CEO's Address
to the
2004 Annual General Meeting
of Pacific Brands Limited

Tuesday 26 October, 2004
Grand Hyatt

Melbourne

Introduction

Thank-you Pat and good morning ladies and gentlemen. I would like to extend a warm welcome to all shareholders to the inaugural Pacific Brands Annual General Meeting.

It has certainly been an extremely busy and exciting year with the completion of the company's listing on both the Australian and New Zealand stock exchanges on 2 April 2004. We have started our journey as a listed company well – achieving earnings above our prospectus forecast for FY04 on a proforma basis. We are now ranked as one of Australia's top 100 companies by market capitalisation. But we still have much to do.

I would like to thank all of our 7,000 employees for their effort and for starting our new journey into public life. All Australian employees have had the opportunity to become shareholders in our business. In fact there are 4,418 employee shareholders today.

I would also like to thank my senior management team and the Board for their support and our shareholders – for your commitment to the company.

The Chairman has been through the results highlights, but I would like to provide some more details on the drivers of those results before moving onto the outlook for the Group.

Group Result Drivers

On a proforma basis, FY04 sales were $1.535 billion, up 3.1% over the previous year with 4.7% sales growth in our core Australian business. The drivers of the sales growth have been, increased advertising and marketing support behind key brands, leading to double-digit growth in "make-over" brands including Bonds and Holeproof, and an on-going commitment to innovative and continuous product development.

The Group has continued to focus on the elimination of unbranded sales from the portfolio. Hence, we are much more focused on profitable growth through the sale of branded goods rather than unprofitable and/or unbranded sales and will continue to do so. This is quite a price sensitive market and it is easy to get caught up in a sale at any price mentality. Our profits reflect that we avoid this where possible.

The Group's earnings before interest, tax and amortisation (EBITA) was up 22% on the previous year and generated net profit (pre goodwill) of $88.4 million.

These results were influenced by strong earnings growth in Underwear and Hosiery, strong margin improvements through a focus on branded sales, the successful integration of our recent acquisitions, Kolotex and Sachi and operational efficiencies generated through our Brave New Way programme.

A feature of the Pacific Brands business is its operating cash flow which increased 32.9% to $171.3 million. This result highlights the low capital intensity of the business. Clearly, we spend most of our expenditure on our three key drivers – People, Brands and Products.

These strong earnings and cash flows will be used to retain financial flexibility to support well targeted acquisitions. As well as the organic growth prospects within the current portfolio, Pacific Brands is actively seeking acquisition opportunities.

Over the last few years, bolt-on acquisitions have been made to improve our market share of targeted segments. Examples include Clarks shoes and Kolotex hosiery. These types of acquisitions also give faster share increases than organic growth would allow.

Pacific Brands will remain acquisitive, but we will only consider those opportunities that meet our strategic criteria and are brand focused and/or provide for industry consolidation.

The Chairman discussed the overall strategy but I would like to focus on the business drivers.

Business Drivers

The three major drivers of this business are People, Brands and Products and we are committed to their on-going development to make Pacific Brands the premier branded consumer goods in the country.

People: We have made a commitment to our 7,000 people through various development programmes, a pro-active approach to safety and the building of a performance culture. We have undertaken extensive people training initiatives, primarily focused on building a world class sales organisation, developing a high performance culture, embedding brand management capability and the formation of a talent pool for our top three leadership layers.

Brands: As a company that provides everyday consumer essentials – our brands are vital. We have shifted the business away from unbranded to branded products and have supported key brands with creative advertising programmes. Over the last 3 years we have consistently increased our advertising budget – in fact almost doubling our spend from $32 million in FY01 to $62 million in FY04. We have experienced great success with Bonds and Holeproof – both which experienced double-digit sales growth in the past year. Interestingly, these brands operate in the same categories and via proper brand positioning have been able to prosper.

We will continue to increase our advertising spend in FY05 as this is a key differentiator between ourselves as a brand marketer and our competitors.

Products: We always aim to have the right product to the customer/consumer in the right place at the right time. Not only does this include a commitment to quality but also to an efficient delivery and distribution process.

As brand development and marketing is such an important factor to our business, I would quickly like to show you some of our recent TV advertising campaigns.

[Play Reel of Current TVC's]

Brand Development

Each of our brand strategies include the delivery of improvements in margins and growing market share in key categories in which we operate.

We pride ourselves on being an innovative company. Each year approximately 60% of our sales are from new products – that may be a new style, colour or completely new range. The success of the Bonds Hoodie into the ladies outerwear market is a key example of this.

This represents the best of Pacific Brands, a great brand in Bonds, the support of excellent ambassadors and outstanding advertising.

Due to the commitment behind our brands – we are also about enhancing our margins - we are not a sale at any price company.

Not only will we develop our existing portfolio during FY05 – but you will also see the introduction of the Merrell brand into footwear - a popular and successful outdoor/adventure brand in the US, the launch of Kenneth Cole fashion footwear and the Esprit range of footwear and homewares.

I would now like to provide some details on each of the Operating Groups.

Business Review - Underwear and Hosiery

Underwear and Hosiery remains the biggest Operating Group and accounts for over 40% of the Group's sales. This group is the leading marketer of underwear, intimate apparel, socks and hosiery in Australia and New Zealand and includes brands such as Bonds, Berlei, Holeproof, Jockey and Razzamatazz. Products such as the Chesty Bond singlets have been in the Australian market for 90 years. We are now manufacturing over 40,000 singlets per day – all within Australia.

Year on year growth in sales of 9% to $667.2 million delivered an EBITA of $90.3 million, which was up 35% on the previous year. An outstanding result in a category of the market that has experienced low growth rates in recent years.

As mentioned earlier, Bonds and Holeproof experienced double-digit sales growth, through category segmentation and strong advertising and marketing support.

During the year we also acquired the Kolotex hosiery business. We have been able to realise the benefits of this acquisition by integrating this business into our existing hosiery manufacturing operations at Coolaroo, Melbourne.

The introduction of the Bonds swimwear range into our main retailers, the relaunch of Computer socks with Donald Trump, the reinvigoration of the Antz Pantz brand and increased marketing efforts behind Explorer socks, will all ensure this Operating Group has another strong year.

Business Review – Outerwear and Sport

Outerwear and Sport – which includes brands such as Everlast, King Gee, Stubbies, Dunlop and Slazenger is one of Australia's leading suppliers of workwear, casual clothing and sporting equipment. This Operating Group was not without its challenges during the year. Overall sales were down by 2.8% to $313.8 million and EBITA down 13.7% to 26.4 million. I am pleased to state that we still maintained a margin of 8.4% - very respectable when compared to industry benchmarks.

We have had some operating and supply issues that impacted the result – but these have been resolved and we have taken the necessary steps to address any future impacts. However, as we stated at the results announcement, we are in the process of stabilising the Group and we do not expect any growth this year.

The casual outerwear category suffered from price discounting. Accordingly, the Group continued to exit unprofitable product lines which obviously impacted sales.

In particular, the sporting goods market has experienced pressure in the form of price discounting and a general industry decline. As a result, this year will be one of consolidation in that sector of the market. Our sporting equipment and hard goods (bicycles) business represents only 5% of total Group sales, so a significant business impact is not expected.

F05 will see increased brand support for Everlast, Stubbies and King Gee – all of these brands experienced good sales growth last year.

As noted by the Chairman, I am delighted to welcome Rick Rostolis to the role of Group General Manager for the Outerwear and Sport Group.

Business Review – Home Comfort

Our Home Comfort business is the leading manufacturer of mattresses, pillows, foam and carpet underlay. Our sales for the year were consistent with the previous period, but we improved our margins to achieve an EBITA of $27.7 million which was a 13.5% increase over the prior year. Much of the margin improvement was a result of repositioning our bedding products and advertising behind the key brands of Tontine and Sleepmaker.

Strong results were generated by the foam and carpet underlay businesses. A strong building cycle has assisted the strength of the carpet underlay business.

For F05, the Company will continue to focus on improving margins in bedding and are excited about the launch of the Esprit licence for bed linen and accessories.

Business Review – Footwear

Our footwear Operating Group has a comprehensive range of products for children, women and men with ranges in casual, comfort and fashion footwear.

The Operating Group achieved a sales increase of 1.9%, an EBITA improvement of 20% and the achievement of an EBITA margin of 8.9%. This was a solid result. Strong sales growth was experienced by Hush Puppies and Grosby. Exciting initiatives have included the launch of the Hush Puppies concept store into Myer Melbourne, the acquisition of Sachi women's fashion footwear and handbags and the FY05 new ranges of Kenneth Cole and Esprit footwear.

The strategy for the Group is to continue to invest in the profitable branded segment of the market.

Market Outlook

As we are in consumer everyday essentials – we are not greatly impacted by changes in retail spending patterns as we provide the staple everyday products for our consumers.

But we are experiencing changes in our market. We will see China enter the World Trade Organisation (WTO) in January 05 and reductions in tariffs in the clothing and footwear markets.

China entering the WTO will potentially result in an increase in the cost of goods imported into this country. An increase in the cost of goods out of China may be the catalyst to move prices in an environment that has experienced price deflation. The relationships we have forged with our suppliers will also ensure that we can manage China's transition.

Much of our production in China is either tied by supply agreements or in long term arrangements so we are well situated to handling most issues related to China.

There is to be a reduction in the tariffs on clothing from 25% to 17.5% and footwear from 15% to 10%. Tariff changes is something that the industry has experienced over many years and these changes seem very manageable indeed.

Operational Efficiencies and Brave New Way Update

We have commented previously on our Brave New Way programme which has been established to drive operational efficiencies, lower costs in the supply chain, develop product introduction rules and reduce complexity across the business. As a marketer of consumer products across many different categories – we have over 160,000 individual products – a huge number. Since the implementation of the programme we have reduced the number of SKU's by approximately 18,000 and clearly this has allowed us to better manage our business.

We have also:

- Developed metrics around brand development and introduction criteria;
- Reviewed our sourcing arrangements; and
- Reviewed our warehousing to ensure that we have a flexible supply chain to meet changing consumer demands.

In the past 18 months we have closed 11 warehouses, reduced the supplier base by 30% and established several projects with our customer and retailers to improve the distribution processes.

The management of inventory and working capital are major drivers. Over the last three years the Group has reduced finished goods inventory by 20% and improved stock turns.

Improving returns through efficient capital deployment across the Group will be an on-going priority.

Forecasts and Conclusions

I would now like to spend some time on the growth prospects for the company over the medium term.

The Company has further benefits to achieve from brand development and marketing, and the Brave New Way programme. This will lead to further margin enhancement and double-digit profit growth on a low to mid single-digit sales increase (pre acquisitions).

On the profit side, we expect to over achieve our prospectus EBITA forecast by a similar percentage as we did in FY04. This should result in an earnings per share increase of 18% over the previous year.

Pacific Brands is a major player in each of the categories in which it operates with strong brand management capabilities, a focus on working with our partners including suppliers and customers to provide the products which suit our consumers.

Our business is underpinned by strong earnings and cash flows – which underpin strong shareholder returns.

Trading for the first three months of the year has been where we thought it would be. We expect to continue to gain momentum over the year. We will focus on building our brands for the long term with product extensions, a continued focus on branded sales and actively pursuing appropriate acquisition targets.

Conclusion

In closing, I would like to acknowledge the performance of all my colleagues at Pacific Brands – particularly during the transition phase from a private to public company.

We have a business of great Australian brands and I look forward to driving it with my team on its journey as a successful public company. We are committed to generating a financial performance and returns that will deliver the results – to you the shareholders.

I would now like to hand back to the Chairman.

Thank-you