Event Transcript

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Start of Transcript

James Hall: Good morning everybody. This is James Hall speaking, Brambles Head of Investor Relations. Thank you for joining us to discuss our results for the six months to 31 December 2014. You're about to hear some prepared comments from our CEO Tom Gorman and our CFO Zlatko Todorcevski and we will then open for questions. Just a brief reminder to everybody that unless otherwise stated we quote financial figures in US$.

Tom Gorman: Well thank you everyone, good morning and welcome. I will begin today by summarising the key messages that we wish to convey with today's result. Firstly, we are confirming that we are on track to deliver our FY15 guidance for underlying profit of between US$1.055 billion and US$1.085 billion USD. This is at 30 June 2014 foreign exchange rates. Now let me turn to the first half result. In our latest - in our largest operating segment which is the pallets business we delivered an improved result with leverage to the bottom line. There was a particularly strong profit performance from our European team reflecting supply chain efficiencies and an improved sales mix.

This has more than offset the direct cost challenges that we experienced in North America in the first half. The increased North America costs reflected the ongoing impact of improved asset utilisation on pallet damage rates and also reflected the sharp transport rate increases we're seeing. Now in the reusable produce container business or the RPC business as we refer to it we delivered a very good first half result with positive momentum in both sales and profit worldwide. Our containers business was more of a mixed result and this does reflect a diversity of the portfolio in this business. There was encouraging sales and profit momentum in the intermediate bulk containers business in particular as well as strong performance in Aerospace.

The Ferguson Group which is the offshore oil and gas container solutions business which we acquired in September of 2014 delivered results in line with our expectations notwithstanding the challenging market conditions the oil and gas industry is presently experiencing. Our largest automotive businesses in Europe and here in Australia were impacted by ongoing challenges in their respective industries. We have increased our interim dividend by A$0.0.5 to A$0.14 per share. This is a 4% increase. Now I will touch on our safety performance on the next slide.

I am deeply saddened to report that we suffered a fatality during the period. A driver in our recycled pallet business in Nashville, Tennessee in the United States passed away in December after suffering a fatal injury in a motor vehicle accident. We continue to strive to eliminate this kind of tragedy. Our safety program which we refer to as Zero Harm continues to deliver fewer accidents overall and it really is now the standard across all of our business units. This chart here shows the improvement we are making as measured by the Brambles injury frequency rate metric. I will now cover the financial highlights of the first half.

Sales revenue of just under US$2.8 billion [sic - see press release - million] was up 5% or 8% at constant currency. Operating profit of $466 million was up 3% or 7% at constant currency. Profit after tax was US$286 million and this was up 2% and again that was up 6% at constant currency. Although our transactional exposure to exchange rate movement is negligible these differing, actual and constant currency growth rates highlights the translation impact on our reported results during the period. This reflects the much stronger US$ in the period relative to our other main currencies of operation. Now I encourage you to review the detail on our foreign exchange exposure that we are now publishing in the appendix to this presentation.

Let me now shift our focus which I will talk going forward on our constant currency performance. Underlying profit was up 10% to US$485 million reflecting solid bottom line leverage as we deliver efficiencies and pricing improvements in our more mature businesses and increasing scale economies as smaller businesses expand. Our return on capital invested for the period was down marginally as a result of the acquisition of Ferguson. Excluding acquisitions impacts the pre-existing businesses delivered a 50 bases point constant currency improvement in return on capital to a total of 16% [sic - see press release 15.5%]. Now another way of looking at this is the Brambles value added which is our economic profit measure.

In this measure we were up US$10 million in the half to US$126 million. Our reduced cash flow from operations in the half mostly reflected the timing of capital expenditures to support growth especially in the RPC business. The dividend increase of A$0.0.5 per share reflects our positive view about the outlook. Now running through the delivery score card for the half I do believe it is a strong report. We're hitting our target of 8% to 9% sales revenue growth for the year. We're on track to complete the US$100 million global supply chain efficiency program, a subject on which Zlatko will expand shortly. We're on track to meet our underlying profit objectives and while underlying free cash flow after dividends was not positive in the half we do anticipate an improvement in the second half.

Our FY19 targets with which most of you would be familiar are included for reference on this slide. I would note that our sales revenue growth relative to the high single digit annual target in those FY19 targets and these are before the contribution of acquisitions was at 6%. But we do expect to see an improvement in this growth rate in the second half. Now this slide here shows the components of our sales revenue growth in the period. The pallets business contributed about half of all growth in the first half reflecting a resilient performance despite continuing economic and competitive pressures with a balance between new business, organic volume growth and a little bit of price.

The US$41 million contribution from net new business wins was a little lower than we had expected but this number reflects one customer transitioning business to a competitor of ours in the US and this transition occurred a little bit faster than we expected. There was also some deferral of lane expansion in Latin America as a result of economic disruption in this region. The total growth of emerging markets in pallets was just a bit over 12% in the period. Now while this is strong growth it's below trend and this primarily reflects the disruption in the Latin American markets. The contribution from RPCs shows how diversification is supporting our growth strategy.

This segment which includes the acquired IFC RPC operations in Europe and the Americas and the legacy CHEP RPC businesses in Australia, New Zealand and South Africa contributed US$51 million of sales revenue growth in the half. The growth of both the pallets and RPC businesses demonstrates both the resilience of our underlying revenues and we believe the ample growth opportunities that continue to exist for these operations. Our concentration outside this consumer staple space remains low although growth in other industries be it the containers business continues to contribute positively to our growth. Organic growth in containers was muted in the period although growth in the IBC and Aerospace businesses more than offset the impact of the lower sales in the mature automotive businesses in Europe and Australia and the CHEP Catalyst & Chemical Containers business.

Now for businesses acquired since the prior corresponding period, which includes Airworld and Aerospace, Transpac in the IBC business and Ferguson in the oil and gas business, these businesses contributed US$50 million of sales revenue. Now it's worth remembering however that although Ferguson is an important part of our growth strategy, on an annualised basis it is less than 2% of Brambles' total revenue and that the total non-consumer staples or general manufacturing exposure of Brambles is only about 6% of our total revenue. Now we've included a pie chart in the appendices that sets out these business mixes. The total negative impact of foreign exchange translation on sales revenue in the period was US$81 million.

We'll now look at the result of the three segments in more detail starting with pallets which of course is our largest segment. Total sales revenue growth was a solid 5% and this reflects the sales trends I discussed with the last slide and the sales revenue growth relatively consistently across the first and second quarters. The real strength of the pallets result in the half was the bottom line leverage. In particular in the context of the direct cost challenges we're experiencing in North America which Zlatko will cover in a lot more depth shortly. Underlying profit growth was two points higher than sales growth at 7% reflecting the delivery of efficiencies under the global supply chain program and pricing and sales mix benefits in particular in Europe.

The return on capital result was satisfying in the period showing an increase to 20.5% on aggregate as a result of the profit growth and ongoing asset efficiency benefits. The RPCs result was really a highlight of the period, 11% sales growth to US$471 million reflecting strong momentum worldwide and a particularly strong second quarter. Now while we don't expect this level of growth to repeat every quarter 10% annual growth remains an achievable target in particular as we secure major contract extensions in Europe such as the one we announced with [RAIWA] this month. Cost growth was relatively modest compared with the prior period reflecting scale economies we achieved in the RPC business as we continue to grow.

This strong cost control enabled us to deliver a 19% improvement in underlying profit to US$67 million and a 1.1% increase in return on capital to a total of 8.6%. It's worth remembering the impact of goodwill from the IFCO acquisition on return on capital. ROCI on an ex-goodwill basis that is the aggregate return on organic Capex in this segment was above 19% in the period. The RPC business really is in good shape and we anticipate continuing to invest substantially in its expansion. I will now cover the containers result before closing this section of the presentation with a bit more detail on how we see the Ferguson acquisition which has contributed in line with our expectations despite the declining oil price.

I'd like to start by recapping on our strategy which is to develop our presence in the four supply chains we serve in the containers into businesses of meaningful scale. Containers now has a combined revenue in excess of US$0.5 billion on an annualised basis. In the short term we are experiencing weak automotive sector conditions and the Australian automotive industry as you all know is in decline and will be running down. These two factors combined with some timing issues with customers in our CHEP Catalyst and Containers business were a negative drag on our first half organic growth. The performance of those businesses translated to a 3% sales growth handicap for containers in the period and a larger margin handicap given their relative profitability.

Now in that context the profitable contribution excluding acquisition to the growth of the IBC businesses, Aerospace and US Automotive is quite strong especially as it came with an improvement in leverage to the bottom line and to return on capital. So while the container segment includes a number of less mature businesses we are seeing encouraging signs. We expect these growth rates to remain solid as the IBC business expands worldwide, as Aerospace unboards its largest passenger airline pooling company Cathay Pacific and as US Automotive has just won its first contract with a major US OEM General Motors. Given our increased exposure to the oil and gas sector I'd like now to move onto a focus on Ferguson in a bit more detail.

Firstly as I mentioned earlier on an annualised basis Ferguson accounts for less than 2% of our sales revenue. While we like the oil and gas sector a great deal we are not going to find ourselves in a situation where the defensive appeal of our predominately consumer staples exposure is diluted in a meaningful way. Secondly the reason we chose to acquire Ferguson was that it has attractive fundamentals. For example, more than 70% of its sales revenue comes from mature producing assets at the lower end of the oil extraction cost curve. No single customer accounts for more than 4.5% of its sales revenue and practically none of its sales revenue comes from unconventional oil fields such as shale or ultra-deep water environments.

So while there will inevitably be some impact on activity from reduced oil prices in this environment we would rather have the majority of our exposure in production versus exploration which we do and we would rather be exposed to the more efficient portion of the cost curve which we are. Thirdly, we are clearly in a period of high volatility and some uncertainty but we have been here before and it's worth noting as the last slide in the appendices to this presentation shows that Ferguson continued to grow through the last down cycle as a result of product and geographic expansion. Other mitigating factors to bear in mind are Ferguson's capabilities throughout the life cycle of activities all the way to de-commissioning and including support to the enhanced oil recovery techniques that are used to maximise yield at established mature fields.

We are also making solid early progress with our strategic sourcing initiatives and we are taking sensible steps to reduce costs without compromising our ability to grow. Finally, I re-emphasise notwithstanding external challenges the appeal of the sector to Brambles is not driven by near term fluctuations in oil price or the Capex cycle. It's driven by an industry in which customers have expressed their opinion that they believe a player with Brambles' expertise can add real value, an opportunity that may be enhanced in times of uncertainty.

Now this slide provides a bit more visibility as to Ferguson's exposure on the cost curve. While the data here is not exhaustive it does provide a high level overview of the marginal cost of new production for various resource types and regions around the world. The data are taken from a Reuter survey last August of nine leading investments banks and oil consultancies. In the Asia Pacific gas regions which account for about 31% of Ferguson's sales revenue about half of it comes from Australia's north-west shelf and about half is supported from our Singapore hub, they were not covered in this survey. However, it's worth noting the marginal cost of new production in these regions is at the lower end of the cost curve. Now as you can see from this slide the areas to which Ferguson is currently exposed are all below the breakeven point at the current oil price.

Practically zero of Ferguson's business comes from high cost, non-traditional sources such as shale and ultra-deep water. As I stressed that this chart shows the marginal cost of new production. As I mentioned on the previous slide more than 70% of Ferguson's operations are in fact from mature sites with well-established production. At our investor day in November we mentioned geographic expansion as a key growth lever for Ferguson. These areas include the Gulf of Mexico, East and West Africa and the Middle East. These markets remain attractive even at the current oil price levels. It's now my pleasure to hand you over to Zlatko to cover our first half financials in a bit more depth. Thank you.

Zlatko Todorcevski: Thank you Tom and good morning everyone. I'll start by walking through our profit performance in more detail taking the US$458 million underlying profit from the prior corresponding period as a starting point and then looking at the components of growth in constant currency. The appendices contain the breakdown by segment. The key message is that the solid sales growth Tom has already discussed with pricing and sales mix benefits throughout the pallets and RPC businesses more than offset the cost challenges we have faced generating cash for investment and growth. The sales growth generated US$75 million of underlying profit. There was US$12 million contribution to underlying profit from acquisitions, primarily Ferguson, and a US$12 million contribution from the delivery of efficiencies under the global supply chain program.

I now come to the direct cost impacts in the period which were negative US$44 million as a result of the challenges we're facing in the Americas which accounted for US$41 million of that total. The largest contributor to the increase at US$23 million was increased transport and repair costs as a result of higher asset recoveries and utilisation respectively in both the USA and Canada. As we covered in some depth at the investor day in November this reflects the continuation of the trend we experienced in the second half of FY14. We do not expect these asset management related cost increases to repeat over the next 12 months as we have now cycled a full 12 month impact of the improved asset management practises.

To give you a sense of the changes on the ground we had 40% more people working in asset management at the end of FY14 in the US than we did in FY12. We're also preparing to put in place pallet durability improvements which we expect to be cost and cash neutral in FY16 but it becomes justifiable because of the increased asset recovery in utilisation rates. The second largest contributor to the direct cost increase in

North America has been transportation inflation at US$10 million. We recognise this might seem counter intuitive given the fall in fuel prices in the period but the principle driver of CHEP's transport costs is third party freight, not direct fuel purchases as we only operate a small fleet in the recycled pallets business.

As any of you who follow the US transport industry will know capacity is extremely tight in the US trucking sector as a result of the stricter regulations and improved economic conditions which are creating fleet and driver shortages. Weekly allowable driving hours were reduced from 82 hours to 70 hours effective July 2013 in addition to other stricter safety regulations. Couple that with tracking companies understandable reluctance to invest during the economic downturn and asset utilisation has now reached in excess of 95%. Although we see some relief on the horizon as trucking companies begin to invest it is anticipated that rates will continue to remain a challenge through 2015 given the lead times on this investment.

The bulk of the rest of the direct cost increase was increased depreciation reflecting growth in our pools worldwide mostly in the Americas and the RPCs business in Europe. The US$7 million increase in other costs reflected a minor reduction in indirect costs after recognising an additional US$10 million in corporate costs that we allocated to Recall in the prior corresponding period. For completeness the rest of this slide reconciles the constant currency underlying profits as statutory operating profit. I'll cover that in more detail in a moment. First I'll spend some time discussing the cost outlook. The outlook for costs is improving but some headwinds do remain.

Let's begin with plant costs. As we've covered, increased asset utilisation and a greater number of recoveries from outside the network are driving a higher pallet damage rate. As a result plant costs have increased. While this has been a more persistent pressure than we initially anticipated we are confident that the durability improvements we can now justify as a result of the improved utilisation will help us stabilise this issue from FY16. I emphasise that we believe these durability improvements will be cost and cash neutral. That is they'll pay for themselves in FY16 and be positive to value in later years. We're also on track to deliver the final US$22 million of efficiencies under the global supply chain program in the second half.

Now moving to transport costs which are complex. As I just discussed the inflation linked to capacity constraints in the US trucking sector are unlikely to abate in the short term. In addition we benefited from some timing benefits in relation to European fuel price indexation in the first half which will not repeat in the second half. We also expect some margin pressure in the US in the second half as a result of reduced customer fuel surcharges in that region. So we do not expect to be a net beneficiary of lower fuel prices in the short term. On DIN that is the sum of depreciation, the IPEP expense and the net proceeds and the sales compensated and scrapped assets we do expect some continued modest benefits from improved asset utilisation.

DIN as a percentage of sales revenue for the pallets business was 12.5% in the half down from 12.8% on the prior corresponding period. Finally on overheads we had some minor improvements in the first half. The overheads to sales ratio was 15.2% in the first half down from 15.4% in the first half of FY14. We expect some small benefit from the One Better program in the second half as we target a 2.0% reduction in overheads as a percentage of sales by FY19 relative to FY14 levels. We're on track to deliver the first US$30 million of savings by the end of FY16.

Now looking at the non-operating aspects of our profit in more detail, firstly foreign exchange which had an unusually large effect on our results this period as a result of the stronger US dollar. You'll notice that the difference between actual and constant currency growth is 4 percentage points for underlying profit compared with three points for sales revenue. This simply reflects the relative profitability and maturity of some of our operations outside of the US where currency has depreciated in the period. Appendices 5 and 6 set out more detail on the currency movements in the period.

The lower rate of growth in operating profit than underlying profit reflects significant items in the period of US$19 million compared with US$5 million in the first half of FY14. These mostly related to Ferguson acquisition costs and the early investment in the One Better program. Net finance costs remained relatively flat at US$59 million. At the tax expense line the increased partially reflects the fact that a portion of significant items were not tax deductible. These increases in finance and tax costs resulted in profit after tax and earnings per share growth of 6% at constant currency compared with 7% for operating profit.

Now moving to cash flow where the reduction in cash flow from operations and free cash flow was driven by the increase in capital expenditure of US$88million primarily to support growth and create availability in the RPCs business, new business and organic growth in pallets and growth in Ferguson. The demand for capital to fund growth will remain relatively high in the foreseeable future which ultimately is a good thing given the attractive incremental returns we are earning across the majority of the Brambles' portfolio. The other major feature in the period was the US$54 million movement in working capital which was caused by a timing of VAT type recoveries and a timing of supply payments.

Cash financing and tax costs were lower because of the inclusion of US$15 million of Recall tax payments in the first half of FY14. Dividends paid reduced as a result of the change in the US dollar/Australian dollar exchange rate. We are confident delivering an improvement in our cash flow performance in the second half on an underlying basis. Finally our balance sheet position, net debt has increased to almost US$2.9 billion as a result of the Ferguson acquisition and the average term of our facilities has extended as a result of our latest 10 year European medium term note raising and also the renewal of US$800 million of bank facilities in the period. Our EBITDA interest cover remains strong at 12.9x and although we have about US$1.1 billion of unused committed facilities available we are currently slightly above our financial policy target of net debt of no more than 1.75x EBITDA. We remain focused on getting that ratio back inside the policy by the end of FY15. I'll now hand you back to Tom.

Tom Gorman: Well thank you very much Zlatko. I'd like to close now by sharing a few comments on our areas of focus over the balance of the financial year before I summarise our outlook statement. Firstly, we recognise that cost is a challenge. I believe Zlatko has set out quite clearly the realities of the situation in the US and the mitigating actions that we are taking there. The key point I would emphasise is that we are confident this situation will improve and that our US team is focused on the right actions. Secondly, we are investing in a major refresh of the CHEP brand as we seek to get closer to and become more relevant to our customers. This work will begin in the US but will unfold across the CHEP pallets business globally over the next couple of years.

The third point is around innovation. While this is a constant are of focus as I mentioned at the FY14 full year result we are now starting to see significant developments in the cost and availability of technologies that will drive improvements in track and trace and advancements in big data management that could begin to be meaningful to Brambles and to our customers. Any investment in this area will be measured but it does present an increasingly exciting opportunity for Brambles to leverage our unique place in the supply chain. Fourth is our growth strategy which frankly remains unchanged. We will continue to expand in new and existing verticals, segments and geographies where we believe we can generate value for customers and for our shareholders. We look forward to talking about a number of these initiatives in more depth at the investor day in California in September of this year.

Now to close I would like to confirm that our guidance is unchanged since the November investment day. Although the differential between actual and constant currency results is likely to expand further. At constant currency we see sales revenue growth for the year of between 8% and 9%. We see underlying profit coming in at between US$1.055 and US$1.085 billion and this is at 30 June 2014 foreign exchange rates. For the first half of this year at 30 June 2014 exchange rates underlying profit in the first half was US$509 million. The FY15 full year guidance equates to growth of 9% to 12% reflecting positive leverage to the bottom line and it includes an anticipated US$25 million contribution from Ferguson.

Our estimates for net finance cost and tax rate are unchanged. Finally, we continue to expect improved return on capital invested excluding acquisitions albeit ROCI will be diluted on a reported basis as a result of the acquisitions that we have made. I will now hand back to James to monitor the Q&A, thank you.

James Hall: Thanks everyone for listening. We now will go straight into Q&A and the first person in the queue is Simon Mitchell from UBS, so Simon your line should now be open, thank you.

Simon Mitchell: (UBS, Analyst) Good morning. First questions related to Pallets EMEA the very strong result there which you put down to pricing or sales mix benefits and there was a suggestion I think on slide 15 that Zlatko discussed that there'd be a reduced benefit from that in the second half. Could you just elaborate more on that? Is that something to do with the fuel surcharging mechanisms?

Tom Gorman: Look I'll give you - well thank you Simon for participating and thanks for your question. I'll give you a broad response in terms of what's happening in Europe and maybe juxtapose that a little bit with the US and then we can get in more specifically to the pricing comment and I'll hand over to Zlatko for that. Look I think the primary issue here is that we have done a heck of a job both in the US and in Europe in terms of driving the efficiencies program and on a gross level the efficiencies that we're delivering in Europe are broadly in line with the efficiencies that we're delivering in the US. So both organisations are really doing a heck of a job. The issue that we have is that we're experiencing what we've referred to as above trend costs in the United States on logistics but I have to say it's significantly above trend.

So when we plan our business we plan an inflation rate in the US market at around 4% and our objective has always been to offset that inflation with efficiencies and in fact we have more than done that and the forecast to more than do it on a full year basis as well. The issue that we have is that we have a very high level of incremental costs and I think everywhere we look we can see that validated by our customer feedback, by our own experience in the logistics space. There is sort of an over - there's an increasing demand and there's a reducing supply in the United States and we think that's starting to alleviate itself and I think that you'll see more supply come on board whether you're looking at the number of trucks being purchased or new drivers et cetera, et cetera. But in the half we clearly have suffered that extremely high level of cost increase and that really led us to - as Zlatko referred to - roughly a US$10 million increase in logistics expense in the US.

If you juxtapose that to Europe, Europe almost had the complete opposite, almost a US$10 million net save is where we see the full year in Europe, so very, very strong performance there. Our point on this is that we don't want to become overly optimistic about adding to that on a fully year basis. So we think we've done a heck of a good job in the first half and our expectation is that you will see that flow through to the second but not necessarily repeat at the same level. At the same time we have a number of actions in place in the US which should contain some of those cost increases and so what we're seeing on a full year basis in the US should be managed in the second half. But the first half we have seen that level of difference between net performance in Europe and the United States. You might want to comment a little on price there.

Zlatko Todorcevski: Simon the point that we called out around the impact in Europe, Middle East and Africa in particular was in relation to - as you will recall we have the indexation system within Europe so we're able to flow through what happens CPI wise on labour, lumber and diesel and in particular if you think about what's happening with diesel prices there in Europe there is a lag effect. So we don't - we expect that to be a bit more of a drag in the second half than it was in the first half. So that's what we're calling out.

Simon Mitchell: (UBS, Analyst) Okay, so the 28% return on capital that we saw in the first half in Pallet EMEA we should possibly view that as being at the upper end of what you see going forward.

Tom Gorman: Look I think the European business is in a very good positon, it's a strong business but I wouldn't necessarily extrapolate from what we've delivered in the first half and add to that going on. But we think we have a strong business and we're well positioned and frankly that's been a big offset to some of the headwinds that we've seen in the US.

Simon Mitchell: (UBS, Analyst) Okay and just lastly if I could just touch on pallets Americas - appreciate your comments around transport costs and plant costs, just trying to understand when we compare the second half of this fiscal year to the second half of last year what was already in the numbers for the second half of last year. I think from memory there was already a lot of plant cost inflation already embedded in the last year's numbers but transport costs inflation has really only started to affect you in this first half, is that right?

Tom Gorman: So just to be very clear on just the wording here without being overly semantic here, it's not really inflation in terms of plant costs. The plant costs is coming about because we have a high damage rate and that high damage rate is coming around because the pool is ageing and what we are doing is we're delivering the quality outcome that the customer is demanding and that is leading to more operating expense to repair the pallets back to that standard level. So that's not an inflationary issue that's an actual - that's a performance issue as the pool ages. But we've very transparent about making the trade-off between return on capital and margin so clearly in the short term you're seeing us giving up some margin and we're in a position now where we're working the pool a little bit harder, we're sweating those assets a little more aggressively and you can see that that's having an impact.

So that's not necessarily inflation. What you are seeing on the transport side that's new in the half and again that's been validated by virtually everyone that we talk to whether they're our manufacturing customers, our retailer customers and I have to say as I think you guys know we had Doug Duncan` on the Board and he had a lot of visibility into US trucking and they were clearly validating that cost increases are going up. There's a lot of dynamic shifts in the United States, they've been reinforcing driver hours per week so that's taking capacity out of the system and there's a number of other regulatory actions that are being taken which is really reducing driver availability. That we think is going to start to shift as the demand is now seen as sustainable and real in the US.

But the plant costs that we're seeing those are really driven by the pool. I think that we're making the right decisions here. I mean we're certain we're making the right decisions in terms of our capital efficiency but that is going to drive in the near term a bit more plant operating cost. There are number of initiatives now that we're just kicking off that will aid us in the durability of the pallet, again it's nothing to do with the quality outcome but improving durability should lower our plant operating costs going forward and that we think is something that you'll really start to see take impact in FY16 and beyond.

Simon Mitchell: (UBS, Analyst) Tom just on the transport issue, you're expecting the transportation surcharge you've imposed in the US on pallet issues to largely offset that going forward.

Tom Gorman: No, so to be clear we have a fuel surcharge in the US. That is actually - it runs a little bit in the opposite direction as the cost of diesel fuel is coming down that fuel surcharge also decreases. So in the US you really have two negative factors, the actual rate that our transporters charge us is going up and the past through of the fuel costs that we put to our customers is actually coming down. So you have - in essence it looks like the perfect storm. In Europe as Zlatko touched on because we have a different pricing methodology relative to indexing, with that index is now going to come down it'll create a more difficult environment from which we can get pricing in Europe. So I think they're somewhat different and in the US at the moment all of the measures are moving against the cost performance of the United States.

Simon Mitchell: (UBS, Analyst) Okay, thank you.

James Hall: Thanks Simon. The next question is from Matt Spence at Merrill Lynch, high Matt.

Matt Spence: (Merrill Lynch, Analyst) Hi guys, Zlatko just on asset management within Pallets Americas so at the FY14 result you said, look we're going to spend more on repairs, you'll see more Opex, we'd also see less spend on Capex because you're prioritising this return on capital over margin. But in 1H15 we've obviously seen the higher repairs cost come through but Capex within Pallets Americas is up as well so can you just give us some - I mean I think we'd expected - we'd bought into your argument at the end FY14 but it hasn't come through in 1H15.

Zlatko Todorcevski: Matt look absolutely appropriate question so let me give you a little bit of flavour. I think there's a couple things that are playing there. Firstly, if you think about the mix of where that Capex is being spent look there is a good proportion of the Americas Capex that actually relates to Latin America. We are continuing to expect quite strong growth in Latin America whether it's Mexico, Brazil, Argentina et cetera that is quite a fast growing business and a good proportion of the Capex we spent in the first half was for Latin America. The other positive we're seeing in North America and I think about the US in particular is the fact that we actually have our plant stock volumes in probably the best position of being in probably five years and that's partly driven by the fact that we've getting away from these Capex commitments to customers. So we've managed pallet stocks at a very, very low level. We're now looking at how we optimise the pallet stock volumes to be able to support growth as we're starting to see that come through the US. It's really the two factors that are driving it.

Tom Gorman: Just to reiterate that I mean almost half of that Capex or the pallet increase from the end of last year to the end of this half is non-US so it's not in the United States so the US is increasing for sure but it's not that total US$5 million if you were to extrapolate that when you go back and look at some of the data that we provide. I think also as we said the emerging markets were a little bit north of 12% growth in the first half. We really expect to grow at a 15% number and what held us back is Latin America. Latin America was just around 10% in the first half, they represent between 45% and 50% of total emerging markets so you can see the impact that they have.

Our anticipation in the second half again at constant economics is that that increase is going to be above the trend line. So we think it will be above 15% in the second half and what we're doing is we're putting assets in place in Latin America to support that growth, so there's several things going on. Strong expectations for Latin American growth in the second half and the pallets that we're purchasing that's shown against Americas they're not all for the US.

Matt Spence: (Merrill Lynch, Analyst) Okay and just one other, RPCs we saw over 100 bps improvement in the operating profit margin and I think some of that you've put down to scale benefits. I mean it's such a large jump, what do you think you can do there's like - at what point do you hit a margin ceiling do you think in RPCs?

Zlatko Todorcevski: Look that's a pretty tough question Matt particularly when you think about the US. It is still an emerging business where we're nowhere near where we think the ultimate efficiencies will be. Saying that, look we are getting quite good pick up particularly in Europe and if you go back a year or two look I don't think we would have expected to see the kind of support we're getting from retailers and other growers as we're getting in Europe so that one's definitely outperforming. With the maturity of the network we have in Europe, incremental sales volume there are quite efficient but I will say that the US is not yet at a point where we're comfortable with the efficiency of the network but that will continue to improve as we grow.

Tom Gorman: I think you'll see two things that will come in the US. I think that we talked a lot about the restructuring of that business and aligning the business we set up a specific group for retailers, a specific group for growers, we put these commodity managers in place in the US and it's still early days but we can already see that that's beginning to pay dividends for us. So we did put some overhead in advance of revenue so as we continue to grow not only do you get the network benefits on the operating costs side but you'll see the leverage to overheads as we grow. So I think both of those should bode well for us in the US business. The other big issue is the efficiency of the pool in the United States.

I mean the turn rates in Europe, the business are quite different, the business models are different but the turn rates in Europe are much higher therefore the asset efficiency is higher. We really want to continue to focus on how do we get that same level of asset efficiency in the United States and look there's plenty of growth ahead of us but there's also plenty of opportunities to improve the financial performance of that business.

Matt Spence: (Merrill Lynch, Analyst) Thanks Tom, thanks Zlatko.

James Hall: Thank you Matt. The next question is Anthony Moulder from Citigroup.

Anthony Moulder: (Citigroup, Analyst) Good morning all. Just if I start on Pallets Americas if I could please, you talked of this cost inflation which is never a good thing for a company and of course you try and offset that but when I look at some of your key customers, Coke, if I take them as an example, growing revenue in excess of - well in excess of volumes I think they're revenue up 5%, volumes up 1%, given your strong market position why is there still an aversion to chase with increased pricing in key markets?

Tom Gorman: Look it's taken us 15 minutes to get to the question of taking more price so I applaud everyone's restraint on that because this issue comes up frequently. Look I think that there's not an aversion to taking price. So I mean just to be clear on what we're doing in the market and maybe Anthony I mean I know you know our business extremely well but just to share with everyone else, the Americas business is roughly on a three year contract cycle and a rotation of renewing contracts. Most of the contracts either if they have some minor cost increase but most of them are at a fixed rate for that period so we really get to discuss price every third year with a customer and roughly we renew a third of our business each year.

If you look at our price and mix in the first half we said we like to target between 1% to 2% and that's pretty much right where it came in, right in the middle of that 1% to 2%. Now if you look at that and say, well to get 1.5% price increase you can only really talk to about a third of the affected population so we are getting some price Anthony but those that think you can get a 3% price increase it means that you really have to get 9% on the affected population which is very difficult. We have been more aggressive in the - what we'll call the recycle business but some of you would know as IFCO PMS business. We have been more aggressive there and we continue to take price and that is more in the order of 5% in the half but frankly that is really a commodity trading business, that's not a business where we have long term contractual relationships here.

So that is driven by what is the cost of the supply and then obviously minor repair and then you resell it so it's a different business dynamic. We are not upset with where we are in price. Again it's in the range of that 1% to 2% a little bit higher in the EMEA markets and a little bit higher in the Asia-Pac markets. But that's about where it's going to be. If there's anything that I would say that that has been holding us back a bit in the period we just haven't seen a real uptake in organic growth. I mean we - again we say that we expect organic growth to be in this 1% to 2% range, the Americas was really slot again right in the middle of that but when you look at our European business it's still very muted on an organic basis. So the European business at the upper end of price that 1% to 2% strong performance in net new wins in the European business but still at the lower end of the 2% to 4% that we look at.

But really what's held us back there a bit is organic growth and that's an issue that we can't really drive that aggressively, we have to focus on net new wins and taking costs out of our business and I think we've done that very well. We have hit some headwinds in the US but if you look at our gross efficiencies in the US and Europe to be honest we're very proud of what the team's accomplished and it's directly in line with what we committed to. But we're in a period of very high transport costs in the United States and we think that we're going to get over that and you'll see a market adjustment to that.

Anthony Moulder: (Citigroup, Analyst) Thank you and secondly in the CHEP EMEA you talked to the improved sales mix. In the past we've seen you I guess lose some customers or purposely lose some customers if there is such a thing to improve that, how much of that was a component to this result?

Tom Gorman: Well there is a bit of that Anthony I mean and we've said before that we were not going to chase every piece of business and I've been pretty transparent that when one says that you have to make sure that you understand if you lose business what's the real effect of that loss? We're a network business so does that impact our network and therefore drive costs in another direction and we don't believe that that's the case. We have seen an improvement in the mix of our business, a fair bit of that Anthony is coming from the UK where we had some pretty uneconomic business that we've walked away from. So that has been a positive for us and I have to say also though that our net new wins in the European market have been good. So we've turned that around, we've had a lot of renewals and we're winning business and we're in a pretty good position in the European market both from as I said a little bit stronger on the price and mix effect but also doing pretty well in the first half on net wins.

Anthony Moulder: (Citigroup, Analyst) If I follow on from that if contracts are rolling every three years do that still suggest there's still some more of that over the next 18 months?

Tom Gorman: I think that we really cycle through quite a bit of it. It hasn't just been the last six months I mean some of the actions particularly in the UK have been underway for over a year, a year and a half, so what we're going to really focus on is to make sure that we're getting the benefit s of the network. I can't reinforce that enough that nobody likes to lose business and we're not in the game of losing business but we're trying to get the mix right. I think we're in a pretty good space at the moment to be honest Anthony. I think we're pretty good where we are and we think that we can continue to grow that business but grow it at economics that make sense for us in Europe and we're proving our capability of doing that. I think the other thing that's just worth noting is that if you look just a little bit in terms of the performance last year in terms of the Iberian market we are seeing some improvement in Iberia and that has - so that's really Spain and Portugal and that's always been the market that's been a little bit challenged for us. I think we went is it like 5% or 6%...

Zlatko Todorcevski: 5%

Tom Gorman: Yes five or six half where it was negative and now we're seeing that growth in the range of 5% so that's pretty positive for us.

Anthony Moulder: (Citigroup, Analyst) all right and last one if I could for Zlatko, the change in short term provisions even after Ferguson, can you talk to what drove that drop in short term provisions please?

Zlatko Todorcevski: Anthony, that change you're talking about is from where we were at 30 June.

Anthony Moulder: (Citigroup, Analyst) Correct.

Zlatko Todorcevski: That biggest drop is really the bonus provisions that we hold. So if you think about the position of 30 June we would have been almost fully provided for at that point in time for short term incentives and those incentives are then generally paid in the month of September so that's why you see the big drop. That's probably - what is the largest component of the US$40 million swing.

Anthony Moulder: (Citigroup, Analyst) All right, thank you.

James Hall: Thanks Anthony. The next question is from Cameron McDonald at Deutsche Bank, morning Cameron.

Cameron McDonald: (Deutsche Bank, Analyst) Good morning guys. Two questions if I can. Can you - last year we saw a reasonable impact in the second half and particularly the third quarter with the harsh winter, obviously in the US we've obviously had a reasonable winter again but you're going to be cycling week comps. Can you talk about the impact that that might have? Secondly, the L.A. port shutdown and what you think that could have on the outlook for the second half.

Tom Gorman: I'll take the second question first. So they've now resoled the issues at the West Coast ports, it's more than just L.A. but they have resolved that issue. That was a very big challenge for a number of our customers. I mean we've had a number of direct conversations with the head of supply chain at Costco and obviously it's been an issue for them particularly those that are importing anywhere from the Asia Pacific markets. It's interesting how their comment on that is that everyone's kind of in the same boat, so no pun intended, so I think the view is that look the market was absorbing it so from a competitiveness standpoint not a lot of impact in the short term, Automotive industries have been quite different because all of the imports that come from Asia.

But for us there hasn't been an enormous impact of that to be fair because we don't still deal with a lot of intercontinental flows on our platforms. There are - there is a certain amount of business as it comes in in containers, it gets then palletised at the port but we haven't seen thus far a really meaningful impact of that that's really reportable. But as I said they're now working through that, the resolutions has been reached so we expect that the market will return to normal. As it relates to the winter season in North America clearly I think it was called Snowmageddon a couple of times but it's very localised in the United States. It's really been right around Boston. I happened to notice because I have a kid in school there and he never seems to be in class so - but there have been a lot of very localised snow storms that have had an impact which is nowhere near the broad based polar vortex I think is what we called winter last year.

So I think that it has not been as severe and as widespread and what we were anticipating in the third quarter is that we would see growth significantly higher than what we have seen for example in the first quarter. So simply stated we think the comp in the third quarter is easier for us in the US market and thus far we haven't seen anything that would indicate that we're not going to be able to deliver better performance in Q3.

Cameron McDonald: (Deutsche Bank, Analyst) Great, thank you.

James Hall: Thanks Cameron. Sam Dobson from Macquarie you're next in the queue, please go ahead.

Sam Dobson: (Macquarie, Analyst) Morning everyone, just a couple of questions. Just coming back to RPC so obviously very strong operating growth in that business, can you just elaborate a little on the progress you're making with customers in Europe and particularly in the US and for the actions you're taking in each of those regions?

Tom Gorman: So you want to talk about the US customers and European customers in both cases, is that what you want?

Sam Dobson: (Macquarie, Analyst) Yes please.

Tom Gorman: So look I'll start with RPCs in Europe and I think on the RPC business in Europe and the headline for us is renewing the Raiwa contract and we've signed Raiwa up for another 10 years and that's just not taking the business as is, we actually plan on growing that business. So there's great opportunity for us to grow the business with Raiwa above and beyond what we're doing with them today and we continue to look at a number of additional retailers not all of which we've announce yet and some of which we may not announce depending on the agreements we get with our customers. But there is still upside for us in Europe and that is largely going to be driven by the addition of new retailers and the continual growth eastward of our business.

So there is opportunity for us and the European business is extremely efficiently run. It's got great asset turns, it's well managed and the opportunity for us to grow there is strong. I'm not saying it's a 10% growth in Europe but it should be mid to high single digits growth and we think that we're capable of delivering that at acceptable margins and very good asset utilisations. So that's the story there. I think the story in the US is a little bit different and it goes back to what we said we were going to do what we said we were going to do really 12 months ago and now we've been working on. That has a lot to do with how we go to market in the US and we were organised for a business that was - that grew from essentially zero to US$200 million and if we want to make that US$0.5 billion business we had to organise ourselves differently.

One of the things that we've really been able to do is to really increase compliance. So what do I mean by that? Well we get a customer agreeing - let's take wet veg as an example. We get them to agree that they will use our RPCs on wet veg, we go back and work with the grower but then compliance isn't always very strong. Well we need to police that, we need to be sharing the information back to both the grower and the retailer and we've had improved compliance clearly in wet veg, clearly in carrots, we can see our carrot volume increasing. Clearly in the apple space particularly with Wal-Mart I have to say we've increased our compliance there. Then on top of that is new conversions, so with Loblaws is a very big customer of ours we've converted them on wet veg, we've converted them on apples and so we continue to break the business down at a very granular level.

We look at the business, we look at - by retailer, by produce type and then we go attack the opportunities that exist. I think we're in a much better position today to do that because we have a dedicated group looking at growers, a dedicated group looking at retailers and over the top of that we have these commodity specialists that are really - that specialised in the specific produce type and understand what the supply chain challenges are and how we can then deliver solutions to the customers. Thus far I have to say it's working quite well.

Sam Dobson: (Macquarie, Analyst) Right, thanks for that. Just then finally onto Ferguson, so on the acquisition call you mentioned - your due diligence suggested 7% CAGR in offshore production, 11% in drilling days over the five years to 2018, just wondering now that you've got your feet under the table so to speak just wondering how the expectations have changed of if they've changed at all.

Tom Gorman: Look I have to say that we really like Ferguson five months, six months into the ownership and we really like the space. We still like oil and gas and we made the acquisition for the next decades not the next quarter. Clearly there's going to be some volatility in the space around oil prices and look there's a lot of geopolitical issues underway that are playing themselves out here and we have seen a sharp reduction in the price of oil. But in terms of our guidance they're completely in line with what we guided to the market for their performance through the first year of our ownership. Their exposure is not only in predominantly production versus exploration but also as we've shown here in terms of their position on the oil extraction cost curve they're in the right place.

Look I think that when you get periods of volatility it creates opportunity as well. Opportunity for us to continue what we want to do which is to grow this business, to look for new opportunities, look for new verticals, look for new markets, new product offerings and our ability with - look we're a strong Company with a strong balance sheet that can invest for the long term to deliver big sustainable long term advantages in these segments and we're very happy with where we are. So we haven't changed our view at all recognising that we're in a period of volatility and as you would imagine the conversations with Ferguson are more forward looking than they are day-to-day but in the day-to-day conversations that we have with them we do emphasise the need to be cost competitive today.

The have taken actions to reduce their costs, they have reduced their overheads in the period but all of that we believe is not at all impinging on our ability to grow the business. So - and I know this flies in the face of what people want to say about the acquisition but I also would tell you that as we've stated here very clearly it's less than 2% of total Brambles. It's building, it's planting a seed to build a vertical that we think can be a substantial business and a substantial contributor to Brambles in the future but at the moment the impact of Ferguson on our overall performance is really quite small.

Sam Dobson: (Macquarie, Analyst) Yes, okay, thanks very much.

James Hall: Thank you Sam. Scott Ryall from CLSA is next in line, morning Scott. Good morning Scott are you there?

Scott Ryall: (CLSA, Analyst) I don't think I'm on yet. Can you hear me now?

James Hall: Yes, you're there, hi Scott.

Scott Ryall: (CLSA, Analyst) Okay, sorry, my headset obviously stopped working. Zlatko mentioned the balance sheet settings and going back to 1.75x coverage, could you just talk me through anything that you believe has to change in terms of what we saw in the first half relative to what you need to see in the second half to deliver that?

Zlatko Todorcevski: Scott I think one of the big impacts there is obviously the working capital turnaround. So we called out the fact that there were differences relative to the 1H14 around timing of certain payments for creditors and that won't be repeated in the second half. So that is probably going to be a substantial turnaround. The other element though is a bigger underlying one around the phasing of Capex spend, as Tom outlined we are focused on continuing to grow the business, we do like the fundamentals of what we see across almost sector that we're in and we did invest quite heavily in the first half. So that hasn't changed. We don't expect the level of Capex in the second half to be as high as the first half but obviously we are focused on where there are opportunities to continue to support our customers and grow the business, that's where we prioritise Capex spent. So between working capital and Capex they'll be the two big areas.

Scott Ryall: (CLSA, Analyst) Okay and then following on from the Capex question or maybe acquisitions, Tom can you just talk through your - in terms of Ferguson how you see the potential for bolt on acquisitions for the business in the next 12 months?

Tom Gorman: I think like with any of the initiatives in the containers group and really throughout the Company we are always looking at opportunities to grow the business. I mean we've said this - we've been pretty open about this, we compare everything versus our alibility to do it organically. If we think we can grow organically we would much prefer to do that. We step into acquisitions if we think it gives us something that accelerates the ability for us to win in that space. If you look at the oil and gas, the offshore oil and gas business and if you look at the business that Ferguson is in it's a pretty fragmented business today, there are multiple players. There's been a lot of activity in the space, it isn't just us stepping in but there have been a number of private equity transactions that have occurred within the last six months.

I think that we keep a watching brief on this but that's not to say that we don't keep a watching brief on everything. Today we're looking at a number of different things around the world for all of our business units and that will continue. I think we've done a good job over the last couple of years of managing our organic growth platforms and portfolio with our acquisitions. Clearly in containers most of that business unit has been built with a platform acquisition or two that we then can grow organically and in some cases we have added bolt on so we'll look at the O&G space with the same lens that we look at all of our businesses. Look I think in a period - I'll just reiterate what I said, I think in a period of volatility like this I think it does create opportunity and I think if we see some opportunities there I think we'll be confident enough that with Ferguson as a platform we have a good opportunity to do things going forward.

Scott Ryall: (CLSA, Analyst) Okay and if you saw something attractive does the balance sheet need to get back to 1.75x win the day first of all?

Tom Gorman: Look I think you're getting way ahead of yourself. I mean I'm happy to tell you exactly how we think about this. The first thing that we look at when we look at an acquisition is the strategic fit. If it fits with our strategy we tick the box and then we take the next step. The next step you look at is value right and we say, look can we get it at value that makes sense for us and our shareholders, that's the second step. The third step is structure. So you've jumped to the step and we haven't really gone past the first two. So if there's something that strategically makes sense and the value equation is right I mean getting around the structure that's generally not the issue for us. We've been very open about our commitment around being BBB+ and we don't see any change in that when we look into the future at all. In fact we're confident that as we have committed that by the end of this year we will get ourselves to that position and that goes to the question asked Zlatko around cash flow generation towards the back end of this FY15 period and we're confident that we can get there.

Scott Ryall: (CLSA, Analyst) Okay and could you give me the ex-acquisitions, your constant currency or actual sales growth for the different divisions within containers please? Automotive is obviously previous but the other three…

Tom Gorman: That's actually shown - so if you go to slide 11 there's a break out of that detail is right there.

Scott Ryall: (CLSA, Analyst) Oh, okay.

Tom Gorman: So it takes acquisitions out for each one of them and you can see that Automotive was down, IBC has grew at 11% ex-acquisition, Aerospace grew in line.

Scott Ryall: (CLSA, Analyst) Yes, I've got it sorry, sorry. All right, thank you that's all I have.

James Hall: Thank you Scott. The next question is from Andre Fromhyr from CBA Andre I always pronounce your surname wrong, I apologise for that.

Andre Fromhyr: (CBA, Analyst) That's all right. Good morning. My question focuses on the Pallets Americas margin and we've already talked about the asset recovery and utilisation costs but you also talk about higher depreciation, is that just in line with natural growth in the pool and the asset base? Then if we do see the benefits come through of the asset utilisation of lower Capex then over time should we naturally see that depreciation come down relative to the pool size or do you start changing your assumptions about the useful life of a pallet?

Zlatko Todorcevski: Andre so there are a couple of questions in there. First of all if we think about the useful life of a pallet we're not changing our view on that at the moment. As Tom alluded to during the prepared statements we are looking at asset durability initiatives in the US in particular and we'll think about what implications that may or may not have in the future but at this point in time we aren't changing. The growth in depreciation is purely driven by the fact that we continue to invest in pools. So if you think about what's happening in the US or Europe we are acquiring pallets not only to support the growth but because we do replace pallets that leave the pool for whatever reason so you'll always have Capex going in there. Generally Capex that goes in in any period will be at a higher cost than the average of what's on the balance sheet because you've got in some cases fairly highly depreciated pallets on the balance sheet. So depreciation growth really comes down to growth in ongoing investment.

Andre Fromhyr: (CBA, Analyst) Okay and also just reconciling those statements with some you made earlier about Capex going up because of the growth in Latin America but then the new equipment ratio in the US I mean it's been relatively flat for a couple of years but went up slightly in the first half, should I interpret that as some kind of seasonality or is that just genuine organic growth in the pallet pool because I otherwise would have expected that to continue to come down slightly?

Zlatko Todorcevski: As I was saying earlier Andre the level of pallet stock that we've had in the US is actually probably at the lowest it's been at for quite some time so we're pretty happy with what's going on with that level. We are at a position where the pool is relatively well balanced at the moment but we are working with customers constantly as Tom was saying really to just have a look at the turn rates we've got in the US as well as cycle time. So having a look at the one metric where there's depreciation or new equipment ratio you've just got to keep in context with a whole bunch of the other operating metrics. But what is driven there in that new equipment issue ratio is the fact that we've got much more efficient pool usage than we've had in the past.

Andre Fromhyr: (CBA, Analyst) Okay, thanks.

Tom Gorman: I think the last thing I would just add to that is that there is a little bit of timing that does occur around the halves I mean so - because if you look at - if you back to that slide which is obviously where you were looking and you look at the control ratio you can see that the control ratio came down. But frankly the US business is extremely well controlled so a slight movement in control ratio when that does happen you do have to buy some pallets, it just means that they're either sitting in the supply chain a little bit longer or so forth. So there is just a minor tweak here. I wouldn't be reading too much into these data at the moment, we're at a good space where we want to be. The real issue for us is that we see substantially stronger growth in Latin America in the second half and we have put some assets in place to deliver against that growth expectation.

Then finally I think those of you that know our business very well we have been working on a project to really exit the need to provide any customers new pallets and I'm pleased to say that we have successfully come through that now so we're no longer obligated to provide new to anyone. That goes to - that's a testament to the quality that we're delivering in the US but also that's going to create other opportunities for us going forward. It might create more opportunities to do some more intercontinental transfers whether that's coming from Latin America into the US or Europe into the US. So we're looking at a number of initiatives to continue to strengthen the entire ecosystem of pallet movements but it may not be that we acquire them as much in the US.

Some of them might come in with product on them from Europe so we're evaluating a number of different things here but what you should see over time is the pool in the US becoming much more efficient and the return on capital impact look there is a little bit of a lag effect here but we should see that improving as our purchases really do slow to a pretty minimal level.

Andre Fromhyr: (CBA, Analyst) Great, thank you.

James Hall: Thank you Andre. It's now Paul Ryan from Evans & Partners, Paul good morning.

Paul Ryan: (Evans & Partners, Analyst) Morning James, morning gents. Two questions, one just on the competitive dynamic in your various pallet markets, are you seeing any changes in particular sort of UK - is the growth you're getting in central eastern Europe encouraging anyone to look at that market and also the US?

Tom Gorman: I think from our perspective from the - I'll just start within the US market. I think the US market we're seeing - our primary competitor there is PECO, they won a fairly big piece of business, it really was business that IGPS had and that's what we're referring to here. We had some of that business and it's kind of run off a little bit faster than we anticipated. But our observation is that they're going to have to digest the meal they ordered and they've taken on a big account and at the moment I think that they're very focused on executing against that so I'll just leave it at that for the moment. So that has got their focus. I think LPR - the LPR-EPS combo in Europe is the primary competitor there. We had seen LPR being very aggressive in the UK and again as I think I've shared pretty openly here they were writing business that for us was almost a gross margin loss so it wasn't really attractive for us to chase that.

They continue to be aggressive but as I've said we have been able to renew and secure a fair bit of business in Europe in the period so our offer is attractive but it also makes better economic sense for us, so not to say that they're not as aggressive as ever but we are holding our own in that market. I think when you look at the Asian market and what Loscam is doing we continue to have a very strong business here in Australia. We're delivering good growth in South East Asia and in China itself it's a little bit hidden in the numbers but our pooling business has grown significantly in China in the half. So our focus has been about dynamic pooling. Even though we show a high single digit pallet growth in China I have to just maybe just mention again to everyone that we have two different pools up there. We have a timber pool which is where we want to grow, it used to be a little bit less than a quarter of the total.

That grew at over 60% in the first half but the other business which is 75% of the business roughly is a plastic pool which we actually want to reduce and that's shrunk by 11%. So when you look at that dynamic we're actually growing the space that we want and I think our overall dynamic pooling grew at 25% plus in the period. So we are doing what we want to do which is push dynamic pooling in the Chinese market and we're pretty pleased with the growth that we're getting but I have to say it is masked in the total number because of this mix of portfolios that we have there.

Paul Ryan: (Evans & Partners, Analyst) Thanks and Zlatko just one for you on the One Better program, what restructuring costs should we expect there's still to come both cash and accounting wise?

Zlatko Todorcevski: Paul, look our guidance hasn't changed from what we said late last year so over the entire program we're still thinking about US$80 million of both Opex and Capex. To be fair that'll probably front ended, a lot of the investment as we define what we want to do, when we want to do that and particularly think about implications for IT systems and the like. That is going to be front ended relative to when we get the savings but that guidance hasn't changed for the moment. I think it's about US$8 million in the first half just to give you a sense of the magnitude.

Paul Ryan: (Evans & Partners, Analyst) Thank you.

James Hall: Thanks Paul. We have one final question on the line from Steve Johnson from *Australian Associated Press*, thanks for your patience Steve, please go ahead.

Steve Johnson: (*Australian Associated Press*, Journalist) Morning Tom, thanks for taking my question. I've just got a question really about the exchange rate. Can you just tell me how the stronger US$ and the weaker Australian dollar is really affecting your earnings because I noticed they could have been a lot stronger if the US$ wasn't as strong as it is now?

Tom Gorman: So let me just make a couple of clarifications. So there's two types of foreign exchange exposure. You have transaction exposure and translation exposure. So transaction occurs when you have your costs in one currency and your revenue in another and that means that if one currency moves up or down it affects the fundamentals of your business. So for example, if your costs are in a high cost location and your revenue is in a location that the currency depreciates the actual net business is less profitable, that's transaction. The other exposure that you have is translation and translation just means you take your earnings in one currency and you translate it to a different currency. So where Brambles sit today we have very little and in fact close to zero of actual transaction exposure. So in countries that we operate our costs and our revenue are well matched.

So in Poland we price in Zloty and our costs are in Zloty so there's not much transaction exposure at all. So what you're actually seeing is translation. We're taking the revenues and the profits in Euros and in British Pounds and in Aussie dollars and Canadian dollars and Brazilian Reals and South African Rand. We take that and then we translate it back to US$ and that has had a material impact in the half. So I think in the half the revenue is actually US$81 million lower than it would have been if the rates were exactly the same at June 30 2014. I think the profit impact of that was about US$20 million of impact and our view for what it's worth is that the US dollar is going to stay relatively strong through the second half so when you look on a full year basis - now we don't provide a forecast but on a full year basis you should see something similar so that on a fully year basis the number will be even larger.

But again it's not really fundamental to the operating of the business it's just a translation of our earnings from one currency into another. One thing that you would clearly notice if you look at our share price performance and you look at that relatively to the A$, US$ movement our actual share price performance has outperformed that change but there's no question that there is some correlation as the Aussie dollar weakens you see the share price move in a positive direction. So hopefully I didn't overkill the explanation but we had had an impact in the period but it's translation and not transaction.

Steve Johnson: (*Australian Associated Press*, Journalist) Thank you for that answer.

James Hall: Thanks everybody. Well there are no further questions on the line so with that we shall close the lines down, thanks everyone for your time this morning.

End of Transcript