



ABN 62 007 157 182

24 November 2009

**REGISTERED OFFICE**

**Patties Foods Ltd**  
161-169 Princes Highway  
PO Box 409  
Bairnsdale Vic 3875  
Telephone: 03 5150 1800  
Admin fax: 03 5152 1135  
Sales fax: 03 5152 1054  
Freecall: 1800 650 069  
Info@patties.com.au  
www.patties.com.au

**MENTONE OFFICE**

**Patties Foods Ltd**  
Chifley Business Park  
Level 2, 1 Joseph Avenue  
Mentone Vic 3194  
PO Box 115  
Dingley Vic 3172  
Telephone: 03 8540 9100  
Fax : 03 9551 3393  
Info@patties.com.au  
www.patties.com.au

The Announcements Office  
Australian Stock Exchange Limited  
Level 45 South Tower  
525 Collins Street  
**MELBOURNE. VIC. 3000**

Dear Sir/Madam

**Patties Foods Limited (PFL)**  
**Chairman and CEO's Address - Annual General Meeting 2009**

Please find attached, the Chairman's and CEO's address which will be delivered to shareholders at the Annual General Meeting today.

The attached document will be posted to the Patties Foods' website once released to the market.

Yours faithfully

**Philip W Thomas**  
Company Secretary



24 November 2009



**PATTIES FOODS LTD  
2009 ANNUAL GENERAL MEETING**

**CHAIRMAN'S ADDRESS**

Having joined the Board in July 2009, I propose to outline my learnings about the company and its business during this four months period.

Patties Foods is the leading Australian owned, branded, frozen food company. It boasts a stable of outstanding brands, with a broad range of quality products. It holds strong market share in all its segments and clear market leadership in the frozen savouries segment. It has a state of the art production capability, which will be further enhanced with the installation of an additional spiral freezer in Q3 of FY 2010.

However, the company has under performed since its listing on the ASX in late 2006. Clearly, its transition from a private company to a listed entity has not been without its difficulties.

In FY 2009, there was undeniably disruption at Board and senior management level leading to resignations of the chairman, managing director and chief financial officer. Such an environment is hardly conducive to the development and implementation of sound strategic and operational decisions.

I am pleased to report that, following my appointment, I met with numerous employees at both the Mentone and Bairnsdale offices. I was impressed with the overall culture and the genuine belief by employees in the future of the company.

**What is required to unleash the earnings potential of Patties Foods?**

- **Board** – we now have a strong, united Board with the requisite skills and experience and a commitment to proper Corporate Governance principles. A Board committed to working closely with senior management to set appropriate strategies and to monitor the implementation of such strategies.

The Board has been restructured with the appointment of John Schmoll as an independent non-executive director, Greg Bourke as managing director and myself as chairman. I am delighted to welcome John Schmoll to the Board as he brings a

wealth of experience as an independent, non-executive director with high level finance and general commercial experience.

The Board committees have been restructured with John Schmoll to chair the audit, risk and compliance committee and myself to chair the remuneration and nomination committee. I also welcome the appointment of Curt Leonard as deputy chairman.

Let me take this opportunity to thank my Board colleagues for their ongoing support and commitment. In particular, I would like to thank Ernest Barr for agreeing to act as chairman during a difficult period.

- **Senior management team** – During FY 2009, there were significant changes to the senior management group, including the appointment of Greg Bourke as managing director, Michael Knaap as chief financial officer and Grant Leyden as general manager, manufacturing. I believe that these key employees have blended into a united group and are leading the management team in driving the earnings of the business in a disciplined manner.

Importantly, the management group knows that it is supported by the Board and that outstanding performance will be appropriately rewarded. In this regard, your Board is about to finalise and announce a Long Term Incentive Plan which will put in place a remuneration policy to appropriately reward exceptional performance and allow us to retain and attract high quality executives. Importantly, the Plan will align the interests of senior executives with those of our shareholders.

- **Clear strategic direction** – Your Board and senior management team have been working closely together to develop and implement a clear strategic direction for the business.

Let me say that the primary focus in the short to medium term is to substantially increase earnings by concentrating on the fundamentals of the existing business. These fundamentals include:

- \* enhanced brand strength
- \* strong pipeline of new product launches
- \* improvement in manufacturing efficiencies (i.e. increased output rates, labour efficiency and reduced waste)
- \* steady growth in market shares with a particular emphasis on strong growth in Out of Home sales
- \* sound capital management.

The profit guidance for the first six months of FY 2010, announced on 18 November, demonstrates that the early signs are encouraging. The mid point of the expected net profit after tax ( NPAT ) range for the period is \$8 million, which would represent an increase of approximately 50% over the normalised NPAT for the first six months of FY 2009.

While the results have been assisted by one-off factors such as supply difficulties encountered by a competitor and the appreciating AUD, the performance to date in FY 2010 gives some indication of the underlying, earning capacity of the business.

I must stress that, while the early signs are positive, history demonstrates that a sustained earnings recovery will only be achieved if there is a disciplined, ongoing commitment to the fundamentals outlined above.

I would like to take this opportunity to thank my fellow directors, the management team and all Patties Foods staff for their continued dedication and commitment to improving the company's performance and, in turn, shareholder value. I would also like to thank our customers, suppliers and advisers. In particular, I thank you, our shareholders, for your continuing support.

I would like to now introduce to you our managing director, Greg Bourke, who will present a review of operations.

**Christopher Riordan**

**Chairman**

**Patties Foods Ltd**

24<sup>th</sup> November 2009

**PATTIES FOODS LTD**

**ANNUAL GENERAL MEETING**

**24 NOVEMBER 2009**



Australia's Leading Branded  
Frozen Food Company

# CHAIRMAN'S ADDRESS



Australia's Leading Branded  
Frozen Food Company

# Initial Learnings

- Leading Australian owned branded, frozen food company
- Stable of outstanding brands, with a broad range of quality products
- Strong market shares
- Market leadership in frozen savouries segment
- State of the art production capability



## Company has under performed since listing on ASX

- Transition from private company to listed entity not without its difficulties
- In FY2009, disruption at Board and senior management level
- Not a conducive environment
- By July 2009, a committed, enthusiastic culture evident across all levels





# What is required to unleash the earnings potential of Patties Foods?

## Board

- Strong, united Board
- Working closely with senior management to develop and monitor implementation of appropriate strategies
- Board restructured with appointments of John Schmoll, Greg Bourke and myself
- Board committees restructured and Curt Leonard appointed as deputy chairman



# Senior Management Team

- Significant changes during FY 09
- Appointments of Greg Bourke as MD, Michael Knaap as CFO and Grant Leyden as GM, Manufacturing
- These new appointees has blended into a united, disciplined team providing strong leadership
- LTIP close to finalisation



# Strategic Direction

Primary focus is to concentrate on fundamentals of existing business

These fundamentals include:

- Enhanced brand strength
- Strong pipeline of new product launches
- Improved manufacturing efficiencies
- Growth in market shares with particular emphasis on Out-of-Home Sales
- Sound capital management



# Early signs are encouraging

- Profit upgrade for H 1 of FY2010 indicates the underlying strong base
- A sustained earnings recovery requires a disciplined, ongoing commitment





## ***Managing Director's Address to Shareholders at AGM 2009***

Good afternoon ladies and gentlemen, and welcome to this first AGM in Melbourne. With such a good attendance I expect we will have many more AGM's in Melbourne.

I would like to also welcome our new Chairman to his first Patties AGM. I have enjoyed working with Chris over the last few months. His support of the leadership team and good humoured style of engaging all stakeholders has created a cohesive board. I look forward to working closely with him over the next few years.

At last year's AGM in Bairnsdale I described my initial observations of Patties Foods as being an unpolished diamond. This business has great potential. This view has been confirmed.

As you know from our recent announcement providing guidance on the first six months trading, the business is now providing stronger results than last year, and we are increasingly confident that the poor results of the past are behind us. Today I would like to take you through the main activities of 2009 and then talk about the outlook for the future.

### ***Financial Year 2009***

By any measure 2009 was a disappointing year. With the first half generating a very poor result caused by lost market share, increased competitor discounts, higher manufacturing costs, higher input costs from currency fluctuations and disrupted supply. The second half, especially the fourth quarter, saw this situation change. The business started to improve with factory efficiency gains, launching new products and rebuilding retail branded market share. The second six months trading saw an improved result, as we expected, from the first half.

Return on Capital Employed was 11.0%, a reduction from the previous year of 12.5%. This highlights the poor performance of the year and we expect to see this KPI increase as we improve the trading and minimise low return capital expenditure in the current year.

### ***In-Home Sales***

In the first half of the year all retail categories experienced falling market shares.

In our most important retail market – Frozen Savouries - our monthly shares in the first half were in the low 40's, and the category was also in low growth, which was less than the forecast growth at the IPO. By working with our retail customers between October and March, we were able to both grow the category and most importantly grow our share of the category. We exited the year with market shares in this category back to over 50%. It is pleasing to see this level maintained in the 4 months of this year.

In the retail branded fruit pie category our Nanna's brand also increased market share in the second half. This was driven by increased promotional activity and the launch of the new Nanna's Mini Fruit Pie range.

The Frozen Fruit category is growing strongly, driven by heavy discounting from new entrants to the market. Whilst our market share is reducing, we remain the leading brand, and our overall dollar sales value is not reducing. This is a very difficult category as it has become highly competitive.



## ***Out-of-Home Sales***

The Out-Of-Home division continues to provide a good return on the Company's strategy to invest more resources in this growing area. The Petrol and Convenience channel continues to grow with Four'n Twenty and Herbert Adams brands in double digit growth. We also had strong growth in our business-to-business sales with a number of contracts gained in the second half of the year.

## ***Operations***

Much has been reported about our poor bakery performance last year. With high labour costs, and an inability to meet customer demand, rapid and urgent improvement was necessary. I am pleased to report that once the new Manufacturing management team implemented cross-functional improvement teams to identify and fix inefficiencies, improvements started in January with each month showing better performance. Improvements were across the bakery with some SKU's achieving a 40% lift in production efficiency. After recent investment in additional capacity and some additional capital expenditure this year, we will have further spare capacity to both increase plant efficiencies and to meet the expected growth in demand this year.

## ***Impact from Australian currency devaluatio.***

There were considerable cost increases in the year mainly from our imported fruit products caused by the currency devaluation against the US dollar. Management is proactive in taking appropriate forward cover for our U.S. currency commitments. We work to reduce the variability of our input costs and to provide certainty over the forward period.

## ***Capital Management***

Total borrowings at 30 June were \$70.5m, well within the total facilities limit of \$80.1m. Borrowings reduced by \$7.9m in the second half after a strong focus on reducing working capital. \$13.2m cash was generated from the operations in the full year with \$11.8m in the second half.

## ***Outlook***

That was last year – what's happening this year? As reported last week, the first 4 months to October has shown a continuation of the improved trading from the fourth quarter of FY2009. We won't be giving guidance for the full year as there are still uncertainties and factors out of our control that may impact on our trading including:

- the strength of retail sales especially the impact of the "flight to value" where consumers are buying more on price than ever before,
- fluctuations in the Australian dollar
- interest rate increases
- movements in commodity prices and
- the economy generally.

However, the company's budget for this year requires a significant lift in profit performance compared to last year. I am pleased to report we are on track for the first four months.



This has been driven by planned improvements from efficiency gains in the bakery, reduced interest expense, and sales growth initiatives from new products and promotional activities. In addition there have been two unexpected events out of our control which are favourable to the business.

Firstly, the sudden improvement in the Australian currency has reduced imported raw material costs. Secondly, a small competitor closed in June due to a factory fire. This has caused a shortage of supply of sausage rolls in the retail market.

Whilst this extra demand has provided some of our sales growth in retail savoury products, in the first few months of this year we have achieved strong growth in the important branded single serve pie range in both In-Home and Out-of-Home channels. This growth is driven by improved supermarket shelf space and launching new products with our Four n Twenty and Herbert Adams brands achieving double digit growth.

As I said at the start, 2009 was a disappointing year. Almost every key performance indicator in the business performed below expectations. This year we are confident of continuing the improvement of the first few months. Through business-wide continuous improvement initiatives, and improved execution of projects, we are well on the way to polish the diamond called Patties Foods.

The new management structure and leadership team will ensure the lift in performance is maintained. We have introduced a performance pay system with over 95% of employees rewarded when they over achieve individual and company targets. I'm pleased to report our sales staff have received incentive payments in the last few months from the new Sales Incentive Scheme, and manufacturing employees have also received bonus payments. The Executive team will receive incentive payments if the current strong profit growth continues.

To ensure we work on the areas of most importance, in the right order, we have prepared a framework for growth. We will focus on these areas as we step-up the performance of the company. This chart shows the phases of growth for the future.



v3



The balance of this year will see the continuation of the building phase, and then we will start to develop and grow. Over this year the management will focus on the key areas for immediate improvement.

- We will continue to improve operational efficiency by relocating the fruit packing operation to Bairnsdale and investing in Capital Equipment projects generating strong returns on investment.
- We will maintain and build relationships with current and future customers, and continue the strong growth in the Out-Of-Home channels.
- We will continue to build our brands through consumer led product innovation and communicate the unique brand offering to our consumers.
- But most importantly I will work with our leadership team to ensure, that across the business, we maintain an unrelenting focus on achieving high performance.

At next year's AGM, I look forward to presenting to you a much improved profit performance as we work hard to ensure the diamond sparkles sooner rather than later.

Thank you again for your attendance and before you go today please try some of the new products your company makes.

A handwritten signature in blue ink, appearing to read "G Bourke", with a long horizontal flourish extending to the right.

**GREG BOURKE**  
**Managing Director**



# MANAGING DIRECTOR'S ADDRESS



Australia's Leading Branded  
Frozen Food Company

**Welcome to Patties Foods Ltd  
the first AGM in Melbourne**

**and**

**Welcome to our new  
chairman**



Australia's Leading Branded  
Frozen Food Company

# Unpolished Diamond.

- **This view has been confirmed**
- **The business is now providing stronger results than last year**
- **We are increasingly confident that the poor results of the past are behind us.**



# Financial Year 2009.

By any measure 2009 was a disappointing year.

- **Poor 1H result caused by:**
  - Lost market share,**
  - Increased competitor discounts,**
  - Higher manufacturing costs,**
  - Higher currency costs**
  - Disrupted supply.**
- **Improved 2H , especially the fourth quarter:**
  - Factory improvements,**
  - Launched new products**
  - Rebuilt retail branded market share.**
- **Return on Capital Employed 11.0%, previous year 12.5%, will increase from:**
  - Improved trading and**
  - Minimise low-return capital expenditure.**



# In-Home Sales

## *Frozen Savouries*

- Monthly shares were in the low 40's, with low growth in category
- We grew the category and our share by working with our retail customers
- Market shares now back to over 50%.

## *Fruit Pie*

- Nanna's brand increased market share in 2H from increased promotional activity and the new Nanna's Mini Fruit Pie range.

## *Frozen Fruit*

- Category is growing strongly, driven by discounting from new entrants
- We remain the leading brand, with flat growth in sales value.
- This is now a highly competitive category.



# Out-of-Home Sales

- **Continues to grow from investment in more resources**
- **Four'n Twenty and Herbert Adams brands in double digit growth in P&C channel**
- **Strong growth in our business-to-business sales.**



# Operations

- **1H: high labour costs, and inability to meet customer demand**
- **Improvements started in January**
- **Some SKU's achieved a 40% lift in production efficiency**
- **Potential for further plant efficiencies**



# Impact from Australian currency devaluation

- **Imported fruit products costs up**
- **Management takes forward cover to reduce the variability of our input costs and to provide certainty**





# Capital Management

- **Total borrowings at 30 June were \$70.5m, within limit of \$80.1m**
- **Borrowings reduced by \$7.9m in 2H by reducing working capital**
- **\$13.2m generated in FY09 with \$11.8m in 2H.**



# Outlook

- Improved trading to October 09.

**We won't be giving guidance for FY09 as there are still uncertainties and factors out of our control that may impact on our trading:**

- **Strength of retail sales – impact of the “flight to value”**
- **Fluctuations in the Australian dollar**
- **Interest rate increases**
- **Movements in commodity prices and the economy generally.**



# Trading so far .....

**On track to budget for the first four months.**

**Driven by:**

- **efficiency gains in the bakery,**
- **reduced interest expense,**
- **and sales growth initiatives from new products and promotional activities**

**And two unexpected events out of our control.**

- **Improvement in the Australian currency has reduced imported raw material costs.**
- **A small sausage roll competitor closed due to a factory fire**



# Trading so far ..... (cont)

## Increased Demand

- **Four n Twenty and Herbert Adams brands achieving double digit growth.**
- **Growth in both In-Home and Out-of-Home channels, driven by:**
- **improved supermarket shelf space and the launch new products**



# Incentivising high performance...

This year we implemented a performance pay system

- **Over 95% of employees incentivised to over achieve individual and company targets.**

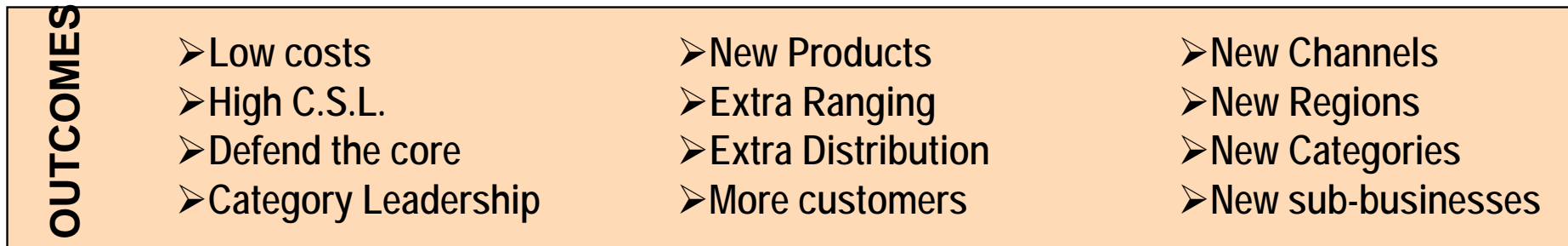
Incentives paid so far:

- **Sales staff received payments from the new Sales Incentive Scheme**
- **Manufacturing employees have received bonus payments**
- **Executive team will receive incentive payments if the current strong profit growth continues**

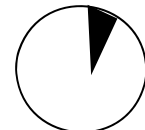
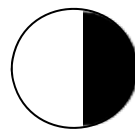
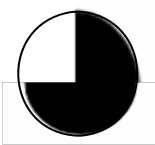


# Framework for growth

**THE LEADING BRANDED FROZEN FOODS COMPANY**



**PROGRESS**



# Key areas of focus

- **Continue to improve operational efficiency by:**
  - **Relocating the fruit packing operation to Bairnsdale**
  - **Investing in Capital Equipment projects**
- **Build relationships with current and future customers**
- **Continue growth in the Out-Of-Home channels**
- **Build our brands through consumer led product innovation**
- **Communicate the unique brand offering to our consumers**
- **An unrelenting focus on achieving high performance**



# Conclusion

**I look forward to a much improved  
profit performance in 2010**



Australia's Leading Branded  
Frozen Food Company