-rata renounceable entitlement offer
16 August 2012	Brambles announced its results for the year ended 30 June 2012 in which it reported an increase in sales revenue of 20.0% and an increase in operating profit of 16.0%
11 October 2012	Brambles announced its reported sales revenue for the three months ended 30 September 2012 resulting in an increase of 3.0% from the prior corresponding period
17 December 2012	Brambles announced that it had signed a sale and purchase agreement to acquire Pallecon, a leading provider of IBC solutions in Europe and the Asia Pacific
21 February 2013	Brambles announced its results for the half year ended 31 December 2012 reporting an increase in sales revenue of 4.0% and an increase in earnings per share of 12.0% from the prior corresponding period
24 April 2013	Brambles announced its reported sales revenue for the nine months ended 31 March 2013 resulting in an increase of 4.0% from the prior corresponding period
2 July 2013	Brambles announced its intention to demerge Recall
22 August 2013	Brambles announced its results for the year ended 30 June 2013 with an increase in sales revenue of 5.0% and an increase in earnings per share of 6.0%.

Source: ASX and company announcements.

Appendix 4 – Recent demergers in Australia

Our analysis of recent demergers implemented in Australia has been based on the following transactions.

Table 29: Recent demergers in Australia

Demerger date	Parent company	Demerged entity	% demerged
26-Nov-12	Woolworths Limited	Shopping Centres Australasia Property Group	100.0
6-Jun-11	Tabcorp Holdings Ltd.	Echo Entertainment Group Limited	100.0
20-May-11	Foster's Group Ltd.	Treasury Wine Estates Limited	100.0
13-Dec-10	Westfield Group	Westfield Retail Trust	100.0
22-Jul-10	Arrow Energy Limited	Dart Energy Limited	100.0
12-Jul-10	Orica Limited	DuluxGroup Limited	100.0
2-Feb-10	Macquarie Infrastructure Group (nka:Intoll Group)	Macquarie Atlas Roads Group	100.0
10-Dec-07	Publishing & Broadcasting Ltd. (nka:Consolidated Media Holdings Limited)	Crown Limited	100.0
6-Jun-07	Toll Holdings Limited	Asciano Group (nka:Asciano Limited)	100.0
21-Nov-06	Tower Limited	TOWER Australia Group Limited (nka:TAL Limited)	100.0
1-Aug-06	Macquarie Infrastructure Group (nka:Intoll Group)	Sydney Roads Group Limited	88.4[1]
21-Nov-05	Mayne Group Ltd. (nka:Idameneo (No.789) Ltd)	Mayne Pharma Limited (nka:Hospira Australia Pty Ltd.)	100.0
15-Feb-05	Tower Limited	Australian Wealth Management Limited	100.0
23-Dec-03	AMP Limited	HHG plc (nka:Henderson Group plc)	85.0[1]
31-Mar-03	CSR Limited	Rinker Group Ltd. (nka:Holcim (Australia) Holdings Pty Ltd.)	100.0
11-Dec-02	WMC Limited (nka:Alumina Ltd.)	BHP Billiton Nickel West Pty Ltd.	100.0
15-Jul-02	BHP Ltd (nka:BHP Billiton Limited)	BHP Steel Limited (nka:BlueScope Steel Limited)	94.9[1]
31-Oct-00	The Broken Hill Proprietary Company Limited (BHP)	OneSteel Limited	100.0
17-Apr-00	Amcor Limited	Paperlinx Limited	82.0[1]
1-Mar-00	Boral Ltd (nka:Origin Energy Limited)	Blue Circle Southern Cement Limited (nka:Boral Limited)	100.0

Source: S&P Capital IQ & ASX.
Note 1: Remaining interest is held by the parent (i.e. this is not considered to be a 'pure' demerger).
Note 2: nka = now known as.

Appendix 5 – Market valuation parameters

Brambles

The table below summarises selected trading multiples of listed companies that are broadly comparable to Brambles.

Table 30: Brambles – comparable companies

Company name	Country of listing	Market Cap A$m	EBITDA multiple LTM	EBITDA multiple NTM	EBIT multiple LTM	EBIT multiple NTM
Brambles Limited	**Australia**	**14,356**	**9.9**	**9.4**	**15.2**	**13.7**
ANZ transport and logistics						
Aurizon Holdings Limited	Australia	10,045	10.0	9.0	16.5	14.4
Asciano Limited	Australia	5,827	9.2	8.2	13.5	12.0
Toll Holdings Limited	Australia	4,210	8.0	7.5	13.7	11.7
Freightways Limited	New Zealand	572	10.6	10.1	12.5	12.0
Royal Wolf Holdings Limited	Australia	367	11.1	9.9	17.1	14.6
Mean			**9.8**	**8.9**	**14.7**	**12.9**
Median			**10.0**	**9.0**	**13.7**	**12.0**
International container leasing						
Textainer Group Holdings Limited	United States	2,295	10.8	9.7	15.6	14.2
TAL International Group, Inc.	United States	1,674	8.0	7.5	12.8	12.5
Goodpack Ltd.	Singapore	845	11.0	9.0	14.0	11.5
CAI International Inc.	United States	552	14.2	8.1	14.4	12.9
Mean			**11.0**	**8.6**	**14.1**	**12.8**
Median			**10.9**	**8.6**	**14.0**	**12.7**

Source: S&P Capital IQ (data as at 27 September 2013), KPMG Corporate Finance Analysis.
Note 1: LTM = Last Twelve Months, NTM = Next Twelve Months.
Note 2: EBITDA and EBIT multiples defined as Enterprise Value (the gross capitalisation comprising the sum of the market capitalisation adjusted for minority interests, preferred equity, plus borrowings less cash) divided by EBITDA and EBIT respectively.
Note 3: Trading metrics of Brambles is based upon 49% interest in Recall Singapore.

Brambles is highly unusual in the sense that it is a leading global pooling solutions company with no directly comparable peers listed on any stock exchange. Consequently, it is general market practice to benchmark Brambles against a broader peer group of ‘defensive’ industrials with similar risk/return profile and growth prospects. We have selected industrials within the transport and logistics sector in Australia and New Zealand as a reference point for our analysis.

Further, we have also considered the trading multiples of a number of global players operating in the container leasing industry, given that these businesses are broadly similar or adjacent to Brambles’ container pooling segment. However, it is noted that this segment only accounted for approximately 6% of Brambles’ revenue in FY13.

Descriptions for each of the above companies are set out below.

Aurizon Holdings Limited

Aurizon Holdings Limited (Aurizon) is an integrated heavy haul freight railway operator and provider of road-based freight transport and infrastructure solutions in Australia. The company primarily transports coal, iron ore, and other minerals and also provides large-scale supply chain solutions to a range of customers. In FY13, Aurizon generated total revenue of A$3,766 million and EBITDA of A$1,228 million. During this period, Aurizon derived 43% of total revenue from its Coal segment which transports coal from mine to port for export markets, 25% of total revenue from its Freight segment which provides bulk freight and intermodal freight services for customers in the resources, manufacturing and primary industries and 24% of total revenue from its Network Services segment which provides rail and track construction and maintenance services and network management services.

Asciano Limited

Asciano Limited (Asciano) engages in the ownership and management of ports and rail assets, and associated operations and services in Australia. Asciano is the sole combined rail freight and port operator in Australia. In FY13, Asciano generated total revenue of A$3,728 million and EBITDA of A$1,001 million. During this period, Asciano derived 37% of total revenue from its Pacific National Rail segment which provides intermodal rail and bulk haulage rail services, 27% of total revenue from its Pacific National Coal segment which provides rail haulage services for the export and domestic coal markets in Australia, and 20% of total revenue from its Terminal & Logistics segment which provides shipping container terminal services.

Toll Holdings Limited

Toll Holdings Limited (Toll) provides integrated logistics services including local freight distribution, interstate freight forwarding by road, rail, sea and air, and the packaging and unpacking of containers. The company also provides warehousing, storage and distribution services and operates primarily in the Asia Pacific region. In FY13, Toll generated total revenue of A$8,719 million and EBITDA of A$703 million. During this period, Toll derived 26% of total revenue from its Toll Global Express segment which provides delivery services for parcels and documents, 17% of total revenue from its Toll Global Forwarding segment which provides international freight forwarding and supply chain management services, 16% of total revenue from its Toll Specialised & Domestic Freight segment which provides pallet carrier, bulk road tanker and workplace relocation services, and 13% of total revenue from its Toll Global Resources segment which provides integrated logistics solutions to the energy, mining, marine, oil and gas industry in the Asia Pacific region.

Freightways Limited

Freightways Limited (Freightways) provides express package and business mail services in New Zealand and information management services in both New Zealand and Australia. The company provides network courier, point-to-point courier, and postal services as well as a range of archive management services for documents, document destruction, digital conversion and online back-up services for the physical storage and protection of documents. In FY13, Freightways generated total revenue of A$343 million and EBITDA of A$65 million. During this period, Freightways derived 76% of total revenue from its Express Package and Business Mail segment which provides worldwide delivery services through alliances with international express package operators, and 24% of total revenue from its Information Management segment which provides a range of archive management and destruction services for documents and other media.

Royal Wolf Holdings Limited

Royal Wolf Holdings Limited (Royal Wolf) engages in the hire, sale, and modification of new and refurbished shipping containers. It provides portable container solutions to the resources, construction, logistics, retail and manufacturing industries in Australia and New Zealand. Royal Wolf is the largest container provider in Australasia with 26 facilities located throughout Australia and New Zealand. In FY13, Royal Wolf generated total revenue of A$72 million and EBITDA of A$40 million. During this period, Royal Wolf derived 74% of total revenue from its Portable Storage segment which provides storage containers and specialty products such as refrigerated containers and dangerous goods storage containers, 17% of total revenues from its Portable Buildings segment which provides portable container accommodation and blast resistant buildings, and 8% of total revenues from its Freight segment which provides the delivery of storage containers and portable buildings to its customers.

Textainer Group Holdings Limited

Textainer Group Holdings Limited (Textainer) engages in the purchase, ownership, management, leasing, and resale of a fleet of marine cargo containers worldwide. Textainer is the world's largest lessor of intermodal containers based on fleet size, with a total of 1.9 million containers, representing 2.9 million twenty-foot equivalent unit (TEU). The company has a wide geographic reach with 14 offices located globally focusing on North America, Europe, Middle East & Africa, North Asia and South Asia. In FY13, Textainer generated total revenue of A$555 million and EBITDA of A$460 million. During this period, Textainer derived 79% of total revenue from its container leasing activities, 16% of total revenue from its container sales-related activities, and 5% of total revenues in the form of management fees.

TAL International Group Inc.

TAL International Group Inc. (TAL) engages in leasing intermodal containers and chassis worldwide. TAL has a wide geographic reach with operations in 11 countries focusing on the Asia Pacific and European regions. In FY13, TAL generated total revenue of A$687 million and EBITDA of A$581 million. During this period, TAL derived 88% of total revenue from its Equipment Leasing segment which is involved in the leasing and re-leasing of intermodal transportation equipment, and 12% of total revenue from its Equipment Trading segment which is engaged in the purchase of containers from shipping line customers and other sellers of containers.

Goodpack Ltd.

Goodpack Ltd. (Goodpack) engages in leasing intermediate bulk containers (IBCs) used for packaging, transporting, and storing cargoes. The company offers steel IBCs on trip and term rental basis to customers in various industries, including rubber, tire, food, and chemical industries. The company is also involved in marketing and leasing crates; and providing a range of supply chain and technical support services. Goodpack has a wide geographic reach with operations in 19 countries focused on Asia Pacific and North America. During the year ended 31 March 2013, Goodpack generated total revenue of A$209 million and EBITDA of A$91 million.

CAI International Inc.

CAI International Inc. (CAI) operates as a container leasing and management company in the United States and internationally. It offers dry van containers, rail cars, and specialised equipment including palletwides, roll trailers and swap bodies. CAI has a wide geographic reach with operations focusing in Asia Pacific, Europe and North America. In FY13, CAI generated revenue of A$217 million and EBITDA of A$123 million. During this period, CAI derived 92% of total revenue from its Equipment Leasing segment which provides lease and sales of intermodal containers and rail cars, and 8% of total revenue from its Container Investment Management segment which manages container asset-based investment portfolios for a range of investors and institutional funds.

Recall

The table below summarises selected trading multiples of listed companies that are broadly comparable to Recall.

Table 31: Recall – comparable companies

Company name	Country of listing	Market Cap A$m	EBITDA multiple LTM	EBITDA multiple NTM	EBIT multiple LTM	EBIT multiple NTM
Brambles Limited	**Australia**	**14,356**	**9.9**	**9.4**	**15.2**	**13.7**
Information management solutions						
Iron Mountain Inc.	United States	5,689	10.3	9.7	16.5	14.8
Restore PLC	United Kingdom	183	12.3	9.7	15.2	10.9
Krungdhep Sophon Public Company Ltd.	Thailand	39	11.2	n/a	13.5	n/a
Mean			**11.3**	**9.7**	**15.1**	**12.9**
Median			**11.2**	**9.7**	**15.2**	**12.9**

Source: S&P Capital IQ (data as at 27 September 2013), KPMG Corporate Finance Analysis.
Note 1: LTM = Last Twelve Months, NTM = Next Twelve Months.
Note 2: EBITDA and EBIT multiples defined as Enterprise Value (the gross capitalisation comprising the sum of the market capitalisation adjusted for minority interests, preferred equity, plus borrowings less cash) divided by EBITDA and EBIT respectively.
Note 3: Trading metrics of Brambles is based upon 49% interest in Recall Singapore.

Iron Mountain is commonly referred to as being the closest comparable to Recall. Whilst the service offering is highly comparable, the underlying operating model significantly differs to the extent that Iron Mountain owns a large portion of its operating facilities, compared to Recall which predominantly leases its facilities. As a result, Iron Mountain offers a different risk/return profile relative to Recall as reflected by its recent application for conversion into a real-estate investment trust (REIT). Compared to Recall, Iron Mountain also has a larger scale whilst being geographically less diversified, given 73% of its revenue was generated in North America in FY12. EBIT multiples for Iron Mountain are high compared to the peers, which reflects the large portion of operating facilities that is owned by Iron Mountain.

We have also considered the trading multiples of other listed information management companies with facilities-based storage capabilities, namely Restore and Krungdhep. Whilst their core service offering is similar to Recall, both Restore and Krungdhep are much smaller in size and are narrowly focused in their respective regions, with Restore and Krungdhep focusing on the UK and Thailand respectively. Further, Restore also provides office relocation services which accounted for 51% of revenues and 13% of operating profit in FY12.

Descriptions for each of the above companies are set out below.

Iron Mountain Inc.

Iron Mountain Inc. (Iron Mountain) provides information management services primarily in North America, Europe, Latin America, and the Asia Pacific. The company offers records management services, including flexible retrieval access, retention management, and records management program development. The company also provides data protection and recovery services, such as the secure handling and transportation of data backup media, as well as information destruction services. In FY13, Iron Mountain generated total revenue of A$3,286 million and EBITDA of A$926 million. During this period, Iron Mountain derived 89% of its total revenue from its Storage Rental and Core Service segment, which provides a range of services including document storage, file management, scanning and digitising services, and 11% of its total revenue from its Complementary Services segment which provides services including business process management and intellectual property management services. Geographically, Iron Mountain derived 73% of total revenues from its operations in North America, and 27% of total revenues from its operations in the rest of the world.

Restore PLC

Restore Plc (Restore) operates as a support services company in the United Kingdom. It offers records management services, which include storing and retrieving of hard copy documents primarily stored in cardboard boxes, as well as file-tracking services that enable customers to locate documents. The company also offers document scanning, shredding and recycling services. In FY13, Restore generated total revenue of A$83 million and EBITDA of A$15 million. During this period, Restore derived 51% of its total revenue from its Office Relocation segment which provides office-moving and IT relocations services, and 49% of its total revenue from its Document Management segment which provides document storage, destruction and scanning services.

Krungdhep Sophon Public Company Limited

Krungdhep Sophon Public Company Limited (Krungdhep) provides warehouse and warehouse space rental services in Thailand. Specifically, the company provides document warehouse, document and information management, and computer backup media storage services; and management consulting services. The company also provides distribution and implementation of enterprise content management solutions. In FY13, Krungdhep generated total revenue of A$8 million and EBITDA of A$4 million. During this period, Krungdhep derived 60% of its total revenue from its Document Storage segment which provides information management and data backup services, 23% of total revenues from its Assets Rental and Other segment which provides warehouse space rental services, and 17% of total revenue from its Warehouse segment which provides document storage.

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PART TWO – FINANCIAL SERVICES GUIDE

Dated 23 October 2013

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) **(KPMG Corporate Finance)** and Ian Jedlin as an authorised representative of KPMG Corporate Finance **(Authorised Representative)**, authorised representative number 404177.

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

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- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities, and
- superannuation,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Brambles Limited (Client) to provide general financial product advice in the form of a Report to be included in the Scheme Book (Document) prepared by Brambles Limited in relation to the Proposed Demerger of Recall Limited by Brambles Limited (Transaction).

You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representatives are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance $275,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

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Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of tax and advisory services to the Client for which professional fees are received. Over the past two years professional fees in the order of $1.5 million have been received from the Client. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address:	Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone:	1300 78 08 08
Facsimile:	(03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

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