

## Patties Reports Result for the Full Year Ending 30 June 2007

### Key Results for the Year to 30 June 2007

- Sales revenue of \$125.2 million which compares with \$114.1 million for the previous corresponding period, and \$131 million forecast in the company's prospectus
- EBIT of \$21.1m, which is in line with guidance provided at the Half Yearly Commentary.
- NPAT of \$12.7 million, which compares to \$9.9 million in the previous corresponding period, and \$15.3 million in the company's prospectus.
- Declaration of final fully franked dividend of 4.4 cents per ordinary share

### Full Year Review

The year has been a very significant one for Patties Foods Limited (Patties), with the highlights being its successful listing on the Australian Stock Exchange on 6 November 2006, and its acquisition of Creative Gourmet Pty Ltd and its related company, Chefs Pride Pty Ltd on 31 May 2007 ( "Creative Gourmet" and "Chefs Pride").

For the Patties business, excluding the contribution of Creative Gourmet and Chefs Pride, sales revenues were 8% above the previous year but 6% below projections. EBIT of \$21.1m was 14.9% below the company's prospectus forecast of \$24.8 million, but in line with the lower range of guidance provided by the company as part of the half yearly commentary.

Annual trading results for the Patties business were below projections due to lower sales than anticipated in our retail market, together with higher production costs due to a greater investment in new products than originally intended.

The unusual weather trends which impacted on the Retail market as a whole, reported at the half year, worsened for much of the balance of the financial year, resulting in further reductions in anticipated retail sales volumes. Promotional activity was higher than forecast as the company attempted to generate consumer interest during soft trading conditions, however the company met forecast contribution margins through improved purchasing as well as manufacturing efficiencies.

The impact of the lower retail sales on EBIT was approximately \$3.3 million. As a result of the company's strong brands and its proactive approach, including the introduction of several new products, Patties increased its market share of the savoury retail category by more than 2 percentage points

The Foodservice market as a whole is difficult to measure, however Patties management believe that the market also experienced a decline in the 2007 financial year due to the unusual seasonal factors. Given this trend, Patties was particularly pleased with its sales results in the Foodservice channel which were slightly ahead of the prospectus forecasts. The company's recent strategy of introducing its own field sales team has produced improvements in both overall sales and also customer service levels. In addition, Patties has gained several new large customers who are significant participants in the Foodservice segment (non grocery channel).

The company has continued with its strategy of being the main innovator in the frozen savoury category, with the introduction of many new products during the year, including a new range of "gluten free" products. The gaining of the larger Foodservice customers referred to above,, necessitated a significant investment in the development of additional products specifically for those customers.

The costs associated with the research and development, and manufacturing trials of all of the additional new products, resulted in a reduction in EBIT for the year of approximately \$1.2m, This is, , however, seen as an appropriate investment for the future.

To partially offset the impact of lower sales, and additional research and development costs the Board decided to reduce the company's marketing spend, (excluding promotional activity), by \$1.2 million.

The Creative Gourmet and Chefs Pride businesses, acquired in May 2007, are excellent complementary additions to the Patties business, both in the Retail and Foodservice sectors. The acquisition had little impact on the net profit before tax in this financial year but the businesses are expected to be significant contributors to earnings in the 2008 financial year and beyond.

Notwithstanding the adverse retail market conditions, the Company delivered a creditable result, demonstrating the substance and strength of its people, brands and other assets.

- **Retail Market**

Patties remains Australia's leading manufacturer and supplier of frozen savoury and dessert products, and increased its market share in the retail frozen savoury segment to 51.1% on a moving annual basis (48.8% prior year). However, whilst Patties' market share has increased year on year, its revenues were below expectations for the year due to an unexpected decline in the overall retail market. The company attributes the decline in the market to unseasonably warm weather which occurred during the period November 2006 through to May 2007 inclusive. The return to a more typical weather pattern in June and July of 2007 seems to support this view as sales returned to expected levels.

The company introduced a range of new products to the retail market including "gluten free" which is initially being distributed to a limited number of customers.

**• Foodservice**

Patties achieved its revenue objectives for the year and successfully implemented the Foodservice strategy detailed in the prospectus. The costs of implementation were predominantly in line with expectations. Given the effect of the weather on the Retail market, if this is the case, then Patties has increased its market share in the Foodservice market, and the company continues to see the Foodservice market as a key growth driver for the business.

Several major new Foodservice customers, with national operations, have been secured during the year. A proportion of the sales to these customers comprise a range of unbranded products manufactured to customer specification. This has augmented the company's sales, and has served as an important factor in addressing the negative effects of the reductions experienced in the retail segment. Whilst there were additional development and manufacturing costs related to the introduction of the new products to service these customers, they will continue to be valuable additional channels of business for the company in the future.

**• Operations**

Patties achieved another year of record manufacturing volumes, across a more diverse product range. Apart from the unanticipated expenditure, as reported earlier, of the trials and manufacturing complexities associated with range extensions, the plant performed in line with expectations.

The company established a dedicated manufacturing facility to produce a range of "gluten free" products. This specialised manufacturing facility has been successfully producing "gluten free" products, aimed initially at the retail sector, for the majority of the second half of the year.

Patties is well advanced with building works at its Bairnsdale site to house two additional production lines which are expected to be commissioned between October 2007 and March 2008. These new lines will increase capacity and also improve efficiency and enable the company to produce a wider range of products and trial new products.

The company is also constructing its own freezer storage facility at its Bairnsdale location. This is expected to be completed in the 4<sup>th</sup> quarter of the 2008 financial year. This will significantly lower the cost of storage of finished goods and allow greater flexibility in production scheduling.

**Creative Gourmet and Chefs Pride**

The company is currently in the process of integrating the recently acquired business into Patties existing operations. Creative Gourmet has a market share of 18% in the retail frozen dessert market, whilst Chefs Pride is a niche player in the Foodservice market, marketing a range of premium frozen fruit products and other frozen products into the hotel and restaurant sector. The company expects to be able to report profitability improvements in both Creative Gourmet and Chefs Pride following completion of the integration.

## Outlook

The company expects an improvement in performance. Whilst the initial signs are very encouraging, it is too early to provide specific guidance on the likely results for the 2008 financial year.

Early indications are that the return of temperatures to "normal" levels in most of Australia has stimulated retail demand to levels, which have been slightly ahead of expectations from June to mid August. This factor, together with the ability to enjoy the full year benefit of all new product ranges introduced in the 2007 financial year, leads the company to anticipate significantly increased retail sales.

The 2008 financial year will be the first full year of the company's own field team in the Foodservice market and the company is looking forward to continuing sales growth in this segment.

The Retail and Foodservice segments of the company's business will benefit from the addition of Creative Gourmet and Chefs Pride businesses respectively.

The introduction of the two new production lines will provide long term benefits in operational efficiency, however due to costs associated with commissioning, these additional facilities are expected to be earnings neutral in the 2008 financial year.

The company continues to evaluate acquisitions, joint ventures and strategic alliances to build on the company's desire to expand within its chosen market segments. The company has formed a joint venture with a complementary food manufacturing group. The joint venture will operate a food manufacturing and distribution business in Melbourne and will have a manufacturing supply agreement with Patties, in addition to manufacturing and distributing other products into the Food Service market.

## Dividends

Despite the shortfall to prospectus forecast announced today, the Board remains confident that the underlying business is sound and looks forward to improved performance in the 2008 financial year. The Board has declared a final fully franked dividend of 4.4 cents per share which together with the interim dividend of 2.8 cents paid in April 2007 brings the total dividend for the year to 7.2 cents per share as outlined in the company's prospectus.

The record date for the dividend will be 14 September 2007 with payment to be effected on 10 October 2007.

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