

Pacific Brands 2006 Full Year Results

GROUP HIGHLIGHTS

- ◆ Total net sales \$1,624.9m up 6.8% on pcp and branded sales of \$1,509.0m, up 9.3% on pcp
- ◆ Key financial indicators consistent with last year:
 - \$192.3m EBITDA, up 1.3% on previous corresponding period
 - \$173.0m EBIT, down 0.9%
 - \$101.2 m net profit after tax, up 0.3%
 - Net operating cash flow, up 6.5% to \$80.0m
 - Earnings per share of 20.1 cents, unchanged
- ◆ Footwear branded sales growth of 6.5% and Home Comfort up 46.7% (including acquisitions)
- ◆ Outerwear & Sport earnings recovery continues
- ◆ Momentum improves in Underwear & Hosiery after a tough 1H06
- ◆ Final dividend of 7.5 cents, resulting in a 15.0 cent full year dividend
- ◆ Announcement of an on market share buy-back of up to \$75m

Full Year ended 30 June (A\$ million)	FY05 ¹	FY06	% Change
Branded net sales	1,381.1	1,509.0	9.3
Unbranded net sales	140.6	115.9	(17.6)
Total net sales	1,521.7	1,624.9	6.8
EBITDA	189.8	192.3	1.3
EBIT ²	174.6	173.0	(0.9)
EBIT margin %	11.5	10.6	
NPAT (post minority interests)	100.9	101.2	0.3
EPS (cents) ³	20.1	20.1	-
DPS (cents) ⁴	15.0	15.0	-

1. Restated for the impact of Australian equivalents to International Financial Reporting Standards (AIFRS).

2. EBIT = EBITA as no goodwill amortisation in FY05 and FY06

3. This has been calculated from an issued capital base of 503,000,003 ordinary shares.

4. Represents final dividend announced for the full year – franked to 100% for Australian residents on tax paid at 30%.

Solid financial performance in a tougher business environment

Pacific Brands Limited today announced its results for the financial year ended 30 June 2006. Steady financial returns were generated after a stronger finish to a challenging year. Branded sales increased by 9.3% to \$1,509.0 million which includes sales from the acquisitions made during the year. Total net sales improved 6.8% to \$1,624.9 million.

The results for the year ended 30 June 2006 were consistent with those of the financial year ended 30 June 2005 including earnings before interest, tax, depreciation and amortisation (EBITDA) of \$192.3 million and earnings before interest and tax (EBIT) of \$173.0 million. The slight decrease in EBIT was predominantly a result of a difficult trading environment in the first half for Underwear & Hosiery. While momentum in this operating group improved in the second half, it was not sufficient to bring the Group result back into line with the performance achieved in the previous year.

Net profit after tax was \$101.2 million, which represents a small improvement over the prior year. This translates to an unchanged earnings per share of 20.1 cents.

Commenting on the result, Chief Executive Officer, Mr Paul Moore said:

“Although this was a challenging year, Pacific Brands produced a steady net profit after tax and improved operating cash flow. The 2006 financial year saw a period of fluctuating consumer confidence with the impact of rising fuel prices and interest rate rises affecting the retail landscape.

“We have continued to focus on the fundamentals of the business and this has enabled the Group to generate a solid performance for the year. Our strong consumer everyday essential brands remain the cornerstone of our strategy and are the ongoing basis for our business model. We continue to develop and enhance our relationship with our consumers.

“The core elements of our strategy are building and developing strong consumer brands, leveraging the Pacific Brands scale across all our operations and making strategic acquisitions to further enhance our portfolio of businesses.

“A highlight for the year was the acquisition of the Sheridan business. We took this opportunity to gain a leadership position in the premium bed linen category and the business has now been integrated into the Home Comfort operating group. Since the acquisition we have restructured Sheridan, reviewed its product ranges, reinvigorated its marketing initiatives and improved its sourcing. We expect it to be a strong contributor to earnings in the FY07 financial year. We also completed the acquisitions of Arthur Ellis (Homewares New Zealand and Everwarm Survival businesses), Peri and Foams Products Australia (FPA). FPA gives the Dunlop Foam business the opportunity to improve its manufacturing in Queensland.

“Given the tougher business environment during the last financial year, we have continued to focus on managing our costs and are well placed to contain potential future cost pressures by working across the business to maximise and leverage our scale.”

Supply Chain

The Group has a programme to build ongoing speed and flexibility into sourcing, distribution and logistics to meet the needs of the evolving retail landscape. Efficiencies realised during the year included the reduction of costs in key logistics areas and the centralisation of shipping and customs into the integrated services team.

Pacific Brands is developing new capabilities across its end-to-end supply chain and has developed greater capacity to enable direct retailer shipments. In conjunction with IDS (part of the Li & Fung Group), Pacific Brands is developing a consolidation warehouse in Shanghai, China. This move will enable greater efficiencies in the future.

Pacific Brands continues to build its commitment to Asian sourcing. More than 1,000 of our people are based in China and Hong Kong with nearly 200 of them dedicated to sourcing and quality across four offices. Many decision makers have been moved closer to manufacturing and sourcing to improve our speed to market.

The business has excellent relationships with both local and off shore suppliers and is the largest sourcer of products in its categories. Pacific Brands continues to work with its suppliers to review their capabilities and working practices.

The implementation of new systems has improved the visibility of inventory throughout the entire supply chain. The business has invested in new demand planning and electronic supplier interface tools.

Acquisitions

Acquisitions are a key component of the Pacific Brands strategy and the Group has a positive track record of growth through acquisition. During the year it acquired Sheridan, Peri, Arthur Ellis (Homewares New Zealand and Everwarm Survival) and Foam Products Australia. It will continue to supplement organic growth with strategically relevant, well priced acquisitions. A net \$87.5 million was invested acquisitions during the year.

The company is well placed to make further acquisitions and continues to review relevant opportunities.

Cash flow

Pacific Brands generated \$80.0 million in net operating cashflow¹ during the year. This was an improvement of \$4.9 million over the previous corresponding period, or 6.5%. Cash flow was impacted by higher interest and tax payments.

Cash used to fund dividends was \$75.5 million.

1. Net operating cash flow is calculated after interest, tax and capital expenditure.

Tax

The effective tax rate on earnings was 26.3%, which was below the rate of 28.9% for the year ended 30 June 2005. The effective rate was 27.2% as at 31 December 2005 but was lower at the year end as a result of clarification of some tax issues from prior years.

Balance Sheet

The net assets of Pacific Brands increased marginally over the year. Net intangible assets increased by \$70.2 million, as a result of the acquisitions made during the year.

The debt to equity ratio at 30 June 2006 was 39.6%, up from 30.7% at 30 June 2005. This was the result of the increase in net debt from the funding of acquisitions. Net interest expense also increased as a result of acquisitions but a strong interest cover (EBIT/Interest) of 4.9 times was maintained.

Capital Management

As announced separately, as part of a longer term capital management plan, the Company will undertake an on-market share buy-back. Pacific Brands has a demonstrated capacity to generate cash and the directors believe that an on-market buy-back provides an effective means of delivering optimal value to shareholders at this point in time.

A buy-back of up to \$75.0 million of ordinary shares will be EPS accretive and conducted over a 12 month period commencing in September 2006. It leaves the company with the capacity to make further value adding acquisitions and to maintain its high dividend payout ratio.

Dividends

Pacific Brands strong cash flow supports its policy of maintaining a high dividend payout ratio. Its financial performance has allowed Pacific Brands to declare a final dividend of 7.5 cents per share, which represents an unchanged full year dividend of 15.0 cents per share. This represents a payout of 74.6% of NPAT for the year.

Dividends paid will be fully franked for Australian shareholders at a 30% tax rate.

AIFRS

From 1 July 2005, the consolidated entity was required to comply with Australian equivalents to International Financial Reporting Standards "AIFRS" issued by the Australian Accounting Standards Board.

All comparative financial information for the full year ended 30 June 2005 has been restated in the Appendix 4E notice to the ASX. These adjustments do not affect the cash flows of the Group.

Review of Operating Groups

Each of the four major operating groups has contributed to Pacific Brands result.

Underwear & Hosiery

	FY05	FY06	Change %
Branded sales (\$m)	581.6	560.6	(3.6)
Total net sales	647.5	610.8	(5.7)
EBIT (\$m)	99.6	87.6	(12.0)
EBIT %	15.4%	14.3%	

Underwear & Hosiery finished the year more strongly after a particularly difficult first half. Although its performance improved in the second half, it did not rebound as strongly as initially anticipated and the market remained tight until after the Easter trading period. Momentum returned in the last quarter of the financial year and there has been a shift back to more traditional trading patterns.

The restructuring in December 2005 to form one Underwear & Hosiery group has enabled a greater focus on its brand portfolio with a stronger approach to category management and 'big' brand initiatives. Based on consumer insights, marketing effectiveness has been reviewed to help ensure that brand leadership is maintained in a highly competitive environment.

This operating group has also adopted more consistent processes, particularly in supply and distribution and in new product introduction.

The Underwear and Hosiery operating group continued to strengthen its position in the men's underwear and intimates categories. Bonds continued its success as Pacific Brands number one brand overall and was recognised as one of the Top 10 Australian brands – and the only apparel brand to make the list. Berlei retained its position as the number one intimates brand in department stores with its strong everyday contemporary products. It has also recently entered a new partnership with the Australian Institute of Sport to test and develop sports bras and further strengthen its position as market leader in bras.

During the year there were numerous product innovations and introductions including the launch of Bonds seamfree underwear for men, the relaunch of Rio, Voodoo footless tights and Jockey shapewear.

Outerwear & Sport

	FY05 ¹	FY06	Change %
Branded sales (\$m)	232.3	227.7	(2.0)
Total net sales (\$m)	253.9	249.0	(1.9)
EBIT (\$m)	20.6	22.3	8.3
EBIT %	8.1%	9.0%	

1. Financial information restated from 1 July 2004 to show transfer of Dunlop Footwear from Outerwear & Sport to Footwear.

Outerwear & Sport had positive earnings growth for the year led by KingGee, Everlast and Repco bikes. The business has continued to focus on brand development opportunities in the core categories of workwear, surfwear, schoolwear and sporting apparel. While the casual outerwear market has remained competitive, the benefits of changes to its sourcing strategy and continued

efforts to rationalise the supplier base have contributed to this operating group's performance improvement.

The workwear category performed well with sales growth in the contract clothing business for KingGee. It also had success with the launch of the innovative workcool range and successfully transferred product sourcing from Fiji to China during the year.

The operating group repositioned its bicycle brands which have driven sales growth in this category. Strong performances were achieved with the Repco Cycles and Malvern Star brands. The launch of the Bike Hub store concept has provided the market with a new standard for service in bike retailing, increased support for independent bike dealers and strengthened customer relationships in this category.

Everlast continues to perform well across both the footwear and apparel ranges. Everlast is now a well known and established youth sports brand in the Australian market and during the year it expanded its sporting apparel range into New Zealand.

Home Comfort

	FY05	FY06	Change %
Branded sales (\$m)	294.7	432.2	46.7
Total net sales (\$m)	308.8	448.6	45.3
EBIT (\$m)	33.3	36.5	9.6
EBIT %	10.8%	8.1%	

Home Comfort acquired four complementary businesses during the year: Sheridan, Peri, Homewares New Zealand and Foam Products Australia (FPA). The acquisitions have further strengthened this operating group across the home accessories market and led sales growth for the year.

The Sheridan business is an excellent addition to this operating group and the overall Pacific Brands business. With its successful integration, Home Comfort has a leading position in the premium bed linen market and now has the opportunity to develop and market an integrated bedroom offering. Since acquisition, Home Comfort has redeveloped Sheridan's linen and towel ranges, strengthened its partnership with Li & Fung for more effective sourcing from China, and developed new advertising campaigns. It has also relocated to new premises.

Although the bedding market remains competitive, the Sleepmaker brand has a good position in the premium sector of the market. Sleepmaker is committed to improving its market position across all bedding categories and will continue to build its brand reputation through an ongoing focus on product development such as airbed technologies.

Solid growth was experienced at Dunlop Flooring as the market shift from rubber to foam underlay continues.

Foams had a difficult year due to the impact of rising chemical prices and input costs driven by rising oil prices. Price increases were implemented in the year but had a lag effect on earnings. The full effect of pricing benefits is expected to flow into the FY07 year. The purchase of Foam Products Australia has given the foams division an excellent opportunity to upgrade its foam production facilities in Queensland.

Growth continues at Tontine and the business has made a commitment to move to a new factory and warehouse complex to be built in Melbourne, expected to be operational from July 2007. Tontine celebrated its 50th anniversary during the year.

Footwear

	FY05 ¹	FY06	Change %
Branded sales (\$m)	233.8	249.1	6.5
Total net sales (\$m)	272.7	277.0	1.6
EBIT (\$m)	31.4	35.7	13.7
EBIT %	11.5%	12.9%	

1. Financial information restated from 1 July 2004 to show transfer of Dunlop Footwear from Outerwear & Sport to Footwear.

Footwear continues to deliver excellent results driven by the strength of the brand portfolio across Clarks, Dunlop, Grosby, Hush Puppies, Merrell and Pierre Fontaine. A particularly strong performance was achieved in Dunlop Footwear, which was supported by the “Legends In The Backyard” campaign with Andrew Gaze, Liz Ellis and Pat Rafter. Merrell and Grosby also showed solid growth for the year.

Category development and product innovation continue to drive success. This operating group is improving speed to market and has built capacity both locally and offshore to meet the ongoing trend to greater replenishment orders.

Footwear remains focussed on its key brands and is investing in consumer research to ensure the continuing relevance of each brand in the portfolio. Footwear enjoyed further success with concept stores over the year and online account servicing of specialist and smaller retailers grew through the further development and rollout of Brandsnet.

Outlook

Pacific Brands remains committed to the strategy of building and strengthening its relationship with consumers through its portfolio of everyday essential brands. We believe that the business fundamentals remain strong and Group earnings are positioned to return to growth in FY07.

An improved performance in the Underwear & Hosiery operating group, the realisation of benefits from the Sheridan acquisition and ongoing benefits from improved sourcing and cost management are expected to contribute to growth in the next financial year.

The Group strengths remain its brands, products, scale, sourcing and relationships with customers and consumers.

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Pacific Brands manages 'Everyday Essential Brands', marketing some of the most recognised brands across Australia and New Zealand including Actil, Berlei, Bonds, Clarks (childrens), Dunlop, Everlast, Grosby, Holeproof, Hush Puppies, KingGee, Sheridan, Slazenger, Sleepmaker and Tontine. Pacific Brands' commitment to market leadership has provided it with number one or two positions across its major product categories in Australia and New Zealand which include underwear, socks, intimate apparel, hosiery, footwear, bedding, bedding accessories and foam.

These category leading positions have been achieved through a focus on being at the forefront of brand development, product innovation, marketing and an efficient and effective supply and distribution network.

Pacific Brands employs over 8,000 people and is listed on the Australian and New Zealand Stock Exchanges (ASX/NZX:PBG).