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21 May, 1999.

RE: **INQUIRY INTO EMPLOYEE SHARE OWNERSHIP IN AUSTRALIAN ENTERPRISES**

Brambles would like to draw the attention of the committee to what we believe was an unfortunate and unintended impact of the prospectus laws on the issuing of shares to Australian employees.

Part 7.12 of Schedule 2 of the Corporate Law Reform Act 1994 and subsequent Class Order 94/1289 (update 183) and Policy Statement 49 (Employee Share Schemes) issued by the (then) Australian Securities Commission effectively limits the number of shares or options issued to Australian employees to no more than 5 per cent of the sponsoring company's issued capital. The prospectus requirements do not apply to shares or options issued to overseas employees.

For companies such as Brambles with a large international workforce, this means that Australian employees will ultimately not be able to participate in the company's employee ownership program to the same extent as overseas employees.

At this point 1 should stress that Brambles supports the general intent of the current prospectus rules in terms of public share issues. Our concern is with the impact of the rules on employee option plans (which by nature generally expose participants to much lower exposure to risk of short to medium term share price movements than share plans).

Outline of Brambles' employee option plan

Under the Brambles Employee's Option Plan, options to purchase a tranche of Brambles shares are issued regularly to qualifying employees. Each option is free to the employee and the ultimate exercise price is the price of a Brambles share at the date the option is issued. The employee has five and a half years to exercise the option. At the point of exercise, he or she can elect to sell the shares immediately and pocket the profit or take advantage of a ten-year, interest-free company loan to purchase the shares. We believe that the structure of our scheme is broadly similar to schemes operated by other major Australian companies.

The Brambles Employee's Option Plan is egalitarian in nature in that the same rules apply to all participants except the most senior executives. The latter have an additional restriction on their participation in that the exercise of their options are subject to specific annual earnings per share growth targets being achieved by the company. Employees qualify for the scheme on completing two years of service with the company.

Impact of prospectus rules on the Brambles' scheme

The tighter prospectus rules were introduced following the 1987 share market crash. As outlined above, the effects of these changes and the subsequent ASC Class Order were to effectively limit the total number of options and shares issued to Australian employees under the Brambles plan to no more than 5 per cent of the total number of shares issued by the company. An employee option issue which results in the total number of options and shares held by Australian employees exceeding this limit, requires a full prospectus under the rules. No prospectus is required if the total of all options and shares issued to Australian employees remains below the limit. The cost of complying with the rules for such issues is prohibitively expensive. That is, the compliance cost effectively limits Brambles' ability to extend its Australian employee participation beyond the prospectus threshold set out in Class Order 94/1289.

When Class Order 94/1289 was issued by the ASC, Brambles investigated the cost of compliance. The prospectus cost for an employee issue which triggered the prospectus requirement under the class order, was in excess of $1 million, excluding the costs of organisational disruption arising from the extensive due diligence that would have to be undertaken in the process. With multiple issues over a five year period, the cost to ordinary shareholders would have exceeded $5 million.

Given that the bulk of options were issued to Australian employees without a prospectus, Brambles' Directors believed that the cost of compliance and organisation disruption for what would have been largely small issues to newly qualifying employees would have been totally unjustified in terms of their fiduciary obligations to shareholders.

Brambles' position

It is Brambles' view that the prospectus requirements should be revised to at least exempt employee share option plans. The prospectus rules are inappropriate and ineffective. Consider:

1) Below the threshold in the prospectus rules, an Australian employee is offered options without a prospectus. If the total on issue to Australian employees exceeds the threshold, the employee must receive a prospectus. Brambles respectfully submits that this is a nonsense. The individual exposures in both cases are identical. That is, whether or not the total on issue to Australian employees is 4 per cent or 6 per cent of capital has absolutely no bearing on the risk to the individual.

2) Option plans such as those approved by Brambles' shareholders are designed to reduce the risk of adverse short to medium term market movements to the participating employees. This is achieved by:

a) The options being issued free to all employees and have a life of five and a half years (the ultimate exercise price is fixed at the share price at the date the options are issued).

b) Immediately on joining the plan, a Brambles' employee becomes eligible to receive all shareholder information, including Annual and Interim Reports. Thus, before the options can be exercised, the employee will have received all the critical information that a prospectus would have contained. In addition, employees are usually more informed on the company's affairs than the average small investor.

c) Employees must waft two years before they can exercise 20 per cent of their entitlement. They are permitted to exercise an increasing percentage of their entitlement over the succeeding three years, with all options becoming available for exercise at the end of year five. They can elect to delay the exercising of their options for the full five and a half years.

d) On exercising, they have three options: They can buy the shares at the exercise price with a no-interest ten-year loan from the company, they can elect to exercise their options and immediately sell the shares or they can fund the purchase of the shares themselves.

e) There is no obligation on the participating employee to exercise any of his or her options. Clearly, if the share price is less than the exercise price at the exercise deadline (five and a half years), the options will lapse.

f) The quantum offered to an employee is indirectly related to his or her salary level. That is, individual employees are not being induced to ultimately commit to the purchase of an asset beyond their personal means.

g) The only employees who face any significant financial exposure under the scheme are those who ultimately elect to exercise and hold their shares. The prospectus rules are irrelevant to the individual exposure at this time. Even if the original option issue had been made under the prospectus, the protection afforded by the prospectus would be of little practical value after five years. In any event, the employee's financial exposure is limited to the funds borrowed to exercise the options less dividends paid by the company over the ten-year life of the company loan.

3) The prospectus rules are rightly designed to protect the public from fraudulent misrepresentation by directors and executives (and their advisors) seeking to raise funds by public offer. Employee share option plans are not normally capital raising devices. Rather, the essence of these is to encourage employees to be more committed to their job and the company's future and, as a reward, to hopefully share in the company's long term prosperity. In Brambles case, the employee option plan has yielded participating employees more than $168 million in capital growth over the past 10 years.

The Brambles Employee's Option Plan has been outstandingly successful in encouraging employee identification with the company's aims. The impact on employee loyalty, industrial relations and productivity has been particularly noticeable. As a result of the rewards that have accrued to employees under the scheme, the participation rate has increased substantially to around 80 per cent in Australia. Unfortunately, given the prospectus rules, the greater the increasing participation rate in Australia will necessarily lead to further significant reductions in the individual entitlement of Australian employees. When the option plan was introduced in 1987, the minimum entitlement was 2500 options. This has now dropped to 1000 options, directly as a consequence of the prospectus legislation.

If the prospectus rules remain, there will inevitably become a significant barrier to our Australian employees participating in the future growth of the company. The rules as they apply to employee option plans are illogical. In Brambles' case, the rules effectively

operate to thwart a general shareholders decision to encourage a greater level of non-executive employee participation in the company's affairs.

Bramble urges the committee to recommend that the rules, be amended to exempt employee share or option schemes which reasonably reduce the risks of participation to ordinary employees. The quantum of a company's capital to be issued to employees should be the prerogative of its shareholders not regulators.

Yours faithfully,
BRAMBLES INDUSTRIES LIMITED,

D. R. Corben, Company Secretary.