CEO's Address
to the
2007 Annual General Meeting
of Pacific Brands Limited

Tuesday 23 October, 2007
Crown Towers

Melbourne, Australia

Introduction

Thank you Pat for your kind words and good morning Ladies and Gentlemen.

I would like to build on the Chairman's opening comments and provide more detail of Pacific Brands' record year of sales, profit, cash and dividends. I will start with the strategic highlights and then give an overview of our trading environment and details of each division's performance before closing with the outlook for 2008.

The Chairman highlighted the key elements of Pacific Brands' strategy – a strategy that has served us well since we became a public company in 2004.

Focus on Strategy

We are now category managers and we take strategic positions in large consumer categories.

We continue to use our industry-leading expertise and resources to continually strengthen our existing brand portfolio and our strong cash generation to acquire other category-defining brands. This year, we strengthened our position in the workwear category through our acquisition of the Yakka Group.

We also manage our categories by distribution channel and interact with consumers right across the retail spectrum from 'everyday-value' to the 'super-premium'. Our sales mix has evolved so that almost two-thirds of our net sales are now derived from Department and Independent / Specialty stores.

Category strength is built on brand strength, and Pacific Brands has worked hard to develop a portfolio of iconic Australian brands. We recognise that our brands are our biggest asset and key to our ongoing success. Our brands engender loyalty and stay ahead of changing consumer trends. Each of our brands continues to extend its leadership position and maintain a contemporary relevance to the consumer through our ongoing market research and consumer insight studies. We continue to significantly increase our investment in targeted marketing and I would like to show you some of our recent TV advertisements.

<<RUN TV AD REEL>>

In those advertisements you would have seen some examples of our continuing product innovation. During the year, we increased our investment in the skills and resources needed to develop excellent product to expand our categories and draw new consumers into our brands. We recognise that leading brands are built on leading products.

While it is important for brands to stay contemporary and be backed by excellent product, as the industry's leading brand managers, we also know how important it is for brands to stay true to their heritage. Pacific Brands holds many of Australia's iconic brands–some have histories that extend more than 100 years. To this end, our branded businesses are individually managed to ensure each brand can stay true to its own identity, values, and heritage.

The scale of Pacific Brands then allows our branded businesses to deliver their products with great efficiency and effectiveness.

Some observers do not fully comprehend the size and scale of our business and the efficiency advantages this provides. In 2007 we delivered more than 300 million units to more than 23,000 customers. Our use of shipping and product movements domestically and around the world gives us the scale equivalent to a large logistics company. We have continued to leverage our scale to reduce our costs, but as always, there is more to do.

We continue to rationalise our supplier base while moving to more strategic partnerships with suppliers and customers. Ongoing developments in our processes and technologies have allowed us to better integrate and collaborate with our major customers. Faster responsiveness and greater flexibility while reducing inventories are some of the areas where we will continue to improve.

As the Chairman highlighted earlier, Pacific Brands is a highly cash generative business. In 2007, the decision was made to use our cash position to fund strategic acquisitions: The Yakka Group and Brand Collective (formerly the Streetwear Business of Globe International). I will provide a specific update on these acquisitions later.

Supplementing our organic growth with strategic acquisitions is an important driver of shareholder value. We plan to integrate acquired businesses with minimal disruption and for optimal future performance. Acquired businesses obtain benefit from our scale and capabilities in such areas as warehousing, shared services, purchasing, logistics and sourcing and from increased attention and investment in branded marketing campaigns.

Focus on People

Our strategy for ensuring ongoing profitable growth would remain unfulfilled without the skills, expertise and dedication of our 9,000 employees. They are at the centre of our high performance culture – one that allows each employee to fulfil their own potential while maintaining engagement and alignment in delivering our strategic intent. Our employees have been, and will continue to be, a cornerstone of Pacific Brands' success and we are grateful for the ongoing contribution they make to make to the company.

Trading Environment

Each year presents its own unique challenges to the trading environment and 2007 was no exception. The impact of rising fuel costs, the cost of housing, employment rates and interest rate rises continued to influence consumer confidence. Local economy factors can also have an impact on the performance on our local manufacturing facilities that product almost one-third of our products. This year, there were the added unknowns of changes in Australian retailer ownership and accelerating changes impacting the nature of doing business in China.

The ongoing appreciation of the Australian Dollar has become a topic of interest for market watchers. Despite outlining in our annual report our currency management practices, some observers still overestimate the impact that currency has on our business.

Currency is only one of many fluctuating costs inputs that Pacific Brands has to manage. We have always managed currency conservatively. The details of our policy and any impact currency may have on our performance can be determined from our Annual Report. We generally run our hedge cover out 6-12-months ahead to meet anticipated upcoming purchase and sales commitments.

Even with our conservative approach to currency management, the recent appreciation in the Australian Dollar will be a benefit to Pacific Brands because it will largely offset the negative impact of changes to other business inputs.

Chinese production costs have increased during the period. Tax changes by central and regional Chinese governments such as VAT has also had a negative impact on our cost of doing business. Oil price increases are also causing a negative impact through steadily increasing raw material prices and increased pressure on transport costs

Change, has however, been a consistent factor during my 30-years in the industry, and I predict that it will continue to be so. The consumer market is and will remain dynamic and the landscape of retailing will continue to evolve just as it has done in the past. Moreover, since Pacific Brands established its presence there nearly 50-years ago, we have seen and successfully managed through a complete transformation in China’s place in the world economy.

We will continue to manage external factors as we have always done improving where we can and ensuring minimal adverse variations to business.

Business Review

Each of our business divisions delivered profitable improvement despite changes in the external trading environment, and I would like to take you through each division in more detail now.

Underwear and Hosiery

The Underwear & Hosiery group finished the year positively through a strong focus on category management, brand engagement and excellent product.

Sales and margin were both ahead of last year. The group reaffirmed and consolidated its position as the leader in the Underwear & Hosiery market.

First half focus was directed at ensuring our margins were restored to appropriate levels. The focus on category, brand and product in the second half drove strong sales growth of 6.4% while margins were maintained.

Profitable growth was achieved through delivering clear, big branded campaigns across all market segments. Underwear and Hosiery continued to invest in consumer research to understand market trends and gain consumer insights. This drove more focussed and sharper new product development activity.

The group enhanced its leadership in the men's underwear market through its major brands of Bonds, Jockey, Holeproof and Rio.

Bonds continues to trade extremely well – driving the market with continued product innovation and branded communication. Highlights for the year have included cotton seam-free underwear for men and women, the T-shirt bra and further capitalisation on the ongoing strength of the fleece market with new ranges of hoodies.

Other highlights in underwear included the resurgence of the Rio brand, the high technology/contemporary sports bra at Berlei, 3D Jockey performance underwear, and Holeproof Nothings. Grow socks and copper socks have provided market-leading innovation in the sock category.

A record year for hosiery was led by the fashion trend back to legwear and the hosiery team's ability to lead this trend and establish demand with great products – for both leg and body wear.

Underwear & Hosiery has a strong program of product innovations and new marketing initiatives and its prospects are good for further growth in FY08.

Business Review – Outerwear and Sport

Pacific Brands' position in the Outwear and Sport categories of lifestyle apparel, workwear and corporate clothing was strengthened with the addition of the Brand Collective and the Yakka Group businesses, but I'll talk about these businesses later.

The core Outerwear and Sport business continued its program of structural review and implemented a number of changes to improve operating performance. Additional costs were incurred and businesses were repositioned with the short-term effect of reducing the total group EBIT margin. The strategic review of each business, category and brand has now been completed and we expect to achieve an improved performance across Outerwear and Sport during FY08.

The bikes and equipment businesses have been repositioned and the division now has a strong offering across each market segment. The introduction of the Ridley licence, Nalini and Diora brands have strengthened the offer in the premium sector.

The casual outerwear business was impacted by difficult trading conditions at the value end. In response, this business has been simplified with further unprofitable, unbranded sales discontinued and a renewed focus on the core brands of Lightning Bolt and Slazenger.

Everlast continues its strong trend in the youth sporting apparel segment with footwear performing well alongside the apparel business.

King Gee generated strong sales growth with a focus on customer service and new product introductions. They have continued to roll out the “totally workwear” store concept increasing the brand’s distribution.

The division’s result includes three months of trading from the Yakka Group. We are encouraged by its performance since acquisition and look forward to achieving further improvements as the integration progresses.

Brand Collective has performed in line with expectation and improved its distribution in specialty stores.

Outerwear and Sport has spent the year repositioning the core business and we expect it to return to profitable growth in FY08.

Business Review – Home Comfort

Home Comfort delivered solid growth during the year through a combination of continued strength in its core businesses and importantly from the successful integration of the Sheridan business. The key brands of Sheridan, Sleepmaker and Tontine continue to drive the consumer businesses within the group.

Sheridan has been successfully integrated into Pacific Brands and delivered a strong result for the year. Its relaunch on television and improved ranges across both bedding and bathroom have driven the sales growth. Sheridan has increased its market leadership in the department store channel and has cemented its position as the number one bed linen brand via a number of new product introductions such as cool sheet technology and the launch of the exclusive premium cotton Supima range.

The bed linen category has now been extended across all segments and channels in the market.

During the year we invested in a new 26,000 m^2 facility for Tontine – the largest and most modern of its type in the Southern hemisphere. It will provide improved and more cost-efficient operations in both manufacturing and distribution. Tontine continues to be the number one pillow and bedding accessories brand in the market.

Sleepmaker strengthened its position in the bedding category through product leadership, investment in research and development and operational excellence. The “Sleepmaker Select” range of beds introduced new technology that allows mattresses to be individually customised.

The foam business remained steady; managing to recover significant rises in input costs. It is continuing to extend its development of higher margin specialist foam products. Flooring continues to achieve market share gains and has generated record sales of carpet underlay in New Zealand. It is now one of only two organisations in the world that can produce underlay that meets the stringent international Marine Organisations fire and safety standards.

The efforts undertaken in the group in FY07 should continue to drive further growth in FY08.

Business Review – Footwear

Footwear performed solidly in a challenging and volatile retail market delivering sales and profit above last year’s results. The group has maintained its market share through its ongoing commitment to its brands. Increased advertising spend and well-received marketing campaigns across the core brands have generated strong consumer support. Strong sales performances were achieved in Hush Puppies, Dunlop, Merrell and Julius Marlow.

The uptake of ‘pick and pack’ replenishment programs continues to rise where now over six million pairs of shoes are being individually packed each year from our Altona distribution centre in Melbourne. During the year, Footwear consolidated its New Zealand warehouse into Altona to further improve efficiencies.

The group is working closely with retailers and logistics partners on increasing direct deliveries from source to customer. A focus on inventory management, consolidation of suppliers and improved lead times have all contributed to positive earnings results in a challenging market place.

Merrell footwear continues to gain share in the outdoor/lifestyle category through a targeted distribution program with key specialty retailers. The footwear concept store program has performed well in its pilot phase.

Acquisition Update

The acquisitions of the Yakka Group and Brand Collective (formerly the Streetwear division of Globe International) have been excellent additions to Pacific Brands, strengthening existing category and channel positions and adding to our portfolio of iconic brands. These businesses also significantly increase the size and market presence of Pacific Brands providing further scope to leverage our scale.

Yakka is an Australian icon holding the number one workwear and corporate clothing brands in Australia and New Zealand. Alongside King Gee, it further cements our position in the workwear category. Since acquisition, the business has performed well and in line with expectation. Integration has begun and a comprehensive strategic review is under way. Implementation of the recommendations coming from this review will be a key focus for Pacific Brands over the next 18 months or so.

Brand Collective was acquired in January 2007. Its brands have strengthened our position in lifestyle apparel and we anticipate further growth in this category.

The well-known brands, including Mossimo, Stussy, Mooks, Freshjive and Paul Frank provide a strong position in the lifestyle and casual apparel market. Together with our existing Merrell and Everlast businesses, and the Lee and Wrangler businesses that were acquired with Yakka, Pacific Brands now has a meaningful presence in this category. Each of these brands and some current product ranges are showcased outside.

As outlined earlier, Pacific Brands expects to gain significant synergy benefits from its acquisitions, realising ‘bolt-on’ improvements attributable to scale, sourcing improvements, and marketing and consumer benefits as we go forward.

The integration process for both acquisitions is progressing well and we are very optimistic about their impact on Pacific Brands in the coming financial year.

Company Outlook

Change is inevitable in all businesses… including our own. We have been successful in building flexibility and responsiveness into our processes and systems and ensuring that we are best placed to understand the changing attitudes of our consumers. There is always more to do and we continue to make further performance improvements.

We believe the results and achievements of 2007 make us well placed to continue providing profitable growth in 2008. We expect net sales and EBITA growth to be in the range of 15-20%. We also have confidence in delivering growth in net profit after tax of around 10%, if not better. Our ability to generate a strong cash position should remain unchanged and should again flow into good shareholder returns.

The year for us has started well and we will stay focussed on our strategy of category management, brand leadership and leveraging scale as the year progresses. Our year-to-date performance suggests a full-year result in line with the market’s consensus forecast.

It has been a privilege to be involved with Pacific Brands for more than 30 years. It is a great company with an experienced board, fantastic leadership group and outstanding employees. We have a shareholder base that maintains its commitment to our company and our great brands. I am confident that under Sue Morphet's leadership that the company will continue to prosper.

In closing, I want to say thank you to all my colleagues who have made my 30-years with Pacific Brands so rewarding.

I will now hand back to the Chairman to conduct the meeting's formal business.

Thank you.